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REPORT

	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	07 MAR 2019
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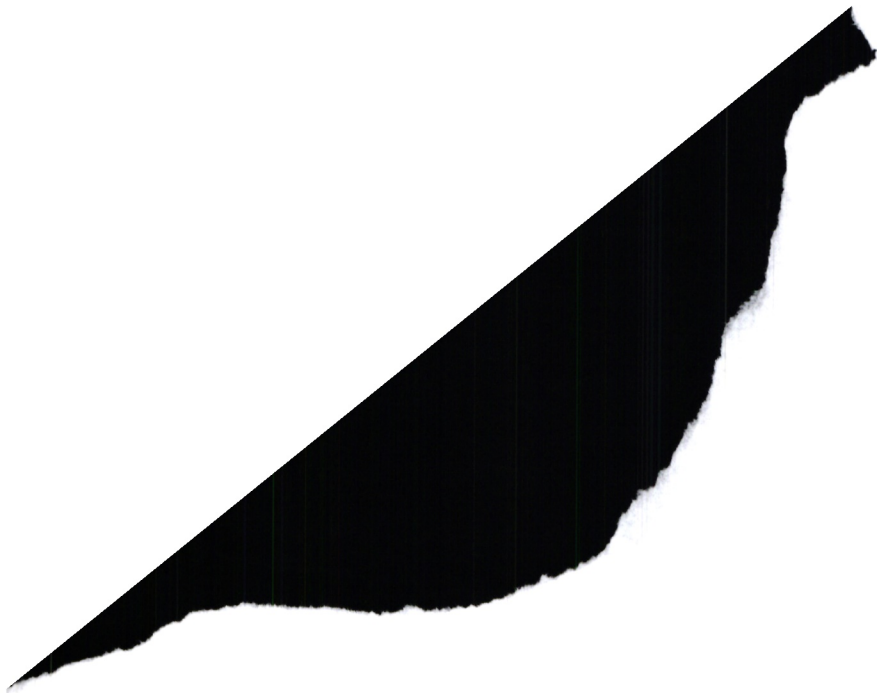
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF SOUTH NYANZA SUGAR COMPANY LIMITED

**FOR THE YEAR ENDED
30 JUNE 2018**



OFFICE OF THE AUDITOR
Box 30024 - 00100, NAIROBI
KENYA

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SOUTH NYANZA SUGAR COMPANY LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2018**


 THE NATIONAL ASSEMBLY PAPERS LAID	
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CORPORATE INFORMATION

Background information

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

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

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

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

DIRECTORS

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

Charles Oyugi Owino	Chairman (Appointed 6 June 2018)
Ambrose O. Weda	Chairman (Retired 17 April 2018)
Bernard Otieno	Managing Director (Ag)
James Wanjohi	Alternate – Principal Secretary, Ministry of Agriculture, Livestock Irrigation and Fisheries.
Cheryl Majiwa	Alternate – Cabinet Secretary, the National Treasury.
Joseph L. Ole Kasae	Director (Retired 17 August 2017)
Thomas M. Nyangi	Director (Retired 17 April 2018)
Eng. James O. Mageto	Director (Retired 17 April 2018)
Caleb K. Kiplagat	Director (Retired 17 April 2018)
Angeline Y. Siparo	Director (Retired 17 April 2018)

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

SENIOR MANAGEMENT

Bernard A. Otieno	Managing Director (Ag)
CPA Peter O. Otieno	Head of Finance (Ag) - ICPAK Reg. No.14613
Gabriel Otiende	Company Secretary-ICPSK Reg. No. 1386
Stephen Ligawa	Head of Manufacturing (Ag)
Ken Nyangwara	Head of Marketing & Business Development (Ag)
Zakayo Gombe Oindo	Head of Agriculture (Ag)
Judith O. Kagia	Head of Human Resources
James O. Oluoch	Head of ICT
Simon Korir	Head of Procurement
Kennedy O. Onyango	Audit Manager

CORPORATE INFORMATION (CONTINUED)

REGISTERED OFFICE

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Sare-Awendo, Migori County,
KENYA

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+254 733 333 348/9

Email:administration@sonysugar.co.ke

Website:www.sonysugar.co.ke

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

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

INDEPENDENT AUDITOR

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Deloitte Place
Waiyaki way, Muthangari
P.O. Box 40092 – 00100
NAIROBI, KENYA

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

COMPANY LAWYERS

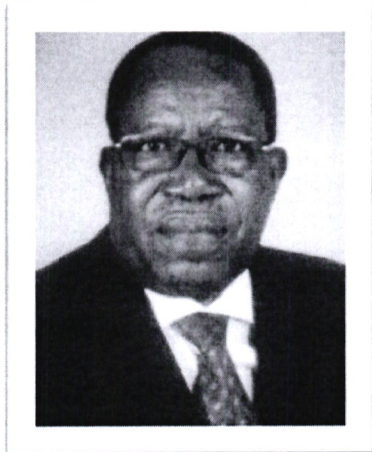
Okongo, Wandago & Co Advocates
SUNA MIGORI

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

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

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

BOARD OF DIRECTORS



Hon. Charles Oyugi Owino
 MA-Finance & Economics,
 London School of Economics
 Chairman – Board of Directors
 Appointed: 6th June 2018



Ambrose Otieno Weda, Esq.
 Masters in Law,
 BA-Economics
 Former Chairman – Board of Directors
 Retired: 17th April 2018



Bernard Otieno
 Managing Director (Ag)

MA-Projects, BSc. Bio Chem



Mwita Thomas Nyangi
 Director

Finance Expert, B.Com, MBA



Mr. Caleb Kiplagat
 Director

BSc. Industrial Engineering



Eng. James O. Mageto
 Director

**BSc. Civil Engineering,
 MSc.Engineering (Highways)**



Joseph ole Kasae
 Director

Insurance Expert



Angeline Y. Siparo
 Director

MA. Counselling Psychology, BA



James Wanjohi,
 Alternate PS,
 Ministry of Agriculture livestock
 and fisheries.

MSc. Agriculture, BSc. Agriculture



Cheryl Majiwa,
 Alternate PS,
 National Treasury

MBA. Strategic Management, Bcom

The Chairman, Mr. Ambrose Weda Eng James Mageto, Mr. Charles Kiplagat, Miss. Angeline Siparo and Mr. Thomas Nyangi Mwita retired on 17.04.2018 While Mr. Joseph Kasae retired on 17.08.2017.

SENIOR MANAGEMENT

MR. BENARD OTIENO
MANAGING DIRECTOR (Ag.)



MA. Project Planning & Mgt.
Bsc. Bio. Chem

STEPHEN LIGAWA
Head of Manufacturing (Ag.)



Msc. Chemistry
Bsc. Chemistry

PETER OTIENO
Head of Finance (Ag.)



MBM. Finance, CPA-K
BBM. Accounting

ZAKAYO GOMBE
Head of Agriculture (Ag.)



Msc. Hort. Eng.
Bsc. Agric. Eng.

JUDITH OKETCH
Head of Human Resources



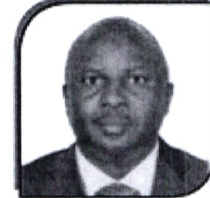
MBA. Strat. Management
Bcom. Hum. Res.

SIMEON KORIR
Head of Procurement



MBA. Strat. Management
Bcom. Procurement.

JAMES OLUOCH
Head of ICT



MBA. Strat. Management
BBA. Mgt. Info. Syst.

KEN NYANG'WARA
Head of Marketing (Ag.)



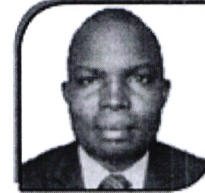
MBA. Strat. Management
BBA. Marketing.

GABRIEL OTIENDE
Company Secretary



LLB. Honors
Diploman in Law

KENNEDY ONYANGO
Audit Manager



MBA. Fin, ACCA, CPA-K
Bsc. Accounting

CHAIRMAN'S STATEMENT

It give me great pleasure to present before you financial statement and annual reports for the year ended 30.06.2018. I wish to review the business environment and significant developments that impacted on the performance of South Nyanza Sugar Company Limited as well as future outlook.

During the year, political and macro-economic uncertainty adversely affected operational circumstances of the business impacting negatively on the results. The operations were majorly affected by prolonged election period, disrupted cane supply to the factory due to unfair competition and adverse weather conditions that affected the region. Despite these challenges, we have defied tough economic times and now confident that we are placed to manage the shifting economic landscape within the sugar industry as a result of strategic measures we have put in place.

We have established an effective risk management framework within the Institution. This is achieved through continuous monitoring of the risk profile in relation to our activities and focusing on mitigating strategies in order minimize the risks and to achieve our goals.

In line with our core values of customer focus, intrapreneurship, team work, timeliness, integrity and professionalism, social responsibility and safety, we recognize progressive changes and national transformation strategies embedded in government policy documents and operations.

Implementation of the big 4 agenda

Our strategic plan emphasizes on efficiency and high productivity thereby aimed at putting South Nyanza Sugar Company Limited at the fore front in the development of the industry in line with the Government "Big Four agenda" of food security, health and manufacturing. The Company has outlined a number activities towards achievement of this objective. These activities include improved health care for staff and medical camps to the general public, improved housing facilities to the staff increasing area under cane through turnaround strategy of increasing sugar production through enhanced efficiency and effective Management Process.

Macroeconomic Environment

According to the World Bank survey (*Kenya Economic Update, April, 2018, Edition No.17*), the Kenyan economy faced multiple headwinds at the beginning of the year. A drought in the earlier half of the year, and a prolonged election cycle weakened demand for goods and services impacting negatively on the sugar sector. Nonetheless, reflecting the relatively diverse economic structure, these headwinds, better rains in the second half of the year, still low global oil prices, and a relatively stable macroeconomic environment. With headwinds subsiding, economic growth is projected to rebound over the medium term, reaching about 5.8 percent in 2019. However, this rebound is predicated on policy reforms needed to address downside risks that have the potential to derail medium term prospects.

Global growth is projected to strengthen in 2018-19 (United Nations Journal, Pg 3: World Economic Situation Prospectus, 2018), in line with January forecasts. In emerging market and developing economies (EMDEs), growth is predicted to recover in 2018-19, as obstacles to growth in commodity exporters diminish amid moderately rising commodity prices, and activity in commodity importers remains robust. Risks to the global outlook remain tilted to the downside. These include increased trade protectionism, elevated economic policy uncertainty, the possibility of financial market disruptions, and over the longer term, weaker potential growth. Despite the encouraging global economic growth figures, the global economy is projected face high level risks (The economist Intelligence Journal, Pg. 2.) The Global risks facing the global economy include Cyber-attack, proxy conflicts in the Middle East, effects of energy markets, oil prices fluctuations, countries withdrawing from Eurozone. These risks are expected to impact negatively on the projected positive global economic growth.

Strategic focus

Solid support from our farmers and the implementation of our corporate strategy will drive the growth of our business, increase market share, enhance shareholders value and corporate governance. As we position our business to strategically capture the opportunities presented in the market, the five year strategic plan is designed to help us take advantages created by economic challenges and unforeseen market disruption.

