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REPORT

OF

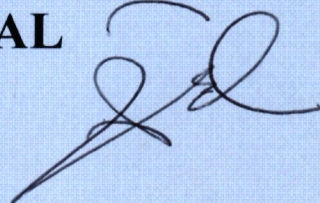
THE AUDITOR-GENERAL

ON

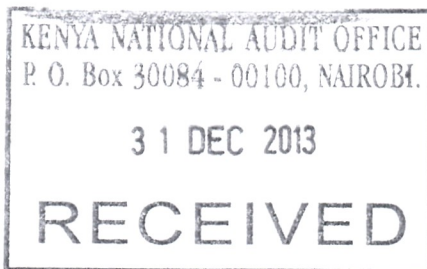
THE FINANCIAL STATEMENTS OF
KENYA SUGAR RESEARCH FOUNDATION

FOR THE YEAR ENDED
30 JUNE 2013

Paper laid
By leader of
majority, Hon
Aben Omal
on Tuesday, 25/11/12







KENYA SUGAR RESEARCH FOUNDATION
ANNUAL REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

KENYA SUGAR RESEARCH FOUNDATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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KENYA SUGAR RESEARCH FOUNDATION
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2013

DIRECTORS

Jilo Komora	Chairman (Appointed February 2013)
Simeon Mkalla	Chairman (Retired December 2012)
Chrispine Omondi, PhD	Director and Chief Executive Officer (Retired July 2013)
Rosemary Mkok	CEO, Kenya Sugar Board
Ephraim Mukisira, PhD, MBS	Director, Kenya Agricultural Research Institute (KARI)
Protus Sigei	Alternate to PS, National Treasury
Hamisi Williams	Alternate to PS, Ministry of Agriculture
Peter Kebati	Chairman, KESMA
Ibrahim Juma	Chairman, KESGA (Appointed December 2012)
Faustino Othieno	Chairman, KESGA (Retired December 2012)
Virginia Mathenge	
Josephine M. Songa, PhD	
Susan Muriungi	(Appointed December 2012)
Julius Maindi	(Retired December 2012)

CHIEF OFFICERS

Chrispine Omondi, PhD	Director and Chief Executive Officer (Retired July 2013)
Japhet Jamoza, PhD	Head of Department - Crop Development
Noah Wawire, PhD	Head of Department - Economics and Biometrics (Acting CEO)
Peter J. Wanyama	Head of Department - Milling and Processing
James Odenya	Head of Department - Technology Transfer
Betty Mulianga	Head of Department - Agricultural Engineering
Lilian Nyaluogo	Human Resources Manager
George Mogaka	Legal and Administration Manager (Resigned September 2013)
Gideon K. Kirui	Finance Manager
Charles Kamuren	ICT Manager
Alex Angalika	Internal Audit Manager
Christopher Odida	Procurement Manager

REGISTERED OFFICE

Kisumu - Miwani Road
P O Box 44 - 40100
KISUMU

BANKERS

Co-operative Bank of Kenya Ltd
Haile Selassie Avenue
P O Box 48231-00100
NAIROBI

KENYA SUGAR RESEARCH FOUNDATION
CORPORATE INFORMATION (continued)
FOR THE YEAR ENDED 30 JUNE 2013

SECRETARY

George O. Mogaka (Resigned September 2013)
Kisumu-Miwani road
P.O. Box 44-40100
KISUMU

LAWYERS

M. Korongo & Co.
Ken Banco House
Moi Avenue
P.O. Box 54497-00200
Nairobi

Wamalwa, Abdi & Company Advocates
Corner House
Mama Ngina Street
P.O. Box 10539 - 00100
Nairobi.

AUDITORS

Ernst & Young
Kenya-Re Towers, Upperhill
P. O. Box 44286 - 00100
NAIROBI

On behalf of:
The Auditor-General
P. O. Box 30084 - 00100
NAIROBI

KENYA SUGAR RESEARCH FOUNDATION
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2013

The directors present their report together with the audited financial statements of the Foundation for the year ended 30 June 2013 which show the state of the Foundation's affairs.

1. PRINCIPAL ACTIVITY

The principal activity of forming the Foundation is to promote research into and investigate all problems relating to sugarcane farming and its manufacture into sugar and by-products, such other crops and systems of husbandry that are associated with sugarcane throughout Kenya including the productivity, quality and sustainability of land in relation to sugarcane planting, and on matters ancillary thereto.

2. RESULTS

The results for the year are set out on page 9.

3. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 30 June 2013 (2012 -Nil).

4. DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

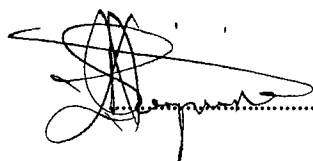
In accordance with the Foundation's Articles of Association, no director is due for retirement by rotation.

5. AUDITORS

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

Accordingly, Ernst & Young were nominated by the Auditor General to carry out the audit for the year ended 30 June 2013.

By Order of the Board

.....2013

Company Secretary.

KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013


The Kenyan Companies Act (Cap. 486) 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 Foundation as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure the Foundation keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Foundation. They are also responsible for safeguarding the assets of the Foundation.

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 the requirements of 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 foundation 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 control.

Other than the matter described in note 17 to the financial statements, nothing has come to the attention of the directors to indicate that the foundation 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 31 December 2013 and signed on its behalf by:

.....
Chairman


.....
Director

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA SUGAR RESEARCH FOUNDATION FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of Kenya Sugar Research Foundation set out on pages 8 to 38, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory information have been audited on my behalf by Ernst and Young, auditors appointed under Section 39 of the Public Audit Act, 2003. The audit was carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and 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 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 Foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 opinion.

