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ON

**SOUTH NYANZA SUGAR
COMPANY LIMITED**

**FOR THE YEAR
ENDED 30 JUNE, 2022**



SONYSUGAR
Simply The Sweetest

SOUTH NYANZA SUGAR COMPANY LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2022**

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

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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 Government dissolved the entire Board on the 16.07.2020 through Gazette Notice CXXII – NO. 148 dated 03.08.2020.

SENIOR MANAGEMENT

Stephen Ligawa	Managing Director (Ag)
Samson Mbayi	Head of Finance (Ag)
Maurice Omondi	Company Secretary-(Ag) ICPSK Reg. No. 1386
Patrick Mugenya	Head of Manufacturing (Ag)
Ken Nyangwara	Head of Marketing & Business Development (Ag)
Zakayo Gombe Oindo	Head of Agriculture (Ag)
Dan Oyamo	Head of Human Resources (Ag)
James Oluoch	Head of ICT
Caroline Ochele	Head of Procurement (Ag)
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

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

INDEPENDENT AUDITOR

Office of the Auditor General
Anniversary Towers
P.O. Box 30084 – 00100
NAIROBI.

COMPANY LAWYERS

1. Okongo, Wandago & Co Advocates
SUNA MIGORI

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

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

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

5. TRIPLEOKLAW
P.O. Box 43170-
00100 NAIROBI

SENIOR MANAGEMENT



Stephen Ligawa
Managing Director (Ag)
Msc. Chemistry
Bsc. Chemistry



Samson Mbayi
Head of Finance (Ag.)
MA (PPM)
Bcom Finance - CPA



Patrick Mugenya
Head of Manufacturing(Ag)
Bsc Mech. Eng.



Zakayo Gombe
Head of Agriculture(Ag)
Msc. Hort. Eng.
Bsc. Agric. Eng.



Dan Oyamo
Head of Human Resources (Ag.)
BA
HND Hum. Res. Mgt.



James Oluoch
MBA Strat Management
BBA Mgt Info. Sys



Mourice Omondi
Company Secretary (Ag)
LLB Honors
Dip. in Law



Kennedy Onyango
Audit Manager
MBM Finance
Bsc Accounting
CPA-K, ACCA



Caroline A. Ochelle
Head of Procurement(Ag)
MA Proc & Logistics
Bsc Suppliers & Chain Mgt.



Ken Nyangwara
Head of Marketing (Ag.)
MBA Strat. Mgt.
BBA (Marketing)

CHAIRMAN'S STATEMENT

The Government dissolved the entire Board on the 16 July 2020 through The Kenya Gazette Notice number CXXII – NO. 148 dated 03.08.2020. The appointment of the Chairman was therefore revoked on the same day (16 July 2020).

REPORT OF THE MANAGING DIRECTOR

I am pleased to present to you the Annual Reports and Financial Statements of South Nyanza Sugar Company Limited for Fiscal year ended 30.06.2022. The Company started the Fiscal year with a weak financial base drawn from the previous year's effects of COVID-19 pandemic, unplanned factory down time occasioned by start-up failures and unfair competition occasioned by increased presence of counterfeit products in the market.

In this financial year, we started seeing recoveries from the exigencies of COVID-19 and remarkable improvement in our operation following a comprehensive factory rehabilitation carried out between June and August 2021. It's therefore gratifying to say that South Nyanza Sugar Company Limited is on the path to recovery as we strategically remain focus on our purpose of growing the business.

Financial Performance

During the year under review, we successfully transitioned to an agile way of working centred on a recovery driven culture with well-developed strategies.

Cane milled improved to 497,552 tons (2021: 370,301) of cane realizing 42,105 and 20,061 tons of sugar and molasses respectively. Gross sales posted was Kshs.4,217 million, an increase of 77%. The Company's total operating costs aggregated to 4,069 million resulting in Kshs. 382 million operating loss. This compares favourably to the previous year 2021, where the operating loss was Kshs. 1,163 Million, realized from gross sales of Kshs. 2,383 Million.

Total revenue went up by 77% (Kshs 1,581M) to Kshs 3,635 million during the year under review from Kshs 2,054 recorded in the year 2020/2021. The sugar prices were unstable averaging Kshs 99,241 during the year. This was attributed to high volumes of sugar imports and counterfeits in the market.

Production Costs

Our main area of concern is in addressing the cost of production. This is to be achieved through cost management strategies in place in addition to focusing on factory efficiency through timely factory maintenance and good practices in cane management. Plans are in place to reduce cost of production gradually as we improve in general operations.