CHAIRMAN'S STATEMENT (Continued)

Results, Business & Operating Environment

I remain extremely positive, confident and focused about the future of this great business. This is despite the challenging environment in the sector witnessed during the period. As a team, we have continued with implementation of our wide-ranging corporate strategy. As we are focusing on major factory rehabilitation to optimize performance and grow the business to great heights, I am pleased to say that we are very much on track.

During the year, the Company realized Shs 2,931 million as compared to Shs 5,788 million in 2017 in gross turnover. This reflected a decline of 49% over last year. Volume of cane reduced by 30% to 420,380 metric tons compared to last year's figure of 603,303. Sugar production also reduced to 32,038 metric tons compared to the previous year's figures of 53,768 while the gross loss was Shs. 535 million compared to the previous year's gross profit Shs 1,090 million a decline of 149%.

The Sugar Industry

As in the previous year, the sugar industry experienced a significant deficit of cane and great impact of huge influx of unregulated importation of sugar and product counterfeiting in the year under review. As an institution, we have not been able to satisfy the demand for our brand due to limited production occasioned by cane shortage majorly due to cane poaching. The price in the market has seen fluctuations dictated by the amount of sugar supplied to the market and the price indicators at times influenced by the selling and availability of imported sugar. Depressed sugar prices impacted negatively on the company performance.

Continued crack down by the Government authorities on counterfeit sugar and illegal trade would be critical factor in ensuring competitive sugar price and growth.

Corporate Governance

During the year under review, there were some changes to the Board. Mr. Ambrose Weda retired as the Chairman of the Board of Directors on 17.04.2018, and was replaced by Hon Charles Oyugi Owino who joined the Board on 06.06.2018. Other Directors that retired on 17.04.2018 were: Mr. Mwita Thomas, Eng. James O. Mageto, Miss Angeline Y. Siparo and Mr. Calleb Kiplagat. Mr. Joseph Ole Kasae retired from the Board on 17.08.2017. Replacements for the retired Directors had not been made by the parent Ministry as at 30.06.2018. I wish to sincerely thank all the Board members for their contributions during the year,

The Board appreciates that having a solid governance framework is key to rebuilding accountability, trust and transparency. We have strengthened processes throughout the organization and operationalized short, medium and long term strategies aimed at returning the company to profitability and growth. The Board is focused on taking SonySugar to its rightful place in the sugar industry.

Conclusion

Our commitment to transform the company remains strong. With our strategy in place, we are confident that we shall continue creating value for shareholders and stake holders in general in the coming year. The company looks forward to better performance in the coming period based on the strategy the Board and the management team have put in place after identifying challenges facing the company in the recent past. The Board will continue to support initiatives that will improve farmer/staff engagement programs aimed at securing a sustainable supply of adequate quantities of good quality cane, strengthening internal control environment and promote organizational culture change as well as the interest of the shareholders.

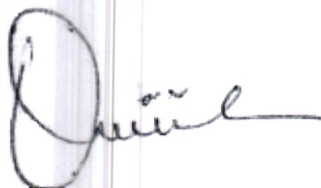
I want to thank all the staff, farmers and members of the Board for their commitment and enthusiasm in remaining focused during the challenging year just ended.

CHAIRMAN'S STATEMENT (Continued)

On behalf of the Board of Directors and Management of SonySugar, we are extremely grateful to our staff, farmers, business partners, customers and the government Ministries for support us during the year.

God bless You, God bless SonySugar Company Limited and God bless Kenya.

Hon. Charles Oyugi Owino
Chairman, Board of Directors



30th January 2019

REPORT OF THE MANAGING DIRECTOR

Financial year 2017-18 was a difficult operating period for the sugar sector and manufacturing in general in Kenya. A significant downturn in the national economy followed a prolonged period of electioneering in 2017, coupled with unregulated and duty free sugar importation. General lack of policy and regulations, diversion of raw materials from contracted plots, insecurity, weak credit growth, creeping inflation and drought also negatively affected the economic outlook of the sugar industry specifically and the economy generally.

The year was characterized by low ex-factory sugar prices due to uncontrolled importation and contraband sugar, acute shortage of milling cane occasioned by theft of contracted cane by private millers, lower sugar recovery/yield per ton of cane processed arising largely from processing young/immature cane and factory downtime due to delayed annual maintenance and associated problems with boiler tubes and cane outage stops. This unfavorable operating environment persisted for the major part of the operating year (July 2017 to May 2018), having rolled over from 2016/17 Fin. year. The month of June 2018 however saw significant improvement in the cash flow arising from clampdown on illicit sugar trade resulting to stable market prices, this despite some challenges that still existed in the operating environment – field, manufacturing and with creditors.

Financial Performance

The net turnover for the year ended 30 June 2018 dropped by 47.5% to Kes. 2,641 million in comparison with that of Kes. 5,025 million realized in 2016-17 Financial Year. This dip in turnover is attributed to lower sugar output and prices occasioned by acute shortage of milling cane arising from rampant cane theft in the region by rival millers, lower plant efficiencies due to delays in annual maintenance.

In the same period, the total operating cost was Kes. 4,616 million which was an increase of 2.9% compared to operating cost of Kes. 4,484 million in 2016-17. This resulted in an operating loss of Kes. 1,982 million, representing a 954% drop in profitability compared to the operating loss of Kes. 188 million in 2016-17.

Revenue

The price per ton of sugar dropped by 19% from an average net of Kes. 90,321 (Gross: Kes. 104,773) in 2016-17 to an average net of Kes. 73,188 (Gross: Kes. 84,898) in the year. This drop in price coupled by lower production significantly affected the cash flow position of the Company. Causal factors in pricing included flooding of the sugar market by duty free imports and alleged contraband, together with increased cases of brand counterfeiting.

Production Costs

The total cost of production per ton of sugar increased by 26% from an average of Kes. 100,824 (960 USD) with positive contribution margin of Kes. 16,067 per ton in the 2016-17 to an average of Kes. 135,493 (1,291 USD) with negative contribution margin of Kes. 24,949 per ton in the year 2017-18 under review. This significant increase is attributable to higher fixed costs occasioned by lower capacity utilization, lower plant availability and low sugar recovery from cane milled.

Operating Volumes

The Company milled 420,973 tons of cane during the financial year 2017-18. This performance was 31% lower than the cane volumes milled in 2016-17 of 602,711 tons. Rampant contracted cane theft by rival millers is the key factor for shortage of milling cane.

Sugar produced in the financial year 2017-18 was 32,038 tons, which was 40% lower than that produced in 2016-17 of 53,738 tons. This shortfall is due to low milling cane availability and lower rendement recorded in the period under review, primarily due to low sucrose content in cane and plant efficiencies.

Sugar sold in the period under review was 32,491 tons, which was 39% lower than the volumes sold in 2016-17 of 53,472 tons. Molasses sold in 2017-18 was 36% lower than the previous year at 15,710 tons (2016-17: 24,648 tons). The lower production volumes resulted in low sales volume.

REPORT OF THE MANAGING DIRECTOR (Continued)

Agriculture

The planted cane area at the end of year under review was 12,198 hectares (Nucleus Estate: 2,369ha; Contracted Outgrowers: 9829ha) against a target area of 13,500ha. Efforts to increase the cane area by contracting self-developed cane, previous ratoons beyond contract cycle and planting of more cane in the fallow lands continued in the year with the Company planting 2,518ha (NE: 233ha; OG: 2,285ha). Cane area lost to cane theft by private millers in 2017-18 was 913.65 ha. Average cane yields improved by 35% to 61.29 Tons/Ha (NE: 69.03T/Ha, OG: 53.55T/Ha) as compared to an average of 45.25 Tons/Ha in 2016-17. The overall yield increase is due to increased harvesting of cane that is nearing its prime in maturity. Fertilizer availability through the GoK/NCPB subsidy scheme was a challenge in securing timely availability and most cane was planted without fertilizer support from the Company.

At the close of the financial year, milling cane delivered to the factory was 420,381. Of these, 92,284 tons (22%) was delivered from the Nucleus Estate, 257,827 tons (61%) from the contracted Outgrower farmers and 70,270 tons (17%) was delivered from the Non-contracted sources. The Company is on course for a vigorous cane development drive with an aim to bringing 6,000 Ha under cane over the next four years, at a projected cost of Kes. 2.25 Billion. This will involve bringing 5,400 Ha under cane every year and fallowing 3,500 Ha bringing the net annual incremental of area under cane to 1,500 Ha every year. This will not only secure the primary source of raw material but is equally aimed at empowering the Outgrower farmers in the region.

The Ndege-Oriedo cane bulking center in Rongo Constituency is now operational and is key to having a foot print in terms of cane development in the new region and further secure raw material for cane milling. The Company continues to directly engage sugar cane farmers and key Industry stakeholders in an effort to rally farmers to increase planted cane area. Farmer education and entrepreneurship training was regularly undertaken to enhance skills and knowledge in sugarcane production and help realize the targeted cane area.

Factory Performance

The Company milled 420,973 tons of cane in the period under review at an average conversion ratio of 7.56% to produce 32,038 tons of sugar. A look at the Key performance parameters shows that the factory performance was below last year in all aspects. This was mainly attributed to delayed annual maintenance and under capacity utilization arising cane shortage that hit the Company's sugar belt and the entire Kenyan sugar industry.

In the period, investment in factory infrastructure was inadequate due to delays in procurement processes for capital investment and weak cash-flows. The APM that was scheduled for April/May 2017 of the previous financial year was re-scheduled to October 2017 due GoK intervention to stem sugar shortage in the country on request of AFA and the parent ministry. This was further rescheduled to April 2018 due to inadequate funds post-election impacts and poor cash flows from duty free sugar affecting market prices. As at the close of the financial year 2017-18, the APM was yet to be undertaken as company negotiated with GoK and its bankers some cash injection to support cash-flows during shutdown in absence of stocks. The delay in undertaking APM, underutilization of factory capacity due to acute cane shortages and inadequate/untimely capital investment in Sugar Production machinery and equipment impacted the factory production performance.

The low sucrose content in the cane harvested before normal age significantly impacted sugar yield. The average sucrose percentage in cane for the period under review was 11.24% on cane in 2017-18 compared to 11.60% on cane for financial year 2016-17. The targeted sucrose percentage was 13.45% on cane.

Key unit processes contributing to the limitations and requiring intervention included cane yard/handling machinery- EOT crane & wheeled loaders affecting feeding /rotation of cane in the receiving yard thus interrupting milling and low mill throughput. In the Steam generation area, frequent boiler tube leaks adversely affected production in the months of April through to June 2018. These were equally magnified by the delayed Annual Planned Maintenance shutdown.

REPORT OF THE MANAGING DIRECTOR (Continued)

This delay resulted in a number of machine/equipment failures e.g. breakage of Bagasse elevator Head Shaft, Mill 4 bottom scrapper, Fibrisor Resistor Banks failure, Boiler no 1 ID fan imbalance due to wear and Boiler no1 VFD failure thus affecting throughput.