Basis for Qualified Opinion

1. Land Ownership

Included in property, plant and equipment balance of Kshs.1,328,363,055 as at 30 June 2013, is land measuring 40.49 hectares situated North East of Kisumu Municipality District being a portion of the Foundation's entire land valued at Kshs.819,333,585. However, the title documents for this portion are in the name of Kenya Agricultural Research Institute (KARI). Whereas an agreement to transfer the title was signed between the foundation and KARI in 2009, the title is yet to be transferred to the foundation. It has therefore not been possible to confirm that the foundation is the beneficial owner of the land, and that the property, plant and equipment balance of Kshs.1,328,363,055 is fairly stated.

2. Revaluation of Property, Plant and Equipment

During the year under review, a new office block was completed at a cost of Kshs.663,772,203, thus increasing the total cost of buildings to Kshs.807,954,693. Management engaged the services of a professional valuer during the year to value all buildings of the Foundation. However, the valuation report indicated the value of all the Foundation's buildings, including the new office block, as Kshs.447,992,751. It was not possible to establish the circumstances under which the value of the new buildings would fall far below its cost.

3. Provision for Gratuity

Included in trade and other payables figure of Kshs.23,290,005 is a provision for gratuity amounting to Kshs.3,527,750. However, the obligation has not been valued by an actuary. Therefore it was not possible to confirm that the amount provided for is adequate. Further, it was not possible to determine whether adjustments might have been necessary in respect of the deficit for the year reported in the statement of

comprehensive income and the trade and other payables reported in the statement of financial position.

4. Trade and Other Receivables

As similarly reported in the previous year, the trade and other receivables balance of Kshs.4,234,190 as at 30 June 2013, excludes outstanding temporary imprest of Kshs.5,980,161 issued to one officer of which Kshs.2,964,822 relates to imprests issued in the financial year 2009/2010. Further, included in the temporary imprest are amounts totalling Kshs.1,558,396 held by former employees of the Foundation. No provision has been made in relation to this uncertainty in the financial statements. In view of the above, trade and other receivables of Kshs.4,234,190 as at 30 June, 2013 could not be confirmed as correct.

5. Cash and Cash Equivalents

As similarly reported in the previous year, excluded in the cash and cash equivalents balance of Kshs.283,364,367 as at 30 June 2013, are cash withdrawals amounting Kshs.6,914,345 made in 2009/2010 against which the related supporting documents were not available for audit verification. Although management has indicated that the missing documents are a subject of investigations by the Foundation and other arms of the Government, the amount of Kshs.6,914,345 nevertheless remained unaccounted for as at 30 June, 2013.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.283,364,367 as at 30 June 2013 could not be ascertained.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Foundation as at 30 June 2013, 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.


Emphasis of Matter

I draw attention to note 17 to these financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Foundation's ability to continue as a going concern. My opinion is not qualified on this respect.

REPORT ON OTHER LEGAL AND REPORTING REQUIREMENTS

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

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



Edward R. O. Ouko, CBS
Auditor-General

Nairobi

15 May 2014

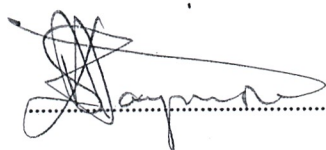
KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

ASSETS	Note	2013 KShs	2012 KShs Restated	1 July 2011 KShs Restated
NON CURRENT ASSETS				
Property, plant and equipment	3	1,328,363,055	924,087,168	734,272,878
Biological assets	4	<u>12,902,885</u>	<u>14,155,243</u>	<u>21,616,643</u>
		<u>1,341,265,940</u>	<u>938,242,411</u>	<u>755,889,521</u>
CURRENT ASSETS				
Biological assets	4	133,701	1,675,243	-
Inventories	5	5,344,732	4,129,813	5,044,937
Trade and other receivables	6	4,234,190	16,110,081	16,112,875
Amounts due from related parties	7	181,837,092	154,668,141	117,291,067
Cash and cash equivalents	12	<u>283,364,367</u>	<u>269,776,697</u>	<u>265,260,030</u>
		<u>474,914,082</u>	<u>446,359,975</u>	<u>403,708,909</u>
TOTAL ASSETS		<u>1,816,180,022</u>	<u>1,384,603,086</u>	<u>1,159,598,430</u>
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Revaluation reserve	9	768,589,286	-	-
Retained earnings*		<u>843,895,685</u>	<u>1,157,034,749</u>	<u>925,918,223</u>
		1,612,484,971	1,157,034,749	925,918,223
NON CURRENT LIABILITIES				
Deferred income*	8	172,640,968	175,334,172	178,169,124
CURRENT LIABILITIES				
Deferred income*	8	2,764,078	2,834,952	2,834,952
Trade and other payables	10	23,290,005	44,399,213	52,676,131
Provision for legal claims	11	<u>5,000,000</u>	<u>5,000,000</u>	-
		<u>31,054,083</u>	<u>52,234,165</u>	<u>55,511,083</u>
TOTAL EQUITY AND LIABILITIES		<u>1,816,180,022</u>	<u>1,384,603,086</u>	<u>1,159,598,430</u>

* Certain amounts shown here do not correspond to the 2011 and 2012 financial statements and reflect adjustments made as detailed in note 18.