During the year, cost of production per ton of sugar averaged Kshs. 99,390 (2021: Kshs. 159,159). This is attributable to increased level of production.

Agriculture

A total of 497,552 tons of cane was harvested during the year compared to 370,301 tons the previous year. Of these, 432,999 tons was delivered from the outgrowers farmers while 64,553 tons from the nucleus estate.

The farming environment presented a challenge. Extreme wet conditions were experienced in the major part of the year leading to substantial damage to the road network, increased cost of cane haulage, and reduced cane delivery to the factory in addition to affecting harvesting programmes in low lands.

Even though adequate measures have been put in place to ensure sustainability in cane delivery/development to support the raw material requirement, cane area is not sufficient to sustain the factory envisaged optimised capacity of 3,000 tons of cane per day. To secure primary source of raw material, the Company is enhancing cane development whose objective is to develop 6,000 Ha under cane over the next two years through: timely and prompt execution of cane development operations based on available resources and payment of cane proceeds, farmers' sensitisation and education on the best cane husbandry and management practices.

Area under cane was 199.48 hectares made up of 45.71 hectares under contracted farmers (Outgrowers) and 153.77 hectares in the Company Nucleus Estate.

Farmers Payment

The benefit of improved performance have been passed to the farmers by paying Kshs 1,123 million for cane delivered during the year based on cane price as determined by Sugar Cane Pricing Committee. This compares favourably to Kshs 598 million paid to farmers in the previous year. The price of cane at the end of the financial year was Kshs 4,563 per tonne.

In its endeavour to bail out the company and improve the livelihood of farmers, the Government of Kenya through Agriculture Food Authority (AFA) released a total of Kshs 138.9 million towards payment of farmers' arrears. This amount was paid directly by the Government to farmers' bank accounts. The arrears accumulated during the period the company was not in meaningful production.

Factory Performance

Compared to the previous year and after the factory maintenance carried out between June and August 2021, performance of the factory improved. A rendement of 8.55% was achieved compared to last year's 6.96%. The improvement was due to improvement in production efficiencies and improved cane quality.

To further improve efficiency, a comprehensive maintenance is scheduled in the next financial year between November and December 2022. This is projected to improve efficiency to over 80% and guaranteed factory availability.

Market

Compared to the previous year, there was a remarkable improvement in sales revenue. A total of 41,406 tons of sugar was sold at an average price of Kshs. 99,241. This is 61% increase compared to the previous year's 25,749 tons. Gross turn over stood at Kshs 4,216.9 million (2021- Kshs 2,382.7 million) which is 77% above what was achieved last year.

As in the previous year, sugar prices remained largely depressed due to uncontrolled importation of duty free and alleged contraband sugar into the Kenyan market.

We are working towards sustainability and innovative initiatives fully aligned with our purpose of meeting customer needs despite the constantly changing market prices of sugar. Focus during the year was to enhance customer service and deliver according to customer needs. Going forward, the Company's major focus will be to protect its market in view of the increased completion from both local millers and imported sugar. To reap more benefits from a strong brand, marketing investments are planned to build the brand image aimed at strengthening relationship with our esteemed customers.

Human Capital

We recognise the importance of harmonious industrial relations in achieving the current growth. There was constructive engagement between the union and the management that ensured employee participation leading to uninterrupted company operations. Despite financial constraint, The Company attaches great importance to the welfare and health of its workers. This is through professionally managed medical centre and provision of comprehensive medical insurance cover in addition to basic needs.

Save for the drop in manning levels occasioned by natural attrition and Government directive that froze staff replacement, resilience demonstrated by this team in achieving the current result is beyond measure.

Litigation, Legal Exposure & Compliance with Laws

Even though the cases against the company went down significantly due to measures put in place by the management, it still remains a challenge to the company due to several undecided cases. These are cases filed against the Company 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 together with the Company suffered losses. Lately contract breaches have resulted in additional cases.

As in the previous year, we have put in place initiatives to reduce litigations in these areas. These include: 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 will continue to reach out to several complainants, who having lodged claims against the Company, have upon discussions, agreed to withdraw such cases filed against the Company. These measures are expected to reduce the numbers to the limits that are manageable and bringing into control litigation against the company. Management expects that the unscrupulous lawyers who have been pursuing outright fraudulent cases shall be prosecuted after the ongoing investigations by Directorate of Criminal Investigation are concluded.