Market

The sugar market was largely depressed in the year under review due to uncontrolled importation of duty free and alleged contraband sugar into the market. The year saw importation of over one million tons of sugar in the country against an annual shortfall of slightly over 300,000 metric tons. This resulted into depressed sugar prices. The price per ton of sugar dropped by 19% from an average net of Kes. 90,321 (Gross: Kes. 104,773) in 2016-17 to an average net of Kes. 73,188 (Gross: Kes. 84,898) in the year under review.

Some of the challenges that was experienced in the market included declining bulk and branded sugar prices due to contraband and counterfeit sugar, inadequate stocks of branded sugar due to low production, lack of SonySugar visibility in key retail markets due to product shortage. SonySugar branded sugar has a strong brand personality and its absence in the key markets eroded the customers/consumers trust on the product availability.

Human Capital

Human Resource presents our greatest asset and continues to be a key focal point. Our strategic thrust in Human Capital Development was to build a committed and strong entrepreneurial management to ensure Sony Sugar curves out a niche in the sugar industry to assure its growth and sustainability. Targeted training and Development was undertaken.

The Company has adopted a campaign on zero tolerance to corruption through a range of initiatives and action. A Corporate Integrity Assurance Committee appointed to oversight the programs and National Cohesion Committee initiatives has been effective in this area.

Litigation, Legal Exposure & Compliance with Laws

The Company has several cases filed against it for breach of cane growing contracts stretching back over 10 years. The cases arose as a result of unrealized proposed expansion of the factory in early 2000, in which cane area was expanded to justify the proposed expansion. Due to the unrealized expansion of the factory, the Company was not able to harvest cane that was grown in several areas as a consequence of which such fields went to waste for which farmers plus the Company also suffered loss. Lately contract breaches and fraud in various forms has resulted in additional cases.

Besides defending such cases in court, Management continues to put in place measures geared towards minimizing litigation exposure in respect to cane growing agreements. Process gaps that led to the filing of cases against the Company were noted to be as weakness in contract and records management besides poor service delivery to farmers by Agricultural extension personnel amongst others.

Management has put in place new initiatives to combat litigation amongst them being criminal prosecution for fraud, outreach programs to farmers for amicable resolution of disputes and new framework of managing cane contracts amongst others. Significant progress has been made in the retrieval and availability of information and records, scaling up of witness presentation in court plus production of relevant documents and the co-operation with the local administration for amicable resolution of potential legal disputes has been secured. Management has also reached out to several complaints, who having lodged claims against the Company, have upon discussions, agreed and have withdrawn such cases filed against the Company. Measures put in place are expected to reduce the numbers to the limits that were manageable and bring into control litigation against the Company.

REPORT OF THE MANAGING DIRECTOR (Continued)

The Big 4 Agenda

The main focus of the government of Kenya in the coming year is the Big Four agenda. The four pillars of the agenda are manufacturing, universal healthcare, affordable housing and food security. South Nyanza Sugar Company is involved mainly in three of the Big Four agenda namely, Manufacturing, universal healthcare and food security

Under the Food Security Pillar, the Company contribution targeted increase in sugar cane output, grower incomes and sugar production through increase in investment in sugar cane development and planted cane area. The company investments to contracted small holder growers/ farmers included farm inputs i.e. land development services, fertilizer and seed cane. The company undertook training of the small holder farmers on good crop husbandry and agribusiness. The company provided improved market access infrastructure and reduced post-harvest losses/wastage for the growers. The company promotes intercropping of cane with food crops and provides extension support to all small holder farmers in four counties of Migori, Homa Bay, Kisii and Narok. One third of crop area is assigned for food production. The planted sugarcane area stood at the end of year under review at 12,198 hectares; 2,369 ha of which was under the Nucleus Estate and 9829 ha under Contracted growers. The recurrent expenditure for operations and administration in extension support and related infrastructure for sugarcane for small holder growers was Kes. 610.1 million.

On the Manufacturing Agenda, as a company we targeted development expenditure in projects aimed at enhancing processing capacity. The procurement processes are largely complete and implementation through installation is scheduled for late 2018. Other than production of sugar, the current business strategy focuses on moving up the sugar value chain by diversifying into production of ethanol, commercial electric power, specialty sugars and packed molasses. In the year under review, manufacturing expenditure stood at Kes. 970.4 million, producing 32,038 tons of sugar valued at Kes. 2.34 billion at the average net price for the year.

On the Universal Healthcare Agenda, the Company provides health care to over 1800 households within its operating area. The services include quality and affordable clinical services, ante-natal and post-natal services, comprehensive care services for HIV/AIDS patients. The Company engages in health care outreach programs in collaboration with various partners including County Health Services in areas of Public health, HIV/AIDS, lifestyle disease, Maternal and Child health management within the grower and trading community it serves. In the year under review, Health care expenditure stood at Kes. 56.7 million.

Future Outlook

The Strategic focus in the financial year 2018-19 shall target the following broad areas which shall be key drivers in the realization of initiatives under the Big 4 Agenda:

1. Agriculture Operations

Cane yields and productivities are expected to decline into the new financial year 2018-19 if the mean cane harvesting age continues to be low. In addition, the continued lack of fertilizer shall have drastic impact on future cane yields. To mitigate of this, the Company shall embark on an aggressive cane development targeting 6,000 Ha progressively over the next 4 years. 5,400 Ha is earmarked for development in the financial year 2018-19 while 3,500 Ha will be fallowed to allow for land regeneration. Introduction of early maturing sugar cane varieties to address raw material shortage in coming periods is also planned. Other interventions include improved crop production planning through quotas, security of investments in cane production, yield improvement, prompt farmer payments and competitive cane prices. Management will also intensify acquisition of non-contracted cane (NCC) from farmers to bridge the mill-cane demand shortfall as a way of meeting the set targets for the forward period. To compliment cane production activities and farmer incomes, we shall establish tree nurseries and distribute seedlings for fruit trees mainly macadamia and avocado, to diversify grower revenues.

Cane diversion/theft continues to be a challenge. In the year under review, 913.65 ha was lost to cane poaching (equivalent to 50,250 tons of cane at a yield of 55 tch) with a total worth of Kes. 216,580,733 and potential revenue of Kes. 512,550,000 at current market sugar prices.

REPORT OF THE MANAGING DIRECTOR (Continued)

The financial outlay of inputs and services invested in the area is Kes. 18,381,691. Significant increase in diversion of contracted cane will impact negatively on future cane supply resulting in continued cane shortage. There is urgent need for Policy, legal and political intervention to address this challenge as the traditional strategies for averting the cane diversion such as the anti-poaching Rapid Response Team (RRT) are inadequate. The sugar sector is thus in need of industry regulations and code of business ethics to protect investment in cane development.

SonySugar and Trans Mara have formed a working group that is progressing amicable ways of engagement so that inter mill poaching is eliminated altogether. Besides membership to KESMA and KAM are expected to deepen the engagement with policy makers on this important aspect. These efforts need support from all industry players.

2. Information Communication Technology

ICT is essential in supporting improvements in operational efficiency and creation of value. SonySugar ICT investment in two key ERP systems i.e. the Agricultural Management System (AMS) and the SAP ERP system support the core business and drive efficiency and productivity enhancement in the organization. These systems are supported by investments in the Data Centre and network resources infrastructure to assure data accuracy and infrastructure availability and reliability. In the last two years, implementation of ICT projects has slowed down due to cash flow challenges and contract disputes. This therefore necessitated a review of the implementation strategy to adapt to the dynamics in the business. The new approach is a phased and negotiated implementation with allowance for roll-overs. Management has also communicated to ICT Authority of Kenya to clarify get clarification on the recent presidential directive of central procurement of all ICT software and hardware.

3. Business Environment

The retail price of sugar has risen to a one-year high, driven by an acute shortage in the market that retailers have attributed to the ongoing crackdown on contraband/Illicit trade. The crackdown on contraband sugar, which started in June 2018 saw more than a million kilograms of sugar confiscated and earmarked for destruction. The retail prices have followed the factory price that shot from Kes. 74 per kilogram in the months of April and May to Kes. 100 in the month of June and July 2018, as supply tightened. The Company is counting on policy intervention and sustained fight against illicit trade as this will help steady the market prices. With steady and predictable prices, the Company is confident of meeting its short time working capital obligations using revenues generated from operations. The Company shall increase the production of pre-packed branded sugar, the product for which prices are projected to be stable in the ensuing competitive market.

4. Manufacturing

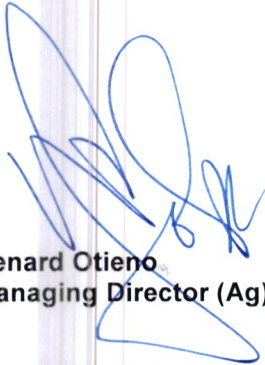
The APM is planned for November 2018 during the short rains. This will give the plant much needed renewal, that will help sustain its functionality for the next 12 to 24 months. Procurement process of the major parts to be installed during the APM is complete and most of these parts are already within the Company's premises. The APM will address general plant fatigue and the frequent downtime. Dismantling the Boilers, replacing the Boiler tubes and rebuilding the Furnace walls will ensure steady supply of steam and power necessary for the smooth operation of the plant. The Demineralization Plant recently commissioned will ensure that Boiler water meets quality specification thus playing a critical role in preservation of the Boiler tubes. The additional new crane is already on site and is earmarked for installation during the APM stoppage. Other interventions to address obsolescence and enhance recovery include installation of a chopper leveler for cane preparation, mill 4 drive, sugar grader, shaft mounted compact drives, single entry condensers, feed table chain and drive upgrade, Gantry rehabilitation and reinforcement, Single entry condensers and key water and vapor piping replacements through material upgrades among others.

Conclusion

On behalf of Management, I wish to thank the previous Board of Directors of South Nyanza Sugar Company Limited for its prudence, guidance and direction to the business and employees assuring its survival during critical moments of electioneering and putting in place a sustainability plan. I wish to express my appreciation to the entire management and union employees for their dedication, sacrifices, understanding and support of the business and its processes in the period.

REPORT OF THE MANAGING DIRECTOR (Continued)

I appreciate our farmers for their resilience and support, our trade customers and suppliers for the business and consumers for making SonySugar their brand of choice. Finally, I congratulate all our stakeholders and shareholders for their unwavering support to the business. As we work together as a team, South Nyanza Sugar Company Limited has been, and will remain the envied leader of the Kenyan Sugar Industry.



Benard Otieno
Managing Director (Ag)

30th January 2019

STATEMENT ON CORPORATE GOVERNANCE

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

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

Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined. The Board comprises of nine (9) Directors six (6) of whom are non-executive directors including the Chairman. Alternate Directors from the parent ministry and National Treasury also sit in the Board. The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The Directors, being professionals in various fields, bring a wealth of experience and knowledge in respective and diverse fields.

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

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

During the period, all Board members were trained on Mwongozo and Corporate Governance so as to equip them with the requisite skills and tools for the effective Management of the Organization.