The financial statements were approved by the Board of Directors on 31 December 2013
and signed on its behalf by:-

.....) Chairman

.....) Director

KENYA SUGAR RESEARCH FOUNDATION
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 KShs	2012 KShs
INCOME	13	546,843,474	603,662,725
ADMINISTRATIVE EXPENSES	14	<u>(864,611,097)</u>	<u>(375,381,151)</u>
(DEFICIT)/ SURPLUS FOR THE YEAR		<u>(317,767,623)</u>	<u>228,281,574</u>
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS:			
Surplus on revaluation of property, plant and equipment		773,217,845	-
Tax effect on revaluation surplus		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>445,450,222</u>	<u>228,281,574</u>

KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Retained earnings KShs	Revaluation reserve KShs	Total KShs
At 1 July 2012		1,157,034,749	-	1,157,034,749
Deficit for the year		(317,767,623)	-	(317,767,623)
Other comprehensive income:				
Surplus on revaluation of property, plant and equipment		-	773,217,845	773,217,845
Transfer of excess depreciation		4,628,559	(4,628,559)	-
At 30 June 2013		<u>843,895,685</u>	<u>768,589,286</u>	<u>1,612,484,971</u>
At 1 July 2011 (restated)		925,918,223	-	925,918,223
Restated surplus for the year		<u>231,116,526</u>	-	<u>231,116,526</u>
At 30 June 2012		<u>1,157,034,749</u>	-	<u>1,157,034,749</u>
At 1 July 2011		291,530,118	-	291,530,118
Correction of prior year error	18	<u>634,388,105</u>	-	<u>634,388,105</u>
Restated balance at 1 July 2011		<u>925,918,223</u>	-	<u>925,918,223</u>

17A SUGAR RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 KShs	2012 KShs
OPERATING ACTIVITIES			
(Deficit)/ surplus for the year		(317,767,623)	228,281,574
Adjustments for:			
Depreciation	3	29,723,050	27,989,711
Loss in value of property, plant and equipment	3	413,345,806	-
Gain in value of biological assets	4	(7,394,254)	(5,476,444)
Transfer from deferred income	8	(2,764,078)	-
Interest income	13	<u>(15,963,794)</u>	<u>(6,891,594)</u>
Cash inflows before working capital changes		<u>109,367,961</u>	<u>255,165,148</u>
WORKING CAPITAL CHANGES			
Inventories	5	(1,214,919)	915,124
Receivables	6	11,875,891	2,794
Payables	11	(21,109,208)	(3,276,918)
Amounts due from related parties	17	<u>(27,168,951)</u>	<u>(37,377,074)</u>
Net cash generated from operating activities		<u>71,750,774</u>	<u>215,429,074</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(74,126,898)	(217,804,000)
Interest income	13	<u>15,963,794</u>	<u>6,891,594</u>
Net cash used in investing activities		<u>(58,163,104)</u>	<u>(210,912,406)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>13,587,670</u>	<u>4,516,668</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12	269,776,697	265,260,030
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	<u>283,364,367</u>	<u>269,776,697</u>

1. SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied 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 have been prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest shillings, which is also the functional currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Foundation's accounting policies. Refer to note 1(p) for further details.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Foundation and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable and represents the value of goods invoiced to customers during the year less discounts allowed to customers and sales returns.

- Revenue from sale of goods is recognized when the Foundation has transferred to the buyers the significant risks and rewards incidental to the ownership of the goods.
- Interest income is recognized on time basis, using the effective interest method. Effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset to that asset's net carrying amount.
- Income from the Sugar Development Levy (SDL) is accounted for on an accruals basis.
- Grants and reallocations are accounted for on cash basis while other income are accounted for on accrual basis.

(c) Foreign currency translations

Transactions in foreign currencies are initially recorded by the Foundation at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment

Property, plant and equipment are stated initially at cost and subsequently at professionally revalued amounts less accumulated depreciation and any impairment losses. The basis of valuation is as follows:

i) Buildings, warehouses, godowns and houses - based on the Depreciated Replacement Cost taking into account the age of the building and the cost of replacing the same. The existing use is also considered since the buildings are part and parcel of the production process.

ii) Machinery

The valuation analysis takes into account the following factors:

- a. Cost of the machines
- b. Existing use
- c. Depreciation
- d. Appreciation of the same in value (inflation)
- e. Functionability
- f. Cost of assembly of the various machines to make it a plant.

iii) Other assets - based on their fair market values

Professional valuations are carried out in accordance with the Foundation's policy of revaluing property, plant and equipment. The last valuation was in September 2012.

Increases in the carrying amounts of property, plant and equipment resulting from revaluations are credited to the revaluation surplus, except to the extent that they represent a reversal of a decrease in the value of an asset previously recognized as an expense, in which case the increase is credited to the profit or loss to the extent the decrease was previously charged. Decreases in carrying amounts of property, plant and equipment are charged to profit or loss to the extent they exceed the balances, if any, held in the revaluation surplus relating to previous revaluation of the relevant assets. On subsequent disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation surplus is transferred directly to the retained earnings.

Depreciation

Depreciation is charged so as to write off the cost or valuation of the property, plant and equipment on a reducing balance basis over their estimated useful lives at the following annual rates:

Motor vehicles	25%
Furniture and fittings	12.5%
Computers	30%
Office equipment	12.5%
House furniture	12.5%
Laboratory equipment	12.5%
Farm equipment	12.5%
Tractors	37.5%

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment (continued)

Depreciation on buildings is charged on a straight line basis to write off the cost over 40 years or the lease period, whichever comes first.

Buildings	2.5%
-----------	------

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. 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 operating profit.

(e) Impairment of non financial assets

The Foundation assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such indication exists, the Foundation makes an estimate of the asset's recoverable amount.