The Big 4 Agenda

The Big 4 agenda remains our target in the contribution to the national development. As a Company, our contribution is on the three of the Big 4 agenda are manufacturing, universal healthcare and food security.

Under the Food Security Pillar, we have strategies in place to increase area under cane aimed at improving sugar cane output, cane growers incomes and sugar production in the country. This is achieved by supporting farmers with farm inputs and necessary farming skills.

As part of the manufacturing sector, we technically promoted manufacturing through establishment of efficient and stable plant capable of producing sugar that meets the market demand and boost the economy of the region. We have and continued to achieve this initiative through sustained research and timely factory maintenance.

In promoting the Universal Healthcare Agenda, the Company's medical centre is strategically placed to provide health services to over 1800 households within the sugar belt. The services cover affordable clinical services, ante-natal and post-natal services, and comprehensive care services for HIV/AIDS patients. This is further supported 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.

Strategic Focus

In keeping with pace of growth and remaining focus on achieving strategic objectives, we are aware of the challenges and opportunities ahead of us. Despite limited resources, we have put in place measures aimed at improving efficiency of the factory through Annual Maintenance, raw material sustainability and stakeholders' involvement. Our strategic focus which are in line with the Big 4 Agenda target the following broad areas:

1. Agriculture Operations

The year under review was characterised by low cane yield because most fields were not adequately fertilised due to shortage of fertilizer and high cost of farm inputs experienced in the country.

The Company is currently working on aggressive cane development targeting over 6,000 Ha progressively over the next two years. This is a move aimed at bridging the cane shortage gap created through unfair business practices by our competitors through cane poaching.

To ensure steady supply of cane, we have entered into partnership with the farmers through continuous engagement and training on effective and profitable farming practices.

2. Information Communication Technology

We value Information Communication Technology (ICT) as in key in driving the business processes and ensuring data security within the organisation.

We will continue to support investment in ERP systems which we regard as pillars in driving our competitiveness through capacity building. In the next financial year, plans are in place to establish the data centre and improve network infrastructure.

3. Business Environment

During the year, the Company operated in an environment that was characterised by continuous changes in sugar cane prices and depressed retail prices of product sugar due to unregulated sugar imports by private millers. Unfair business practices as a result of cane poaching greatly eroded our investment in development.

Effects of the COVID-19 pandemic is still felt to date on high costs of spares for factory rehabilitation. Despite the current market forces, we have put in place, measures that will see us remain competitive and guarantee stability.

4. Manufacturing

In order to improve the efficiency of the plant, we lay emphasis on regular maintenance by ensuring that we concentrate our investment in acquiring relevant parts to progressively stabilise the week arrears of the plant.

This effort has seen us through the maintenance carried out between May and August 2020, June/August 2021 improving efficiency to over 70% from 30%. A major rehabilitation is now scheduled in the next financial year between October and November 2022. This is projected to improve efficiency to over 80% and further boosting the much needed cash flow.

Appreciation

The Sonysugar team is committed to growing the business in this competitive environment. As a team, we shall continue to harness and direct all our efforts in utilization of available opportunities in order to sustain the upward growth in revenue and factory stability. We therefore look upon and call for support of our stakeholders.

On behalf of the entire Management and staff, I take this opportunity to express my sincere gratitude to our shareholders; The Permanent Secretary, State Department of Crops, Ministry of Agriculture, Livestock and Fisheries for visionary leadership and guidance throughout the year, and the Government of Kenya for their distinguished role in helping us achieve our mandate through both policy and budgetary support on payment of part of the farmers' arrears.

I also wish to recognise the role played by our esteemed customers and suppliers, who continue to support our various initiatives whenever we call upon them. The entire staff for delivering this year's good results compared to the previous year and for enabling the Company register upward growth. It is through your tireless efforts and commitment that we have been able to record this remarkable improvement in revenue growth even in the face of the operational challenges brought about by COVID-19, high inflation rate and unfair competition.

I look forward to your continued support as we move to make Sonysugar an institution of impact in the country.



.....2022

Stephen Ligawa
Managing Director (Ag)

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

During the year under review, the company did not achieve its targets in terms of revenue generation due to unfair completion leading to depressed sugar prices and low level of activities from input output perspective. The Annual Planned Maintenance that was programmed within the year was not achieved on target and as a result, the Company did not achieve a 15% Return on Capital Employed (ROCE) as per the strategic plan targets/projection. As the previous year, the Company operated under unfavourable operating environment as explained below;

1. Aggravated cane shortage due to cane theft by our competitors affecting plant capacity utilization, product availability and revenue generation. Apart from intense cane theft, yields were also on a downward trend, largely due to inadequate/erratic supply of fertilizer.
2. Limited cash flow incapable of covering pending bills and general operations effectively.
3. shelved or delayed development plans due to cash constraints,
4. Unstable and low sugar prices from dumping and counterfeiting in the major part of the period occasioning significant price depression and reduced revenue.