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

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

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

Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so in order to handle a back log or an urgent matter that cannot otherwise await a normal Board meeting. Meetings held by the Board went up in view of the fact that the Board met on several occasions to conduct interviews for the position of the Managing Director and other senior Management positions. The meetings that were held by the Board are as per the table below:

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Committee	Type	Mandated	Actual
Main Board	Regular	4	6
	Special	2	2
BAC	Regular	4	2
	Special	2	4
BFC	Regular	4	5
	Special	2	3
OPC	Regular	4	3
	Special	2	2
GPC	Regular	4	5
	Special	2	2

Committees of the Board

The Board set up the following Board Committees which meet under well-defined terms of reference set by the Board. This was intended to facilitate efficient decision making of the Board in the discharge of its mandate and obligations.

Board Audit & Risk Committee

The composition of the Audit and Risk Committee comprised the following:

- 1) Eng. Caleb Kiplagat - Director, Chairman
- 2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury
- 3) Mr. Joseph Ole Kasae - Director, Member
- 4) Eng. James Mageto - Director, Member
- 5) Ms. Theodora Gichana - In attendance-by invitation (Representative to Inspectorate, State Corporations)

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

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

The Committee held two (2) regular and (4) special meetings in the year under review.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

General Purpose Committee

The composition of the General Purpose Committee comprised of the following:

- 1) Eng. James Mageto - Director, Chairman
- 2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury and planning
- 3) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation and Fisheries
- 4) Mr. Thomas Nyangi - Director, member
- 5) Ms. Angeline Siparo - Director, member
- 6) Ms. Theodora Gichana - In attendance-by invitation-(Representative to Inspectorate, State Corporations)

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

The Committee held five (5) regular meetings in the year under review.

Board Finance Committee

The composition of the Finance Committee comprised the following:

- 1) Mr. Thomas Nyangi - Director, Chairman
- 2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury and planning
- 3) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation & Fisheries
- 4) Ms. Angeline Siparo - Director, member
- 5) Ms. Theodora Gichana - In attendance-by invitation- (Representative to Inspectorate, State Corporations)

The Committee assists the Board in fulfilling its oversight responsibilities relating to the Company's finance, procurement, investment strategies, projects and related activities.

The Committee held five (5) regular and three (3) special meetings in the year under review.

Operations Committee

The composition of the Operations Committee comprised the following:

- 1) Mr. Joseph Ole Kasae - Director, Chairman
- 2) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation & Fisheries
- 3) Mr. Thomas Nyangi - Director, member
- 4) Eng. Caleb Kiplagat - Director, member
- 5) Ms. Theodora Gichana - In attendance-by invitation- (Representative to Inspectorate, State Corporations)

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

The Committee held three (3) regular meetings in the year under review.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Risk Management and Internal Controls

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

Effective Risk Management Process has been achieved through continuous risk assessment by the respective functional Heads and put in place mitigation strategies on risks facing the Organization. Internal Audit Department also plays a major role in continuous monitoring as well as identification of emerging risks and provide timely reports to the Board Audit and Risk Committee on the effectiveness of Risk Management Process.

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

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

Creating Shareholders' Value

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors during the financial year 2016/2017 is disclosed in the notes to the financial statements. Non-executive directors were paid sitting allowances for every meeting attended, in compliance with the act.

There were no arrangements for the directors to acquire benefits through the acquisition of the Company's shares.

Corporate Social Responsibility Statement

As the Company continues to achieve set strategic objectives, it considers Corporate Social Responsibility as an integral of its core values. Sony Sugar recognizes its obligations to act responsibly, ethically and with integrity in its dealings with all stakeholders. The Company cares for its staff, the communities around, customers, suppliers and is sensitive to environment within which it operates.

During the year the Company spent in various Corporate Social Responsibility initiatives aimed at impacting positively on the lives of all its stakeholders with dedication to supplying products of the highest quality to meet its customers' expectation in a manner that is consistent with high environmental requirements and standards.

As in previous years, The Company actively worked with local community projects focusing on roads upgrading, education, health, environment, sports talent development and response to distress calls. The Company has maintained two bore holes located at Thim Kaloo and Ndege Oriedo for community use as well as upgrading over 800 kms of roads in the locality.

On health, the SonySugar Medical Center, and the SonySugar Comprehensive Care Unit is open to the public by providing medical services at a fraction of the cost. Under disaster management, the Company's firefighting services assisted in razing fires in cane plantations in the locality and Migori town. In sports development, the Company effectively supported SonySugar Football Club.

On diversity, the Company continues to acknowledge the importance and contribution of its employees and values people from all cultures, religion and ethnicities irrespective of characteristics such as age, gender, marital status, sexual orientation or physical or mental disability. The company is committed to building a diverse organisation to maximize the skills available to us in the jurisdictions in which we operate. We ensure that we follow best practice and have adopted employment policies across the jurisdictions, based on equal opportunities for all employees, these are implemented from the point of recruitment and continue throughout the employees' career. We a strong demand for highly qualified staff and disability is not seen to be an inhibitor to employment or career development. Disabled people are given full consideration for employment and subsequent training (including, if needed, retraining for alternative work where employees have become disabled), career development and promotion on the basis of their aptitudes and abilities.

In education, the Company significantly contributed towards student attachment and internship programs to nurture the youth in readiness for the job market as well as supporting infrastructure development for local schools.

Ethically, the Company is committed to doing the right thing, conducting ourselves in a legal, ethical, and trustworthy manner, upholding our regulatory obligations, and complying with both the letter and spirit of our business policies. On environmental management, the Company recognizes a shared responsibility to protect our environment. We reduce the environmental impact of our business through preservation, conservation, and waste reduction practices. During the year, the Company donated its management time to promote sustainability by hosting the World Environment Day in conjunction with Migori County Government during which more than 5,000 tree seedlings were planted.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of South Nyanza Sugar Company Limited (the 'Company') for the year ended 30 June 2018.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A review of the business of the company is incorporated within the report of the Managing Director on pages 9 – 14.

Production and sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2018.

Cane Deliveries (tons)	2018	2017
Nucleus estate	92,284	127,178
Outgrowers	328,096	476,125
Total	420,380	603,303
Sugar Produced (tons)	32,038	53,768
Rendement	7.56%	8.91%

DIVIDEND

The net loss for the year of Shs 2,109,764,000 (2017: net loss of Shs 296,782,000) has been added to accumulated losses. The decision on dividend will be made at AGM.

DIRECTORS

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

DISCLOSURE OF INFORMATION TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

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

DIRECTORS' REPORT (CONTINUED)

TERMS OF APPOINTMENT OF AUDITORS

The Auditor General is mandated by law to audit South Nyanza Sugar Company Limited. This mandate was delegated to Deloitte & Touche for the audit of financial year ended 30 June 2018 in accordance to section 23 of the public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on its behalf.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

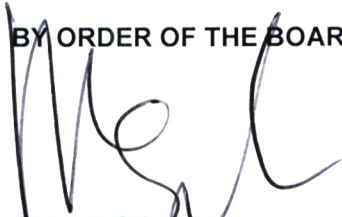
EMPLOYEES

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

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 30th January 2019.

BY ORDER OF THE BOARD



Gabriel Otieno
Company Secretary

30th January 2019

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the entity for financial year ended June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act 2015, PFM Act, 2012 and the State Corporations Act section 14. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

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

Approval of the financial statements

The financial statements were approved by the Board on 30th January 2019 and signed on its behalf by:



Hon. Charles Oyugi Owino
Chairman, Board of Directors



Bernard Otieno
Managing Director (Ag)

**INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL, KENYA NATIONAL
AUDIT OFFICE ON SOUTH NYANZA SUGAR COMPANY LIMITED**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of South Nyanza Sugar Company Limited (the "Company"), set out on pages 26 to 66 which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty in relation to going concern

We draw your attention to the disclosure in note 4 to the financial statements, which indicates that the Company incurred a net loss of Sh 2,109,764,000 (2017: Sh 296,782,000) during the year and had accumulated losses of Shs 3,308,160,000 as at 30 June 2018 (2017: Sh 1,198,394,000). In addition, the Company's current liabilities exceeded its current assets by Sh 3,606,875,000 (2017: Sh 1,822,397,000). These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL, KENYA NATIONAL AUDIT OFFICE ON SOUTH NYANZA SUGAR COMPANY LIMITED (Continued)

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. The directors and those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL, KENYA NATIONAL
AUDIT OFFICE ON SOUTH NYANZA SUGAR COMPANY LIMITED (Continued)**

Report on other matters prescribed by the Kenya Companies Act, 2015

In our opinion, the information given in the Report of the Directors on pages 20 to 21 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditors' report is **CPA Fredrick Aloo – P/No 1537.**

Certified Public Accountants (Kenya)

Nairobi, Kenya

2019

REPUBLIC OF KENYA

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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 2018

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 26 to 71, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of South Nyanza Sugar Company Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenyan Companies Act, 2015.

Basis for Qualified Opinion

1. Receivables from Outgrowers

As reported in the previous year, the Company's statement of financial position as at 30 June 2018 similarly reflects receivables from outgrowers balance of Kshs.267,289,000 (2017: Kshs.234,613,000) and as disclosed in Note 19 to the financial statements. 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 19 to the financial statements. The gross receivables balance is an aggregation of outgrowers' balances from the main Agricultural Management Systems (AMS), outgrowers' ledger and old balances uploaded in a separate ledger in the AMS system. Included in the aggregate balance is a sum of Kshs.351,023,000 being old balances uploaded into the AMS sub-ledger that has, however, not been linked into individual farmers' accounts.

Further, validation of the individual outgrowers' balances revealed several unsupported transactions in the outgrowers' ledger, inconsistent transactions between the underlying outgrowers files and ledger, and transactions in outgrowers files not recorded in the ledger. In addition, a provision for impairment of

receivables from outgrowers totalling Kshs.889,550,000 (2017: Kshs.829,843,000) was made at the year end.

As a result of the numerous material shortcomings in the accounting records for the outgrowers transactions, it has not been possible to confirm the accuracy and recoverability of the receivables and the related accrued interest income.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of South Nyanza Sugar Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material Uncertainty in Relation to Going Concern

I drew attention to a disclosure in Note 4 to the financial statements, which indicates that the Company incurred a net loss after tax of Kshs.2,109,764,000 (2017: KShs.296,782,000) during the year and had accumulated losses of KShs.3,308,160,000 as at 30 June 2018 (2017: KShs.1,198,394,000). In addition, the Company's current liabilities exceeded its current assets by Kshs.3,606,875,000 (2017: KShs.1,822,397,000). These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern, and further implies that the Company's existence is dependent upon continued support from the shareholders and creditors. My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described under Material Uncertainty in Relation to Going Concern and, in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no key audit matters to communicate in my report.