Where the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

An asset's recoverable amount is the higher of an asset's or its CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the asset's or cash-generating unit's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

(f) Financial instruments

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

Financial assets other than financial assets held at fair value through profit and loss, are recognised initially at fair value plus directly attributable transaction costs.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Foundation has not designated any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include receivables arising from day to day sale of goods and services. They are measured at amortised cost less impairment losses using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include the 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.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value. 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.

Receivables are carried at amortised cost using the effective interest method. Gains and losses on receivables are recognised in profit or loss upon amortisation.

YA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Foundation determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Foundation's financial liabilities include trade and other payables and bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Foundation that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Foundation has not designated any financial liability as at fair value through profit or loss.

Trade payables:

Trade payables are stated at amortised cost using the effective interest method.

Impairment of financial assets

The Foundation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Derecognition of financial assets

i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- when the Foundation loses control over the contractual rights that comprise that asset and; or
- the Foundation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either;
 - (a) the Foundation has transferred substantially all the risks and rewards of the asset, or
 - (b) the Foundation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Foundation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Foundation's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Foundation could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Foundation's continuing involvement is the amount of the transferred asset that the Foundation may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Foundation's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on net basis, or realize the asset and settle the liability simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Biological assets

Living plants with probable future economic benefits which are owned and controlled by the Foundation are accounted for as biological assets. Harvested products from the Foundation's biological assets and agricultural produce are measured on initial recognition and at each reporting date at their fair value less estimated point of sale costs. Harvested products are subsequently measured at lower of cost and net realisable value in accordance with IAS 2 once harvested.

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate.

Point of sale costs include commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other costs necessary to get the assets to the market. For financial reporting purposes, the Foundation classifies its biological assets as follows:

(i) *Consumable biological assets*

Consumable biological assets are those that are to be harvested as agricultural produce or to be sold as biological assets.

Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the profit or loss for the year.

(h) Inventory

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Consumable stores are stated at cost, net of provisions for obsolescence where applicable.

(j) Dividends

The Foundation's Memorandum and Articles of Association does not allow payment of dividends as this is a Government institution.

(k) Employee Benefits

Defined Contributions Pension Scheme

The Foundation operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The fund is funded by contributions from the employees and the Foundation. The assets of the fund are held and administered independently of the Foundation's assets.

Statutory pension scheme

The Foundation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month. The Foundation's contributions to the above schemes are charged to the profit or loss in the year to which they relate.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee benefits (continued)

Employees' entitlements

The Foundation has fixed term service contracts with some of the employees. A contract gratuity of 31% of the basic earnings over the contract period is paid at the end of the contract period. The estimated monetary liability for employees' accrued annual leave entitlement at the statement of reporting date is recognized as an expense accrual.

(m) Government grant

Government grants related to assets, including non-monetary grants at fair value presented in the statement of financial position by setting up the grant as deferred income. The government grants are recognized in the profit or loss on a systematic and rational basis over useful lives of the assets. Government grants related to incomes are accounted for on accruals basis.

(n) Provisions

Provisions are recognised when the Foundation has a present legal or constructive obligation as a result of past events, it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Foundation expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in income and expenditure account net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for contingent liability

Provision for contingent liability is recognised when it is probable that the liability will crystallise. Initial recognition is based on management's assessment on the basis of the legal opinion obtained.

Provision for impairment of trade and other receivables

Provision for impairment is recognised when there is a likelihood of the counterparty not being able to settle the outstanding amounts. Doubtful debts are written off after all efforts of recovery have been exhausted.

(o) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs on qualifying assets are capitalised. All other borrowing costs are expensed during the period in which they occur. There were no borrowings capitalized during the period.

(p) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the Foundation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on directors' best knowledge of current events and actions they may undertake in the future, actual results may differ from those estimates.

LYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Critical accounting judgements, estimates and assumptions (continued)

In particular, critical judgement has been applied by the directors in:

- Valuation of biological assets;
- Estimation of useful lives of property, plant and equipment and intangible assets;
- Determination of revalued amounts of property, plant and equipment;
- Determination of actuarial deficit between the assets and liabilities of employee benefits scheme; and,
- Determination on whether the Foundation's assets have been impaired.

Where applicable, the directors consulted experts to determine accounting estimates that require special or technical knowledge and experience.

Judgements

In the process of applying the Foundation's accounting policies, management has made the following judgements, which have an effect on the amounts recognised in the financial statements:

i) *Allowances for obsolete inventories*

Directors review the inventories on an annual basis to assess the likelihood of obsolescence. In determining whether an inventory item is obsolete, directors make judgement as to whether the inventory item can be used as an input in production or is in saleable condition.

ii) *Impairment of financial instruments*

The foundation reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable as detailed in note 6.

iii) *Impairment of non-financial assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

iv) *Contingent liabilities*

The foundation is exposed to various contingent liabilities in the normal course of business as detailed in note 19. The management evaluate the status of these exposures on a regular basis to assess the probability of the foundation incurring the related liabilities. However, provisions are only made in the financial statements where, based on management's evaluation, a present obligation has been established.

(p) Critical accounting judgements, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i) *Property, plant and equipment*

Directors make estimates in determining the depreciation rates for property, plant and equipment. The depreciation rates used are set out in the accounting policy for property, plant and equipment. These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events, including useful lives that are believed to be reasonable under the prevailing circumstances.

Land is held on a free hold tenure and hence it is not depreciated.

Capital expenditure on assets or a group of assets that are not yet commissioned for use is carried as work in progress. There is no depreciation charge on such assets or group of assets. However when such assets are commissioned, they are transferred to the respective group of assets and the depreciation rate applicable to that group of assets is applied on them.

ii) *Revaluation of property, plant and equipment*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2012. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

iii) *Impairment of non-financial assets*

The Foundation assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

iii) *Biological assets*

To ascertain the fair value of biological assets, management uses estimates based on historical data relating to yields and prices of sugarcane. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences and actual experience. The significant assumptions are set out in note 4.