Other Information

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in

the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described under Material Uncertainty in Relation to Going Concern and, in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Loss on Imported Sugar

- (i) During year under review, Kenya Revenue Authority(KRA) issued to the Company a VAT assessment on the imported sugar amounting to Kshs.74,509,348 which management agreed to a payment plan with KRA of Kshs.10,000,000 on a weekly basis. As of 14 December 2018, the Company had made payments totalling Kshs.58,000,000 in respect of this assessment.
- (ii) In addition, the Company was issued with a fee note amounting to Kshs.8,000,000 by TripleOKLaw LLP, Advocates in respect of an advisory opinion sought and issued on the parliamentary investigations on the importation of sugar. The Company had made a payment of Kshs.4,200,000 on 16 November 2018 to the law firm for the same.
- (iii) The importation of sugar resulted in a loss to the Company amounting to Kshs.16,028,395 as detailed below:

Net commission received		30,300,000
Costs incurred		
VAT additional assessment	16,107,516	
Disallowed invoices relating to consignment-transport	18,402,454	
Disallowed invoices relating to consignment - clearing	404,000	
Legal fees – TripleOKLaw LLP	8,000,000	
Legal fees - Moronge & Company Advocates	3,414,425	
Total costs incurred		(46,328,395)
Net Loss		(16,028,395)

2. Unpaid Tax

Other payables and accrued expenses totalling Kshs.2,955,561,000 disclosed under trade and other payables in Note 26 to the financial statements includes outstanding Value Added Tax (VAT) payables totalling Kshs.1,325,000,000 (2017: Kshs.547,000,000), spanning several months of non-payment of principal amount, interest and penalties.

As similarly reported in the previous year, the management has continued to indicate that some of the outstanding obligations had been paid and that it intends to approach the Kenya Revenue Authority for waiver of applicable interest and penalties.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described under Material Uncertainty in Relation to Going Concern and, in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Senior Officers Not in Substantive Appointment

A review of governance structure of the Company revealed that senior officers namely; managing director, head of manufacturing, head of finance, head of agriculture and head of marketing are in acting capacity and thus creating decision making and management challenges in the running of the Company.

2. Business Continuity Management

The Company's business continuity plan (BCP) and disaster recovery plan (DRP) have not been approved by the Board and consequently these documents have not been operationalized. The Company is, therefore, highly exposed to business risks and unmitigated losses in case of an occurrence of a disaster.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on pages 20 to 21, is consistent with the financial statements.

Responsibilities of Directors and Those Charged with Governance

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

In preparing the financial statements, the directors are responsible for assessing the ability of South Nyanza Sugar Company Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and

responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

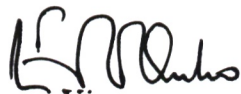
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures

responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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



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

Nairobi

27 February 2019

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2018

Statement of profit or loss and other comprehensive income

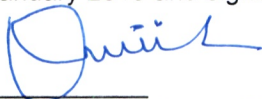
	Notes	Year ended 30 June	
		2018	2017
		Shs'000	Shs'000
Gross sales		2,931,238	5,788,227
Indirect taxes:			
- Value Added Tax (VAT)		(417,113)	(791,560)
Revenue	6	2,514,125	4,996,667
Loss/gains arising from changes in fair value less costs to sell of biological assets	16	(5,586)	3,828
		2,508,539	5,000,495
Cost of sales	7	(3,044,299)	(3,910,938)
Gross loss/profit		(535,760)	1,089,557
Other income	8	86,882	28,519
Distribution costs	9	(35,893)	(56,180)
Administrative expenses	10	(1,497,205)	(1,249,429)
Operating loss		(1,981,976)	(187,533)
Finance costs	11	(127,788)	(109,249)
Loss before income tax		(2,109,764)	(296,782)
Income tax credit	13	-	-
Loss for the year		(2,109,764)	(296,782)
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Remeasurement of post-employment benefits obligation	29	50,014	39,800
Deferred income tax thereon	25	(15,004)	(11,940)
		35,010	27,860
Total comprehensive loss for the year		(2,074,754)	(268,922)

South Nyanza Sugar Company Limited
Financial Statements
At 30 June 2018

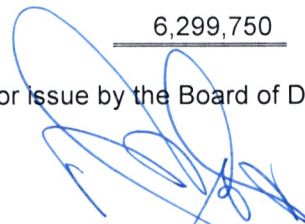
Statement of financial position

	Notes	30 June 2018 Shs'000	30 June 2017 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	4,948,546	3,032,796
Intangible assets	15	55,041	107,594
		<u>5,003,587</u>	<u>3,140,390</u>
Current assets			
Biological assets	16	462,832	554,055
Inventories	17	473,272	442,946
Trade and other receivables	18	65,131	36,222
Receivables from out growers	19	267,289	234,613
Current income tax		5,650	5,650
Cash and bank balances	20	21,989	347,877
		<u>1,296,163</u>	<u>1,621,363</u>
TOTAL ASSETS		<u>6,299,750</u>	<u>4,761,753</u>
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	21	353,970	353,970
Revaluation reserve	22	3,413,405	1,270,938
Other reserve	23	48,131	13,121
Accumulated losses		(3,308,160)	(1,198,394)
Total equity		<u>507,346</u>	<u>439,635</u>
Liabilities			
Non-current liabilities			
Grants	24	76,721	81,051
Borrowings	27	383,983	366,556
Deferred income tax	25	26,944	11,940
Retirement benefits obligation	29	401,718	418,811
		<u>889,366</u>	<u>878,358</u>
Current liabilities			
Trade and other payables	26	3,409,454	1,947,486
Borrowings	27	1,201,246	1,194,231
Bank overdraft	27	292,338	302,043
		<u>4,903,038</u>	<u>3,443,760</u>
TOTAL EQUITY AND LIABILITIES		<u>6,299,750</u>	<u>4,761,753</u>

The financial statements on pages 26 to 66 were approved for issue by the Board of Directors on 30th January 2019 and signed on its behalf by:



Hon. Charles Oyugi Owino
Chairman



Bernard Otieno
Managing Director (Ag)

South Nyanza Sugar Company Limited
 Financial Statements
 For the year ended 30 June 2018

Statement of changes in equity

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Other reserve Shs'000	Accumulated losses Shs'000	Total equity Shs'000
Year ended 30 June 2017						
At the start of year						
- as previously stated		353,970	1,374,448	(14,739)	(970,481)	743,198
- IAS 41 and 16 amendment adoption (Note 16)		-	-	-	(34,641)	(34,641)
- as restated		353,970	1,374,448	(14,739)	(1,005,122)	708,557
Loss for the year		-	-	-	(296,782)	(296,782)
Other comprehensive income		-	-	27,860	-	27,860
Total comprehensive loss		-	-	27,860	(296,782)	(268,922)
Transfer of excess depreciation	22	-	(147,871)	-	147,871	-
Deferred income tax on transfer	22	-	44,361	-	(44,361)	-
At end of year		353,970	1,270,938	13,121	(1,198,394)	439,635
Year ended 30 June 2018						
At start of year		353,970	1,270,938	13,121	(1,198,394)	439,635
Revaluation during the year		-	2,142,467	-	-	2,142,467
Loss for the year		-	-	-	(2,109,764)	(2,109,764)
Other comprehensive income		-	-	35,010	-	35,010
Total comprehensive loss		-	-	35,010	(2,109,764)	(2,074,754)
At end of year		353,970	3,413,405	48,131	(3,308,160)	507,346

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2018

Statement of cash flows

	Notes	Year ended 30 June	
		2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Cash generated from operations	28	24,830	61,000
Interest received	8	43,100	25,609
Interest paid and other finance charges	11	(64,322)	(109,249)
Net cash generated from/ (used in) operating activities.		3,608	(22,640)
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(217,346)	(149,077)
Purchase of intangible assets	15	(1,184)	-
Additions due to development of cane	16	(68,188)	-
Proceeds from sale of fixed assets		5,951	6,244
Net cash used in investing activities		(280,767)	(142,833)
Cash flows from financing activities			
Borrowings		97,696	366,556
Repayment of borrowings	27	(136,720)	(67,606)
Net cash (used in)/generated from financing activities		(39,024)	298,950
Net (decrease)/ increase in cash and cash equivalents		(316,183)	133,477
At start of year		45,834	(87,643)
At end of year	20	(270,349)	45,834

Notes

1 General information

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

PO Box 107 - 40405
Sare-Awendo

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

2 Accounting policies

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

(a) Statement of compliance

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

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

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

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

Amendments to IAS 12 Income Taxes clarify the following aspects:

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

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

Notes (continued)

2 Accounting policies (continued)

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

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

Annual Improvements to 2010-2012

The annual improvements to IFRSs 2012-2014 cycle include a number of amendments to various IFRSs, which are summarised below:

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

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

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
 - clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
 - clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
 - additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.
- The amendments to the standard has had no impact on the financial statements.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

IFRS 9 Financial Instruments (“IFRS 9”)

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

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

Key requirements of IFRS 9:

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018

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

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

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

Classification and measurement

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

Impairment

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

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

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

Hedge accounting

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

The Directors are assessing the potential impact on the financial statements resulting from the application of these changes. The new standard is expected to be applied for the year beginning 1 July 2018.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018 (Continued)

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

The Company recognises revenue mainly from sale of sugar. Based on preliminary assessment, the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance. The new standard is expected to be applied for the year beginning 1 July 2018.

IFRS 16 Leases

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

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018 (Continued)

IFRS 16 Leases (Continued)

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

IFRS 17 Insurance Contracts

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018 (Continued)

IFRS 17 Insurance Contracts (Continued)

The entity:

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

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

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

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

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

The amendments clarify the following:

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

Notes (Continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018
(Continued)

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2018 (Continued)

Annual Improvements to IFRS Standards 2015-2017 Cycle

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

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

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

(iii) Early adoption of standards)

The Company did not early adopt new or amended standards in the period ended 30 June 2018.

(b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

Notes (continued)

2 Accounting policies (continued)

(c) Revenue recognition

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

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

Revenue is recognized as follows:

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

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

Interest income is recognized using the effective interest method.

(d) Property, plant and equipment

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

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

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

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

Buildings	25 - 40 years
Plant and machinery	10 - 15 years
Equipment and motor vehicles	3 - 8 years
Bearer plants	6 years

Notes (continued)

2 Accounting policies (continued)

(d) Property, plant and equipment (Continued)

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

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

(e) Biological assets

Biological assets comprise of agricultural produce on sugar cane.

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

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

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

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

(f) Impairment of non-financial assets

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

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

(g) Inventories

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

Notes (continued)

2 Accounting policies (continued)

(h) Trade receivables

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

(i) Trade payables

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

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

(j) Share capital

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

(k) Cash and cash equivalents

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

(l) Employee benefits

(i) Retirement benefit obligations

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

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

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

Notes (continued)

2 Accounting policies (Continued)

(l) Employee benefits (Continued)

(i) Retirement benefit obligations (Continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income.

The company does not currently have a separate assets to finance the gratuity obligation

(ii) Other entitlements

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

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

(m) Current and deferred income tax

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

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

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

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

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

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.

Notes (continued)

2 Accounting policies (Continued)

(n) Borrowings

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

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

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

(o) Provisions

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

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

(p) Grants

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

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

(q) Leases

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

Notes (continued)

3 Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

(i) Biological assets

In determining the fair value of biological assets, management uses estimates based on historical data relating to yields and prices of sugar. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences between estimates and actual experience. The significant assumptions used are set out in note 15.

(ii) Recoverability of receivable from Outgrowers

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

(iii) Income taxes

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

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

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

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

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

4 Going Concern

The Company made a loss after tax of Shs 2,109,764,000 (2017: Shs 296,782,000) during the year which was added to accumulated losses totaling Shs 3,308,160,000 (2017: Shs 1,198,394,000). In addition, the Company was in a net current liability position of Shs 3,606,875,000 (2017: Shs 1,822,397,000). The amounts that had become due for repayment on the Commodities fund (SDF) Loan as at year-end were not settled. Management has put in place the following to address the situation:

- The company has a 12 months renewable overdraft facility of Shs 300 million from Co-op Bank to finance working capital due for renewal in November 2018 and is in the process of expanding the facility to include letters of credit with same bank.
- The Company is planning a major factory rehabilitation in November 2018 to boost factory performance.

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

5 Financial risk management

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

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

Market risk

(i) Foreign exchange risk

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

At 30 June 2018, 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 127,654 (2017: Shs 296,858) higher/lower.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

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

At 30 June 2018 and 30 June 2017, the Company did not have any borrowings at variable rates.

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk

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

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

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

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2018 is made up as follows:

	2018 Shs'000	2017 Shs'000
Cash at bank (Note 20)	21,989	347,877
Trade receivables (Note 18)	5,536	882
Receivable from out-growers (Note 19)	267,289	234,613
Other receivables	59,595	35,340
	354,409	618,712

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

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

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

	2018 Shs'000	2017 Shs'000
Past due but not impaired:		
- by up to 30 days	6,292	1,669
- by 31 to 60 days	1,255	541
	7,547	2,210
Total past due but not impaired	7,547	2,210

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk (Continued)

	2018 Shs'000	2017 Shs'000
Total receivables:		
Carrying amount before provision for impairment loss	1,437,473	1,307,061
Provision for impairment loss	(1,105,053)	(1,036,227)
	<hr/>	<hr/>
Net carrying amount	332,420	270,834
	<hr/>	<hr/>

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

(v) Liquidity risk

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

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

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

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

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

	Less than 1 year Shs'000	Over 1 year	Total
At 30 June 2018:			
Liabilities			
- borrowings	1,493,583	383,983	1,877,566
- trade and other payables	3,409,454	-	3,409,454
	<hr/>	<hr/>	<hr/>
Total financial liabilities (contractual maturity dates)	4,903,037	383,983	5,287,020
	<hr/>	<hr/>	<hr/>
At 30 June 2017:			
Liabilities			
- borrowings	1,496,274	366,556	1,862,830
- trade and other payables	1,947,486	-	1,947,486
	<hr/>	<hr/>	<hr/>
Total financial liabilities (contractual maturity dates)	3,443,760	366,556	3,810,316
	<hr/>	<hr/>	<hr/>

Notes (continued)

5 Financial risk management (continued)

(vi) Capital management

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

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

	2018 Shs'000	2017 Shs'000
Total borrowings	1,877,566	1,862,830
Less: cash and cash equivalents	(21,989)	(347,877)
Net debt	1,855,577	1,514,953
Total equity	507,346	439,635
Total capital	2,362,923	1,954,588
Gearing ratio	79%	78%

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2018

Notes (continued)

6 Revenue	2018	2017
	Shs'000	Shs'000
Analysis of revenue by category:		
Sugar Sales	2,377,944	4,829,646
Molasses Sales	136,181	167,021
	<u>2,514,125</u>	<u>4,996,667</u>
7 Cost of Sales		
Cost of cane	1,563,523	2,080,961
Agriculture: Overheads	512,143	527,999
Agriculture: Depreciation	116,413	155,611
Manufacturing: Costs	585,248	879,754
Manufacturing: Depreciation	266,972	266,613
	<u>3,044,299</u>	<u>3,910,938</u>
8 Other income		
Interest on receivables from Outgrowers	43,100	25,609
Gain on disposal of fixed assets	5,951	1,830
Miscellaneous income	7,531	1,080
Commission income on sugar import	30,300	-
	<u>86,882</u>	<u>28,519</u>
9 Distribution expenses		
Marketing and advertising	4,966	6,661
Production distribution	30,927	49,519
	<u>35,893</u>	<u>56,180</u>

South Nyanza Sugar Company Limited
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Notes (continued)

10 Administrative expenses	2018 Shs'000	2017 Shs'000
Staff costs(Administrative departments)	505,846	488,585
Provision for tax penalties and legal cases	495,013	108,413
Rates, Levies and insurance	183,716	264,158
Depreciation(Administrative)	112,019	129,451
Travel and accommodation	38,703	53,907
Ground maintenance & waste management	66,676	45,505
Mobile Equipment usage expenses	13,903	28,337
Board & Directors costs	17,865	41,716
Spares & Consumables	29,490	35,504
Audit & Consultancies	11,513	10,874
Staff Acquisition & Development costs	10,680	8,431
Utilities	3,885	4,456
Other administrative costs (Net of recoveries)	7,896	30,092
	1,497,205	1,249,429
11 Finance costs		
Interest expense-CF(SDF) and GoK loans	63,466	59,065
Interest expense-bank overdraft	64,322	50,184
	127,788	109,249
12 Employee benefits expense		
Salaries and wages	1,184,485	1,260,069
Retirement benefits costs:		
- Defined contribution scheme	121,149	111,971
- Gratuity current service cost	70,709	74,383
- National Social Security Funds	2,255	2,384
	1,378,598	1,448,807
13 Income tax credit		
Deferred income tax (Note 25)	640,885	19,170
Deferred tax asset not recognised	(640,885)	(19,170)
	-	-
Income tax credit	-	-

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Notes (continued)

13 Income tax expense (continued)

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

	2018	2017
	Shs'000	Shs'000
Loss before income tax	(2,109,764)	(296,782)
Tax calculated at the statutory income tax rate of 30% (2017 - 30%)	(593,172)	(89,034)
Tax effect of:		
Items not deductible for tax purposes	(8,829)	14,040
Under provision of deferred income tax in prior year	(69,733)	31,944
Deferred income tax asset not recognised	671,734	43,050
	<hr/>	<hr/>
Income tax expense	-	-
	<hr/>	<hr/>

South Nyanza Sugar Company Limited
 Financial Statements
 For the year ended 30 June 2018

Notes (continued)

14 Property, plant and equipment

	Leasehold Land Shs'000	Building Shs'000	Plant and machinery Shs'000	Trailers, tractors and motor vehicles Shs'000	Office and other equipment Shs'000	Roads and fencing Shs'000	Work in progress Shs'000	Bearer plants Shs'000	Total Shs'000
Year ended 30 June 2017									
Opening net book amount	598,326	565,741	1,571,436	348,366	113,303	105,994	59,621	22,288	3,385,075
Additions	-	-	31,985	49,794	10,829	-	43,764	12,705	149,077
Disposals (net)	-	-	-	(4,414)	-	-	-	-	(4,414)
Depreciation charge	(6,414)	(29,478)	(249,071)	(146,248)	(54,818)	(5,081)	-	(5,832)	(496,942)
Closing net book amount	591,912	536,263	1,354,350	247,498	69,314	100,913	103,385	29,161	3,032,796
At 30 June 2017									
Cost or valuation	677,675	1,116,887	4,416,013	1,726,181	403,006	194,463	103,385	69,633	8,707,243
Accumulated depreciation	(85,763)	(580,624)	(3,061,663)	(1,478,683)	(333,692)	(93,550)	-	(40,472)	(5,674,447)
Net book amount	591,912	536,263	1,354,350	247,498	69,314	100,913	103,387	29,161	3,032,796

South Nyanza Sugar Company Limited
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Notes (continued)

14 Property, plant and equipment (continued)

	Leasehold Land Shs'000	Building Shs'000	Plant and machinery Shs'000	Trailers, tractors and motor vehicles Shs'000	Office and other equipment Shs'000	Roads and fencing Shs'000	Work in progress Shs'000	Bearer plants Shs'000	Total Shs'000
Year ended 30 June 2018									
Opening net book amount	591,912	536,263	1,354,350	247,498	69,314	100,913	103,387	29,161	3,032,798
Additions	-	587	28,603	18,550	2,321	3,411	163,874	-	217,346
Transfers	-	32,488	-	-	-	12,434	(125,527)	80,605	-
Depreciation charge	(6,414)	(30,590)	(251,649)	(104,808)	(33,706)	(5,293)	-	(11,605)	(444,065)
Asset revaluation	365,502	121,571	1,219,569	443,215	(1,915)	(5,475)	-	-	2,142,467
Closing net book amount	951,000	660,319	2,350,873	604,455	36,014	105,990	141,734	98,161	4,948,546
At 30 June 2018									
Cost or valuation	1,043,177	1,271,533	5,664,185	2,163,752	403,412	204,833	141,734	150,238	11,042,864
Accumulated depreciation	(92,177)	(611,214)	(3,313,312)	(1,559,297)	(367,398)	(98,843)	-	(52,077)	(6,094,318)
Net book amount	951,000	660,319	2,350,873	604,455	36,014	105,990	141,734	98,161	4,948,546

Work in progress largely relates to cost of constructing a building which has not yet been completed and cost of upgrading the plant and machinery.

Notes (continued)

14 Property, plant and equipment (continued)

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

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

	2018	2017
	Shs'000	Shs'000
Cost	4,473,441	4,256,095
Accumulated depreciation	(3,639,517)	(3,387,868)
Net book amount	<u>833,924</u>	<u>868,227</u>

Bank borrowings are secured on properties to the value of Shs 2,895,808,000 (2017: Shs 2,895,808,000).

15 Intangible assets

	Software	WIP	Totals
	Shs'000	Shs'000	Shs'000
Year ended 30 June 2017			
Opening net book value	153,601	5,195	158,796
Amortisation charge	(51,202)	-	(51,202)
Closing net book amount	<u>102,399</u>	<u>5,195</u>	<u>107,594</u>
At 30 June 2017			
Cost	256,001	5,195	261,196
Accumulated amortization	(153,602)	-	(153,602)
Net book amount	<u>102,399</u>	<u>5,195</u>	<u>107,594</u>

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15 Intangible assets (Continued)

	Software Shs'000	WIP Shs'000	Totals Shs'000
Year ended 30 June 2018			
Opening net book value	102,399	5,195	107,594
Additions	1,184	-	1,184
Amortisation charge	(51,339)	-	(51,339)
Items expenses from WIP	-	(2,400)	(2,400)
	<hr/>	<hr/>	<hr/>
Closing net book amount	52,246	2,795	55,041
	<hr/>	<hr/>	<hr/>
At 30 June 2018			
Cost	257,185	5,195	262,380
Accumulated amortisation	(204,941)	(2,400)	(207,341)
	<hr/>	<hr/>	<hr/>
Net book amount	52,246	2,795	55,041
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16 Biological assets

Year ended 30 June 2017

	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
At the start of the year			
- as previously reported	638,788	1,581	640,369
- Impact of amended IAS 41 and IAS 16	(56,929)	-	(56,929)
	<hr/>	<hr/>	<hr/>
- as restated	581,859	1,581	583,440
Additions at cost	186,380	-	186,380
Decrease due to harvest	(219,593)	-	(219,593)
Gains arising from changes in fair value less costs to sell of biological assets	3,607	211	3,828
	<hr/>	<hr/>	<hr/>
At end of year	552,253	1,802	554,055
	<hr/>	<hr/>	<hr/>

Year ended 30 June 2018

At start of year	552,253	1,802	554,055
Additions due to development of cane	68,188	-	68,188
Decrease due to harvest	(153,825)	-	(153,825)
Losses arising from changes in fair value less costs to sell of biological assets	(5,354)	(232)	(5,586)
	<hr/>	<hr/>	<hr/>
At end of year	461,262	1,570	462,832
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

16 Biological assets (continued)

The key assumptions made concerning the future are as follows:

- The valuation is based on a market price of Shs 97,417 per ton of sugar (2017: Shs 126,362).
- Estimated average cane yield 88tch for plant crop & 75tch for Ratoon (2017: 75tch for plant & 65 for ratoon).
- Estimated average tonnage for cane above 6 months 126,719 tons (2017: 71,246 tons)
- 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 costs to sell.
- The estimated sucrose content per ton of mature cane (pol value) at various stages of growth will remain constant at between 8.5% and 10.5% depending on the age of the cane across the sugar belt.