(q) Taxation

The organisation is tax exempt by its nature of being a government research institution promoting research and investigating all problems relating to sugarcane farming and its manufacture into sugar and by-products and such other crops and systems of husbandry that are associated with sugarcane.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

Kenya Sugar Research Foundation adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments : Disclosures - Enhanced Derecognition Disclosure Requirements

The adoption of the above standards had no effect on the Foundation's financial position and performance.

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Foundation's financial position, performance or its disclosures.

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IFRS 1 First-time Adoption of international Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment).

The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS. This will have no impact on the Foundation, as it has no operations in hyperinflationary economies.

First-time Adoption of International Financial Reporting Standards This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IFRS 7 Financial Instruments: Disclosures - Transfers of financial assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:

- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety - The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

This amendment only required additional disclosures and has no impact on the financial position or performance of the Foundation.

Improvements to IFRSs

In May 2010, the International Accounting Standards Board (IASB) issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Foundation:

IFRS 7 Financial Instruments – Disclosures (effective 1 January 2011) – Clarification of Disclosures:

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements (effective 1 January 2011) - Clarification of statement of changes in equity:

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment has no impact to the Foundation.

1 YA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Foundation's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Foundation does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Foundation's financial statements are disclosed below. The Foundation intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Foundation's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied, if applicable, in the Foundation's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to profit or loss. Past service costs as a result of plan amendments are to be recognised immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. Although the group will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short-term and long-term employee benefits is still being assessed. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

The corridor mechanism for pension plans has been removed. This means all changes in the value of defined benefit plans will be recognised as they occur. Those movements are recorded in profit or loss and other comprehensive income, depending on the type of movement.

Other changes as a result of the revised standard include:

- ▶ Past service cost will be expensed when the plan amendments occur regardless of whether or not they are vested.
- ▶ The distinction between short-term and other long-term employee benefits is now based on expected timing of settlement rather than employee entitlement. Changes in the carrying amount of liabilities for other long-term employment benefits will continue to be recognised in profit or loss.

The amendment becomes *effective* for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Foundation.

1 YA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a result of the issue of IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates* has been renamed to IAS 28 *Investments in Associates and Joint Ventures*. Joint ventures will be equity accounted in terms of IAS 28 requirements. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Foundation.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Foundation’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans - Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Foundation.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The group is currently assessing the impact of adopting IFRS 9. However, since the impact of adoption depends on the assets held by the group at the date of adoption, it is not practical to quantify the effect.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013, and has no impact on the Foundation. As the Foundation doesn’t have any investments in subsidiaries, IAS 27 that becomes effective for annual periods beginning on or after 1 January 2013 will also have no impact on the Foundation.

The amendments clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 and when applying IFRS 10. As a result, the Board has confirmed that relief from retrospective application of IFRS 10 would also apply to an investor’s interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 at the date of initial application.

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements (continued)

The International Accounting Standards Board (IASB) has issued an amendment to IFRS 10 Consolidated Financial Statements to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 defines a joint venture as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. It future defines a joint operation as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint arrangements are determined by the following characteristics:

- a) The parties are bound by a contractual arrangement.
- b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

The amendment has no impact on the Foundation.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Foundation's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Foundation is currently assessing the impact that this standard will have on the financial position and performance, but the impact thereof has not yet been identified. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Foundation.

Annual Improvements May 2012

These improvements will not have an impact on the Foundation, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS. This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period

The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment does not change the nature of items that are currently recognised in OCI, nor does it impact the determination of whether items of OCI are reclassified through profit or loss in future periods. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Foundation as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. Clarifications on certain aspects are also provided. The Foundation will need to consider the new requirements to determine fair values going forward.

Improvements to IFRSs (issued in May 2012)

The International Accounting Standards Board has issued the *Annual Improvements to IFRSs - 2009 - 2011 Cycle*, which contains amendments to its standards and the related Basis for Conclusions. The adoption of the following amendments will result in changes to accounting policies, but no impact on the financial position or performance of the Foundation. The effective date for the amendments is for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012 (continued)

IAS 1 Presentation of Financial Statements: Clarification of the requirements for comparative information

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. In addition, the opening statement of financial position (known as the third balance sheet) must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory

ILLOVA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2013

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

4. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2013

Cost or Valuation	LAND KShs	BUILDINGS KShs	MOTOR VEHICLES KShs	FURNITURE AND EQUIPMENT KShs	COMPUTER EQUIPMENT KShs	TRACTORS KShs	LABORATORY EQUIPMENT KShs	GARAGE EQUIPMENT KShs	FARM EQUIPMENT KShs	WORK IN PROGRESS KShs	TOTAL KShs
At 1 July 2012	67,606,000	144,182,490	56,120,614	10,629,827	20,447,842	380,330,672	30,519,253	988,603	17,544,175	611,332,154	1,339,701,630
Additions during the year	-	-	8,025,900	1,296,473	6,084,514	1,915,250	4,364,712	-	-	52,440,049	74,126,898
Transfers	-	663,772,203	-	-	-	-	-	-	-	(663,772,203)	-
Netting off on revaluation	-	(36,383,444)	(39,419,232)	(6,775,619)	(14,059,692)	(285,044,509)	(16,934,459)	(761,036)	(16,236,471)	-	(415,614,462)
Revaluation gain	751,727,585	-	7,753,618	3,245,492	-	-	-	6,598,853	3,892,296	-	773,217,845
Revaluation loss	-	(323,578,498)	-	-	(2,083,250)	(84,403,463)	(3,280,594)	-	-	-	(413,345,806)
At 30 June 2013	819,333,585	447,992,751	32,480,900	8,396,173	10,389,414	12,797,950	14,668,912	6,826,420	5,200,000	-	1,358,086,105
Accumulated depreciation											
At 1 July 2012	-	36,383,444	39,419,232	6,775,619	14,059,692	285,044,509	16,934,459	761,036	16,236,471	-	415,614,462
Eliminated on revaluation	-	(36,383,444)	(39,419,232)	(6,775,619)	(14,059,692)	(285,044,509)	(16,934,459)	(761,036)	(16,236,471)	-	(415,614,462)
Charge for the year	-	11,199,819	8,120,225	1,049,522	3,116,824	1,599,744	1,833,613	853,303	1,950,000	-	29,723,050
At 30 June 2013	-	11,199,819	8,120,225	1,049,522	3,116,824	1,599,744	1,833,613	853,303	1,950,000	-	29,723,050
NET CARRYING AMOUNT											
At 30 June 2013	819,333,585	436,792,932	24,360,675	7,346,651	7,272,590	11,198,206	12,835,299	5,973,117	3,250,000	-	1,328,363,055

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended 30 June 2012

	LAND	BUILDINGS	MOTOR VEHICLES	FURNITURE AND OFFICE EQUIPMENT	COMPUTER EQUIPMENT	TRACTORS	LABORATORY EQUIPMENT	GARAGE EQUIPMENT	FARM EQUIPMENT	WORK IN PROGRESS	TOTAL
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Cost or valuation											
At 1 July 2011	67,606,000	144,182,490	51,268,206	10,375,982	18,049,192	378,823,972	29,197,056	988,603	17,544,175	403,861,954	1,121,897,630
Additions during the year	-	-	4,852,408	253,845	2,398,650	1,506,700	1,322,197	-	-	207,470,200	217,804,000
At 30 June 2012	<u>67,606,000</u>	<u>144,182,490</u>	<u>56,120,614</u>	<u>10,629,827</u>	<u>20,447,842</u>	<u>380,330,672</u>	<u>30,519,253</u>	<u>988,603</u>	<u>17,544,175</u>	<u>611,332,154</u>	<u>1,339,701,630</u>
Accumulated depreciation											
At 1 July 2011	-	33,619,365	33,852,105	6,225,018	11,321,913	271,432,200	14,993,774	728,527	15,451,849	-	387,624,752
Charge for the Year	-	2,764,078	5,567,127	550,601	2,737,779	13,612,309	1,940,685	32,510	784,622	-	27,989,711
At 30 June 2012	-	<u>36,383,444</u>	<u>39,419,232</u>	<u>6,775,619</u>	<u>14,059,692</u>	<u>285,044,509</u>	<u>16,934,459</u>	<u>761,036</u>	<u>16,236,471</u>	-	<u>415,614,462</u>
NET CARRYING AMOUNT											
At 30 June 2012	<u>67,606,000</u>	<u>107,799,046</u>	<u>16,701,382</u>	<u>3,854,208</u>	<u>6,388,150</u>	<u>95,286,163</u>	<u>13,584,794</u>	<u>227,567</u>	<u>1,307,704</u>	<u>611,332,154</u>	<u>924,087,168</u>

Property, plant and equipment were professionally valued in September 2012 by Roack Consult Limited, independent valuers. Valuations were made on the open market basis for freehold land and buildings and on replacement cost basis for plant, equipment and machinery. The carrying amounts of the assets were adjusted to the revalued amounts and the resultant surplus was credited to the asset revaluation reserve in equity. In cases where there were deficits on revaluation, the deficit was expensed during the year.

Had the property, plant and equipment been carried using the cost model, a cost of Ksh 1,413,828,528 could have been recognized. In the opinion of the directors, there is no impairment of all other classes of property, plant and equipment.

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

4. BIOLOGICAL ASSETS

	2013	2012
	KShs	KShs

Plantations - consumable biological assets	<u>13,036,586</u>	<u>15,831,186</u>
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Quantities at year-end in number of hectares under sugarcane plantation:

- Plant	13.44	42.21
- Ratoon	84.32	103.24

Plant represents new sugarcane crop, grown from seed cane while ratoon is the crop that germinates after a harvest. The out put of both the plant and the ratoon is sugar cane which is either sold to sugar millers or used internally by the Foundation for research purpose.

a) Determining fair value of agricultural produce:
 The valuation of standing cane is based on the estimated market price at the reporting date less costs to sell.

b) Significant assumptions made in determining the fair values of biological assets:

- i) The market price of cane will not significantly change from KShs. 3,300 per tonne (2012: KShs. 3,500 per tonne)
- ii) Growing cane has a productive life of eighteen months. Cane at age of six months and below is assumed to mature after a period of twelve months after the reporting date.
- iii) Climatic conditions will remain the same.
- iv) The fair value per tonne is spread over the crop life from age of one month based on the proportion of cane development cost.
- v) Fair value of biological assets is determined by market at point of sale.

c) Reconciliation of carrying amount of biological assets:

i) Consumable biological assets	2013	2012
	KShs	KShs
At the start of the year	15,831,186	21,616,643
Sold during the year	(10,188,854)	(11,261,901)
Gain in value during the year	7,394,254	5,476,444
At the end of the year	<u>13,036,586</u>	<u>15,831,186</u>
Apportionment:		
Non-current portion	12,902,885	14,155,243
Current portion	<u>133,701</u>	<u>1,675,243</u>
	<u>13,036,586</u>	<u>15,830,486</u>