The Company had 34 herds of dairy cattle at 30 June 2018 (2017: 36 herds). Two died during the year.

17 Inventories

	2018 Shs'000	2017 Shs'000
Factory and agriculture spares	295,911	230,291
General consumables	97,038	118,357
	392,949	348,648
Finished goods (sugar & molasses)	12,692	36,068
Sugar in process	56,783	29,759
Raw material cane on yard	1,078	355
Goods in transit	9,770	28,116
	473,272	442,946

18 Trade and other receivables

Trade receivables	51,503	33,915
Less: provision for impairment losses	(45,967)	(33,032)
Net trade receivables	5,536	882
Other receivables and prepayments	229,131	208,692
Less: provision for impairment losses	(169,536)	(173,352)
Net other receivables and prepayments	59,595	35,340
	65,131	36,222

Notes (continued)

18 Trade and other receivables (Continued)

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

	2018 Shs'000	2017 Shs'000
At start of year	206,384	155,441
Charge to profit or loss	9,120	50,943
	<hr/>	<hr/>
At end of year	215,504	206,384
	<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.

19 Receivables from outgrowers

	2018 Shs'000	2017 Shs'000
Billable inputs and services	917,595	835,247
Unbilled services	67,778	67,778
Accrued interest on land development	171,466	161,431
	<hr/>	<hr/>
Gross receivables from Outgrowers	1,156,839	1,064,456
Less: provision for impairment losses	(889,550)	(829,843)
	<hr/>	<hr/>
	267,289	234,613
	<hr/>	<hr/>

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

	2018 Shs'000	2017 Shs'000
At start of year	829,843	873,653
Charge to profit or loss/(write back)	59,707	(43,810)
	<hr/>	<hr/>
At end of year	889,550	829,843
	<hr/>	<hr/>

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

South Nyanza Sugar Company Limited
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Notes (continued)

20 Cash and bank balances

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

	2018	2017
	Shs'000	Shs'000
Cash and bank balances	21,989	347,877
Bank overdrafts (Note 27)	(292,338)	(302,043)
	<u>(270,349)</u>	<u>45,834</u>

Cash and bank balances details:

Petty cash account -Kisumu	98	139
Petty cash account -Nairobi	32	170
Cash in transit	800	-
Lipa na Mpesa Paybill	4,494	9,887
Barclays Bank of Kenya-Kisii – Acct 0081222509	114	5,530
Co-operative Bank-Migori- Acct 01136204628700	(292,338)	(302,043)
Kenya Commercial Bank-Migori- Acct 1106321308	2,302	50,061
National Bank of Kenya Awendo- Acct 01001045348700	4,858	24,412
Co-operative Bank Capex-Migori-Acct 01136204628701	7,289	24,941
Co-op Bank –VAT/SDL –Rongo- Acct 01136204628702	8	13,829
Co-operative Bank-Farmers-Rongo- Acct 01136204628703	1,335	10,725
NBK project account-Acct 01001045348702	659	208,183
	<u>(270,349)</u>	<u>45,834</u>

21 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2017 and 30 June 2018	17,698,500	353,970

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

Shareholding composition:

	2018	2017
	Shs'000	Shs'000
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	<u>353,970</u>	<u>353,970</u>

Notes (continued)

22 Revaluation reserve

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

Year ended 30 June 2017	Shs'000
At start of year	1,374,448
Transfer of excess depreciation	(147,871)
Deferred income tax on transfer of excess depreciation	44,361
	<hr/>
At end of year	1,270,938
	<hr/> <hr/>
Year ended 30 June 2018	
At start of year	1,270,938
Asset revaluation	2,142,467
	<hr/>
At end of year	3,413,405
	<hr/> <hr/>

23 Other reserves

	2018 Shs'000	2017 Shs'000
At start of the year	13,121	(14,739)
Comprehensive income	35,010	27,860
	<hr/>	<hr/>
At end of the year	48,131	13,121
	<hr/> <hr/>	<hr/> <hr/>

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

24 Grants

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

	2018 Shs'000	2017 Shs'000
At start of year	81,051	85,381
Amortisation charge	(4,330)	(4,330)
	<hr/>	<hr/>
At end of year	76,721	81,051
	<hr/> <hr/>	<hr/> <hr/>

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25 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%). The gross movement on the deferred income tax account is as follows:

	2018	2017
	Shs'000	Shs'000
At start of year	11,940	-
Credit to income statement (Note 13)	(640,885)	(19,170)
Credit to other comprehensive income	26,944	(11,940)
(Over)/under provision of deferred income tax in prior year	(69,733)	-
Deferred income tax not recognized	671,734	43,050
	<hr/>	<hr/>
At end of year	26,944	11,940
	<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 2018	1 July 2017	Charged/ (credited)	(Credited	30 June 2018
	Shs'000	to P/L	to equity)	Shs'000
		Shs'000	Shs'000	
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	184,431	(122,126)	-	62,305
- on revaluation surplus	485,076	157,664	-	642,740
Biological assets	185,045	(46,195)	-	138,850
	<hr/>	<hr/>	<hr/>	<hr/>
	854,552	(10,657)	-	843,895
Deferred income tax assets				
Other temporary differences	(378,340)	(189,618)	-	(567,958)
Post-employment benefit obligation	(125,554)	(23,541)	26,944	(122,151)
Tax losses	(381,507)	(417,069)	-	(798,576)
	<hr/>	<hr/>	<hr/>	<hr/>
	(885,401)	(630,228)	26,944	(1,488,685)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax	(30,849)	(640,885)	26,944	(644,790)
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred income tax not recognised	(42,879)	640,885	-	(671,734)
	<hr/>	<hr/>	<hr/>	<hr/>
Final deferred income tax	11,940	-	26,944	26,944
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

25 Deferred income tax (continued)

Year ended 30 June 2017	1 July 2016 Shs'000	Charged/ (credited) to P/L Shs'000	Charged to equity Shs'000	30 June 2017 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	273,645	(89,214)	-	184,431
- on revaluation surplus	529,437	(44,361)	-	485,076
Biological assets	192,110	(7,065)	-	185,045
	995,192	(140,640)	-	854,552
Deferred income tax assets				
Other temporary differences	(499,937)	121,597	-	(378,340)
Post-employment benefit obligation	(135,041)	(2,453)	11,940	(125,554)
Tax losses	(422,173)	40,666	-	(381,507)
	(1,057,151)	159,810	11,940	(885,401)
Net deferred income tax asset	(61,959)	19,170	11,940	(30,849)
Deferred income tax asset not recognised	61,959	(19,170)	-	(42,789)
Final deferred income tax	-	-	11,940	11,940

26 Trade and other payables

	2018 Shs'000	2017 Shs'000
Trade payables	342,794	181,005
Customer payments in advance	111,099	18,267
Other payables and accrued expenses	2,955,561	1,748,214
	3,409,454	1,947,486

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

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27	Borrowings	2018 Shs'000	2017 Shs'000
	Commodities fund (SDF) loan	814,941	814,840
	Government of Kenya (GOK/ODA)	770,288	745,947
	Bank overdraft	292,338	302,043
		1,877,567	1,862,830
i)	Maturity analysis		
	Non-current		
	Commodities fund (SDF) loan	383,983	366,556
	Current		
	Commodities fund (SDF) loan	430,958	448,284
	Government of Kenya (GOK/ODA)	770,288	745,947
		1,201,246	1,194,231
	Total GOK/CF loans	1,585,229	1,560,787
	Bank overdraft	292,338	302,043
		1,877,567	1,862,830

- The company has an overdraft facility of Shs 300 million from Co-op Bank for a tenure of 12 months renewable at a rate of 14% per annum.
- Commodities Fund loans of Shs 379,957,802 and 51,000,000 at interest rates of 5% and 0% respectively had fallen due for payment at 30 June 2018.
- GOK loans of Shs 217,278,750 had fallen due for payment at 30 June 2018. Interest payable @ 11% p.a.
- GOK/ODA of Shs 553,008,813 had fallen due for payment at 30 June 2018. Interest payable @ 12% p.a.
- A short term loan of Shs 98M from KCB to finance premiums was fully paid at year end.

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

Loans movement	G.o.K Shs '000	CF Shs '000	KCB Shs '000	Total Shs '000
At start of year	745,947	814,840	-	1,560,787
Additions	-	-	97,696	97,696
Accrued interest	24,341	34,531	4,594	63,466
Repayment	-	(34,430)	(102,290)	(136,720)
Net movement	24,341	101	-	24,442
At end of year	770,288	814,941	-	1,585,229

Notes (continued)

28 Cash generated from operations	2018 Shs'000	2017 Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Loss before income tax	(2,109,764)	(296,782)
Adjustments for:		
Interest income (Note 7)	(43,100)	(25,609)
Interest expense (Note 10)	127,788	109,249
Loss/(gain) on disposals of property plant & equipment	5,951	(1,830)
Changes in biological assets (Note 15)	5,586	3,828
Decrease due to harvest	153,825	-
Depreciation of property, plant and plant (Note 14)	444,065	496,942
Amortisation of intangible assets (note 15)	51,339	51,202
Items expensed from WIP (note 15)	2400	-
Grant amortization (Note 24)	(4,330)	(4,330)
Post-employment benefit obligation	21,015	33,750
Changes in working capital:		
- Inventories	(30,326)	(40,990)
- Trade and other receivables	(28,909)	61,848
- Outgrowers' balances	(32,676)	(100,089)
- Trade and other payables	1,461,966	(226,189)
	<hr/>	<hr/>
Cash generated from operations	24,830	61,000
	<hr/>	<hr/>

29 Retirement benefit obligations

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

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

	2018 Shs'000	2017 Shs'000
Present value of unfunded obligations	401,718	418,811
	<hr/>	<hr/>

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

	2018 Shs'000	2017 Shs'000
At start of year	418,811	450,137
Net periodic cost	70,709	74,383
Payments made in the year	(37,788)	(65,909)
Remeasurement	(50,014)	(39,800)
	<hr/>	<hr/>
Liability in the statement of financial position	401,718	418,811
	<hr/>	<hr/>

Notes (continued)

29 Retirement benefit obligations (continued)

The post-employment benefits expense is as follows:

	2018 Shs'000	2017 Shs'000
Current service cost	17,642	18,971
Interest cost	53,067	55,412
	<hr/>	<hr/>
Total, included in employee benefits expense(Note 12)	70,709	74,383

The principal actuarial assumptions used were as follows:

	2018	2017
-discount rate	13.25%	13.25%
-inflation	7.0%	7.5%
-salary increases	7.5%	9.0%

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

Salary increase sensitivity

	At current salary increase rate Shs'000	1% Increase Shs'000	1% Decrease Shs'000
At 30 June 2017			
Present value of obligation	418,811	454,218	387,092
Percentage changes	-	8.45%	(7.57%)
	<hr/>	<hr/>	<hr/>
At 30 June 2018			
Present value of obligation	401,718	454,218	387,092
Percentage changes	-	8.45%	(7.57%)

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

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

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

	2018 Shs'000	2017 Shs'000
Salaries and other short-term employment benefits	<u>34,016</u>	<u>27,547</u>

ii) Directors' remuneration

Remuneration as management	840	960
Fees and allowances for services as director	18,125	29,084
	<u>18,965</u>	<u>30,044</u>

31 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Company also has some open tax items under discussion with the revenue authority. 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:-

	2018 Shs'000	2017 Shs'000
Farmers' cases	280,000	300,000
Staff cases	100	100
	<u>280,100</u>	<u>300,100</u>

The directors have made a provision in the financial statements amounting to Shs 66.1 million based on legal advice. The Directors do not believe that any significant additional liability will arise from the resolution of these matters.

Notes (continued)

32 Commitments

Capital commitments

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

	2018 Shs'000	2017 Shs'000
Authorized but not contracted	397,770	231,740
Authorized and contracted	163,912	56,505
	561,682	288,245

Five year financial performance summary

	30-Jun-18 Shs'000	30-Jun-17 Shs'000	30-Jun-16 Shs'000	30-Jun-15 Shs'000	30-Jun-14 Shs'000
Statement of comprehensive income					
Revenue	2,514,125	4,996,667	4,755,640	3,697,375	4,429,543
Operating loss	(1,981,976)	(187,573)	(774,243)	(1,052,477)	(443,469)
Loss before income tax	(2,109,764)	(296,782)	(878,639)	(1,154,275)	(529,018)

Statement of financial position

Total assets	6,299,750	4,761,753	4,933,000	5,525,876	6,296,917
Total liabilities	5,792,403	4,322,118	4,224,443	4,034,974	4,053,154
Total equity	507,346	439,635	708,557	1,490,902	2,243,763
Net working capital	(3,606,875)	(1,822,397)	(2,299,796)	(1,411,704)	(707,012)

Five year operational performance summary

	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15	30-Jun-14
Milled cane (tons)	420,973	602,711	757,143	560,385	686,197
Sugar sold (tons)	32,491	53,472	67,733	53,733	69,535
Rendement (%)	7.56	8.91	8.88	9.06	10.14

STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS				
FINANCIAL DATA	ACTUAL	BUDGET	VARIANCE	EXPLANATION OF MATERIAL VARIANCES
Sales Revenue	2,514,125	5,988,686	(3,474,561)	Lower sales volumes due to less stocks occasioned by lower production
Other Revenue	126,477	131,537	(5,059)	The variance is occasioned by non-realization of extra revenue streams budgeted for.
Stock Movement	110,235	30,872	2,066,882	Timing difference - Value of Production vs Cost of Sales
Total Revenue	2,750,837	6,151,094	(3,400,257)	
DIRECT COSTS				
Cost of Cane	1,563,523	2,406,906	843,383	The variance is occasioned by milling less cane volumes than budgeted. This is due to reduced supply as a result of cane theft and reduced levels of mature cane.
Plant & Fleet Depreciation	361,749	354,711	(7,038)	Capitalizations of WIP projects and Capex additions during the year increased depreciation charge.
Packaging & Process Chemicals	92,706	98,801	6,096	Lower chemical consumption due to reduced levels of operations hence less stocks.
Marketing Costs	6,361	84,111	77,750	The Company's presence in print and audio-visual media was lower primarily because of limited availability of product stocks and also due to cashflow constraints.
Spares & Consumables	197,903	805,701	607,798	The budgeted consumption was projected to be used during the APM process that has since been rescheduled to 2018-2019 financial year.
Plant & Machinery Repairs & Maintenance	16,265	108,178	91,913	The budgeted repairs and maintenance were to be undertaken during the APM process that has since been rescheduled to 2018-2019 financial year.
Total Direct Costs	2,238,507	3,858,408	1,619,901	
IN-DIRECT COSTS				
Staff Costs	1,307,889	2,324,500	1,016,611	The variance is occasioned by the delayed implementation of staff remuneration review. The process is currently with the Salaries and Remuneration Commission.
Bord and Directors Costs	17,865	39,290	21,425	Increased board activities-fully constituted board. The Company operated with a fully constituted Board.
Staff Acquisition & Development Costs	10,680	14,061	3,381	The variance is due to fewer than budgeted training activities undertaken in the year under review.

STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

FINANCIAL DATA	ACTUAL	BUDGET	VARIANCE	EXPLANATION OF MATERIAL VARIANCES
Rates, Levies & Insurance	249,576	253,649	4,074	The variance resulted from legal fees as a result court rulings against the Company. Increase in litigation against the Company was witnessed due to farming contract breaches.
Utilities	66,135	55,355	(10,780)	The variance resulted from success in management efforts at cost controls.
Travels & Accomodation	43,860	78,993	35,133	The variance resulted from success in management efforts at cost controls.
Audits & Consultancies	12,432	73,100	60,668	The budgeted consultancies were scheduled to be undertaken during the APM process that has since been rescheduled to 2017-2018 financial year.
Other Admin Costs net of Recoveries	373,696	(748,854)	(1,122,550)	Recoveries timing differences. Realization beyond one financial year, especially with the cane development ventures in outgrowers.
Total In-Direct Costs	2,082,134	2,090,094	7,960	
Total Operating Costs	4,320,641	5,948,501	1,627,860	
Operating Profit/(Loss)	(1,569,804)	202,593	(1,772,397)	
Financing Overheads	410,891	-	(410,891)	The variance is due to the provisions provided in the final accounts that were not envisioned during the budgeting face.
Fianace Costs	129,070	80,595	(48,475)	The variance is due to increased engagements with the banks. Overdraft interest increased due to full utilization of the facility, occasioned by the cashflow constraints experienced in the year under review.
Total Finance Costs	539,961	80,595	(459,366)	
Pre Tax Profit	(2,109,764)	121,998	(1,987,766)	
Corporation Tax Expense	-	(36,599.40)	(36,599)	
Profit After Tax	(2,109,764)	85,399	(2,024,365)	

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor for 2016/2017 accounts, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
1	<p>Receivables from Outgrowers The company's balance sheet at 30 June 2017 comprised various balances arising from transactions with Out-growers. There were several unsupported transactions and the physical verification of farmer's plots revealed some exceptions. We were, therefore, unable to obtain sufficient audit evidence to conclude on the validity of these balances.</p>	<p>We emphasize that the balance previously not uploaded reduced significantly and is now included in the AMS. Validation of these accounts is a continuous process. The balance of Kshs.351M is now classified as a specific provision because there is an attribution of individual balances. Effectively locking this data now provides room for progress in the final scheme of clearing up earlier/legacy problems. Combining this scenario with excessive prudence evidenced by the hefty provision for outgrower receivable should have led to a favorable opinion in accounting for services to farmers.</p>	<p>Issue closed in F/Y 2016/2017</p>
2	<p>PPE Note 13 under Property, Plant & Equipment indicates that Fixed asset valuation not done as per policy as the last valuation was done seven years ago. PPE therefore materially differ from that which would have been determined using fair values at the end the year.</p>	<p>In line with the policy the Company tendered for asset valuation services through restricted tender and the tenders were opened on 21st February 2017. The evaluation team has been put in place to deliver the result at the earliest time possible, for possible incorporation in the annual report for the year ending 30 June 2018.</p>	<p>Tender valuation process is now concluded and the accounts will be adjusted accordingly before submission to KENAO by 30.09.2018</p>
3	<p>Going concern Financial statements indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern and further implies the company's existence is dependent on continued support from the shareholders and creditors.</p>	<p>Management has outlined interventions to mitigate the risks as follows:</p> <ol style="list-style-type: none"> 1. Part of the less than optimal performance for the period under review was attributed to lower recoveries, a planned maintenance is scheduled for April/May 2018 to tackle the problem and boost efficiency. 2. Increase the Company's capacity for branded sugar given that branded sugar is more profitable. 	<p>APM is now scheduled to November 2018. The benefit will be realized upon conclusion of the exercise.</p>

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
		<p>3. The Company has a 12 months renewable overdraft facility of Shs. 300 Million and a Letter of Credit facility of up to Shs 52.5 Million from Co-op Bank to finance working capital.</p> <p>4. The Company is currently operating under austerity budget. This will help in management of payroll cost to contain the wage bill. Organization review program is also ongoing with a view to put in place a lean and efficient staff level. Its also important to emphasize that procurement of Capital items is currently based on priority basis and training of IT experts to leverage on SAP-ERP systems is ongoing.</p>	
	<p>Statement of changes in equity includes Kshs 13,121,000 in respect of other reserves. However, the management did not provide description on the nature and purpose of other reserves in compliance with IAS 1 paragraph 79 (b) on disclosure</p>	<p>Management has noted and complied accordingly.</p>	<p>Issue closed</p>
<p>2.</p>	<p>Unpaid Tax: There are outstanding VAT payable spanning several months of non-payment during the year under review. management has indicated that it has paid some of the outstanding obligations and intends to approach KRA for waiver of applicable interest and penalties</p>	<p>Management is in complete agreement with your observation and recommendation. Serious effort has been devoted to clearing the balance in the shortest time possible.</p>	<p>Management has come up with the repayment plan aimed at reducing tax burden.</p>

Key projects and investment decisions the entity is planning/implementing

Capital expenditure for major factory rehabilitation planned for the year 2017/2018 is rescheduled to the year 2018/2019 financial year. The budget for capital expenditure projects is to be funded from internally generated funds and loan from Commodities fund.

Below are some of the ongoing major projects.

	Capital projects	Project cost "000"	Actual expenditure "000"	%age completion	Expected completion date
1	EOT Gantry Structure Refurbishment	10,259	-	50%	Nov 2018
2	Design, manufacture, supply & installation of new EOT Crane	22,852	4,570	90%	Nov 2018
3	Hydro Unloaders capacity upgrade	10,240	8,210	90%	Nov 2018
4	Installation commissioning of rock removal system	64,956	11,983	50%	Nov 2018
5	Upgrade of DM plant to cubic M per hour	12,211	9,474	90%	
6	Removal & replacement of main bank tubes for boiler services	14,057	5,207	0%	Nov 2018
7	Replace raw water line	15,000	0	25%	April 2019