The foundation is guaranteed of adequate funding from the government by the Kenya Sugar Act, which predetermines the proportion of its income based on the financial performance of the Kenyan sugar companies.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

5. INVENTORIES

Stationery	1,369,274	1,259,025
Farm inputs and chemicals	1,136,318	1,560,057
Cleaning and sanitary items	82,052	81,438
Oils lubricants and consumables	2,110,387	407,754
Hardware materials	646,701	350,282
Laboratory apparatus	-	12,257
Laboratory chemicals	-	459,000
	<u>5,344,732</u>	<u>4,129,813</u>

6. TRADE AND OTHER RECEIVABLES

	2013 KShs	2012 KShs
Trade receivables	1,571,647	1,764,832
Other receivables	14,177,848	14,489,994
Less : Provision for impairment	<u>(11,515,305)</u>	<u>(144,745)</u>
Total trade and other receivables	<u>4,234,190</u>	<u>16,110,081</u>

PROVISION FOR IMPAIRMENT

Opening balance	144,745	-
Provision for the year	<u>11,370,560</u>	<u>144,745</u>
Closing balance	<u>11,515,305</u>	<u>144,745</u>

The carrying amounts of trade and other receivables approximate their fair value. A provision has been made for the portion of the receivables whose recovery is in doubt.

7. RELATED PARTY TRANSACTIONS AND BALANCES

	2013 KShs	2012 KShs
Amounts due from related parties:		
Kenya Sugar Board - Sugar Development Levy	181,837,092	154,668,141
Transactions with related parties		
Directors' remuneration - short term benefits	5,130,000	4,820,000
Kenya Sugar Board - Sugar Development Levy	316,517,440	-
These amounts relates to the portion of the Kenya Sugar Development Levy owing to the Foundation from the Kenya Sugar Board. The amounts are non-interest bearing.		
Senior management remuneration - short term benefits	<u>24,870,751</u>	<u>23,937,399</u>
Kenya Sugar Board related by virtue of being a government entity.		

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

8. DEFERRED INCOME	2013 KShs	2012 KShs	2011 KShs
At 1 July	178,169,124	181,004,076	815,392,181
Transfer to profit or loss	(2,764,078)	-	-
Prior year adjustment	18	<u>(2,834,952)</u>	<u>(634,388,105)</u>
30 June	<u>175,405,046</u>	<u>178,169,124</u>	<u>181,004,076</u>
Current	172,640,968	175,334,172	178,169,124
Noncurrent	<u>2,764,078</u>	<u>2,834,952</u>	<u>2,834,952</u>
	<u>175,405,046</u>	<u>178,169,124</u>	<u>181,004,076</u>

Included in deferred income is KShs 67,606,000 relating to the value of freehold land at the date of donation which is nondepreciable hence no charge has been transferred to profit or loss.

9. ASSET REVALUATION RESERVE	<u>768,589,286</u>	<u>-</u>
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The asset revaluation reserve is used to record increases in fair value of property, plant and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

10. TRADE AND OTHER PAYABLES	2013 KShs	2012 KShs
Trade payables	<u>23,290,005</u>	<u>44,399,213</u>
	<u>23,290,005</u>	<u>44,399,213</u>

These amounts are non interest bearing.

11 Provisions for legal claims		
At 1 July	5,000,000	5,000,000
Arising during the year	<u>-</u>	<u>-</u>
At 30 June	<u>5,000,000</u>	<u>5,000,000</u>

ENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

12. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following amounts in the statement of financial position:

	2013 KShs	2012 KShs
Term deposit	180,000,000	86,159,729
Bank balances	<u>103,364,367</u>	<u>183,616,968</u>
	<u>283,364,367</u>	<u>269,776,697</u>

13. GOVERNMENT GRANT

	2013 KShs	2012 KShs
Amount recognised in profit or loss	<u>126,272,000</u>	<u>180,000,000</u>

The grant relates to financial support by the Government of Kenya to the Foundation which was given for the purposes of research activities. There are no conditions attached to the grant. The grant is recognised as income when received.

13. INCOME

	2013 KShs	2012 KShs
i) Income		
Share of Sugar Development Levy	343,686,390	366,150,375
Milling and seedcane sales	<u>10,188,854</u>	<u>11,261,901</u>
	<u>353,875,244</u>	<u>377,412,276</u>
ii) Other income		
Government of Kenya grant	126,272,000	180,000,000
Rental income	1,270,500	1,343,120
Interest income	15,963,794	6,891,594
Grant from CFC (EASDP)	-	6,305,200
Grant from European Union (SRSP)	29,473,620	23,839,983
Gain in value of biological assets during the year	7,394,254	5,476,444
Transfer from deferred income	2,764,078	-
Grants from Kenya Sugar Board	5,450,000	-
Miscellaneous income	<u>4,379,984</u>	<u>2,394,108</u>
	<u>192,968,230</u>	<u>226,250,449</u>
Total income	<u>546,843,474</u>	<u>603,662,725</u>

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

14. ADMINISTRATIVE EXPENSES	2013 KShs	2012 KShs
Staff costs (note 16)	140,883,317	126,169,108
Office expenses	25,453,912	18,411,114
Motor vehicle running expenses	15,949,834	16,684,236
Staff welfare expenses	15,852,241	12,805,297
Travelling	21,458,944	23,206,041
Training	14,817,266	13,880,876
Conferences and meetings	6,683,528	7,811,904
Insurance	3,832,212	2,673,196
Consultancy and other charges	12,813,755	8,513,714
Auditors' remuneration	1,366,400	500,000
Repairs and maintenance	5,165,042	7,889,072
Legal expenses	4,512,464	6,313,811
Publicity, advertising and farmer education	4,217,783	9,401,852
Board expenses	18,334,784	15,077,664
Research costs	99,652,934	54,364,586
Bank charges	809,442	218,151
Loss on revaluation on buildings	413,345,806	-
Depreciation	29,723,050	27,989,711
Sugar research support program expenses	15,573,223	17,685,361
Loss on valuation of biological assets	2,794,600	5,785,457
Provision for doubtful debts	<u>11,370,560</u>	<u>-</u>
	<u>864,611,097</u>	<u>375,381,151</u>
15. DEFICIT/SURPLUS FOR THE YEAR		
The deficit/surplus for the year is stated after charging :-		
Depreciation	29,723,050	27,989,711
Loss on revaluation of property, plant and equipment	413,345,806	-
Loss on valuation of biological assets	2,794,600	5,785,457
Auditors' remuneration	1,366,400	500,000
Staff costs (note 16)	140,883,317	126,169,108
Provision for doubtful debts	<u>11,370,560</u>	<u>-</u>
16. STAFF COSTS		
Salaries and wages	84,606,901	79,149,630
Allowances	43,929,069	36,830,304
Honoraria	652,179	960,000
Gratuity	3,527,750	1,366,430
Pension	<u>8,167,418</u>	<u>7,862,744</u>
	<u>140,883,317</u>	<u>126,169,108</u>

ENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

17. GOING CONCERN

In January 2013, The Kenya Agricultural and Livestock Research Act, 2013 was signed into law. The Act establishes The Kenya Agricultural and Livestock Research Organisation, which is tasked with research activities on all agricultural matters. The law gives a two year period from the date of signing for necessary structures of the new body to be established. After expiry of this period, all the current state owned research institutions on agriculture, KESREF included, will cease to exist. This condition indicates the existence of a material uncertainty that may cast significant doubt about the Foundation's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, management is of the opinion that the Foundation will be in existence in the foreseeable future since there has not been any communication and/or indication from the parent ministry of a possible implementation of this requirement to date.

18. PRIOR YEAR ADJUSTMENT

As disclosed in note 18 to the financial statements, at inception of the Foundation, items of property, plant and equipment valued at Ksh 815,392,181 were donated to it by Kenya Agricultural Research Institute (KARI). As consequence a deferred income of equivalent amount was recognized in the books of account. The relevant items of property, plant and equipment, except for land and buildings, were fully depreciated as of the 30 June 2011. In addition, accumulated depreciation on the buildings as at 30 June 2011 was KShs 33,619,365 while the depreciation expense for the year ended 30 June 2012 was KShs 2,764,078. However, no transfer was made from the deferred income account to retained earnings in line with the requirements International Accounting Standard (IAS) number 20. Therefore, the deferred income balances as at 30 June 2011 and 30 June 2012 were overstated by KShs 634,388,105 and KShs 2,834,952, respectively. On the other hand, retained earnings as at 30 June 2011 and 30 June 2012 were understated by the same amounts. The financial statements for the year 2011 and 2012 have been restated to correct these misstatements. Our opinion is not qualified in this respect.

The effect of the restatement is summarized below.

2011	
Decrease in differed income in the statement of financial position	(634,388,105)
Increase in retained earnings in the statement of financial position	634,388,105
2012	
Decrease in differed income in the statement of financial position	(2,834,952)
Increase in retained earnings in the statement of financial position	2,834,952

19. CONTINGENT LIABILITIES

The foundation is a defendant in three law suits with claims amounting to KShs. 57,514,360, which arose in the ordinary course of business. A provision of KShs. 5,000,000 has been made in the financial statements, as the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely have a material effect on the operations of the foundation. The directors are of the opinion that this liability is not likely to cristalise. The timing of any outflow can not be determined since this is dependent on the conclusion of the case in the court of law.

ENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2013

20. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Foundation's principal financial instruments comprise cash and cash equivalents, trade receivables, trade payables and amounts due from related parties. These instruments arise directly from its operations.

The Foundation does not enter into derivative transactions.

The Foundation has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;

The directors have adopted various measures to minimize losses that may arise from these exposures.

These are explained as follows:

a) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the Foundation to incur a financial loss.

Customer credit risk is managed by Foundations's established policy, procedures and control relating to customer credit risk management.

The foundation monitors credit worthness of the customer based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by valid contracts.

The largest concentrations of credit exposure within the Foundation relate to cash and cash equivalents held with banks, trade receivables and amounts due from related parties. The maximum exposures for credit risk is therefore in regards to the carrying amount of cash and cash equivalents, trade receivables and amount due from related parties net of any impairment losses. The Foundation only places significant amounts of funds with recognised financial institutions with strong credit ratings and does not consider the credit risk exposure to be low. The foundation does not hold any collateral against these receivables.

Amounts due from related parties do not expose the Foundation to significant credit risk as these are due from the Government. There are no collateral securities held against these receivables.

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

COMPANY AS AT 30 JUNE 2013	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Receivables	-	4,234,190	11,370,560	15,604,750
Bank balances and cash	103,364,367	-	-	103,364,367
Term deposits	<u>180,000,000</u>	-	-	<u>180,000,000</u>
COMPANY AS AT 30 JUNE 2012				
Receivables		16,110,081	144,745	16,254,826
Bank balances and cash	183,616,968	-	-	183,616,968
Term deposits	<u>86,159,729</u>	-	-	<u>86,159,729</u>