As a result of the above challenges, the company did not achieve the following strategic objectives during the year ended 30th June 2022:

1. Increase market share of sugar market from 12% to 15%
2. Developing new products aimed at satisfying existing and emerging consumer needs that would increase the revenue streams.
3. Due to constrained cash flows, operationalisation of efficiency in business processes covering cane production, soil management, propagation of improved cane varieties, improved extension services, reorganization of extension services among others were not properly funded as a result of operational circumstances. These activities are important in enhancing milling and sugar recovery efficiencies
4. Planned diversification investments were never realized due to lack of funding, this denied the business additional revenue streams that would have cushioned it against fluctuation of sugar prices.
5. Sugar production was below the target throughout the period. This adversely impacted sales volumes, revenue generation and profitability, a situation that put the company in an adverse financial position.

Unfavorable operating circumstances led to the buildup material arrears including the following affecting staff and farmers arrears as at close of the year:

No.		Description	Kshs "000"
1.	Payroll	Salaries, payroll remittables and statutory payments in arrears	1,815,691
2.	Cane related payment	Harvesters, weeders, Transporters and land development contractors	16,918
3.	Farmers arrears	On account of cane delivered to factory	1,258,638

Irrespective of the above challenges, the future outlook is good. The revenue for the year improved from Kshs 2,054,068 to Kshs 3,635,273. Further improvement is expected in the next financial year after the scheduled factory rehabilitation in the month of October/November 2022.

To achieve optimal utilization of human capital, the Company is in the process of implementing appropriate capacity building and up skilling and at the same time focusing on results management. This will help to mitigate the high level of staff turnover that was occasioned by reduced levels of operations in the year ending 30.06.2021.

The company is also addressing the variables that determine the quality of cane such as delay in transportation, overstay in the yard amongst others, efforts are being made to revamp targeted unit processes in the front end of the sugar plant and process area to cover lost grounds in the year ending 30.06.2022.

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 embraces 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. During the year under review, the Company operated without a Board. The previous Board's appointment was revoked on August 3, 2020 vide a Kenya Gazette notice number 5435 dated 3rd August 2020, it comprised of eleven (11) Directors nine (9) of whom were non-executive directors including the Chairman. Alternate Directors from the parent ministry and National Treasury also sat 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.

In line with the provisions of Mwongozo Code of Conduct, the Board of Directors strive to ensure that the Company complies with the provisions of the constitution and all applicable laws, regulations, codes and applicable standards. The Board had puts in place internal procedures and monitoring systems to promote compliance with strategic objectives of the Company and submits 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 should 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.

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 assumed 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.

Meetings of the Board are held on a regular basis as per approved Board calendar. Special meetings are called when it deems necessary to do so in order to handle an urgent matter that could not otherwise await a normal Board meeting.

Board Meetings

Due to the fact that the Government dissolved the entire Board on the 16th July 2020 through Gazette Notice number CXXII – NO. 148 dated August 3, 2020, no Board / Committee meetings were held during the period under review.

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. However due to the dissolution of the Board as aforesaid, there were no committee meetings held during the period under review.

Board Audit & Risk Committee

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.

General Purpose Committee

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.

Board Finance Committee

The Committee assists the Board in fulfilling its oversight responsibilities relating to the Company's finance, procurement, investment strategies, projects and related activities. The focus of this committee is on the following:-

- a. Review of Financial Management Systems to ensure compliance thereof.
- b. Adoption and review of Accounting policies and practices in line with general Accounting principles.
- c. Advising on Financial Management issues.
- d. Advising on appropriate Capital of the Company.
- e. To Develop Latest Estimates, budgeting and put budgetary controls in place.
- f. Developing and reviewing Performance Contract.
- g. Review of quarterly, half-year and year-end financial statements of the Company focusing particularly on Performance.
- h. Overseeing financial accounting reporting compliance.
- i. To ensure proper Accounting documents are in place.
- j. Oversight responsibility on Management Tender Committee (MTC). MTC to provide quarterly progress reports on procurement to FC.
- k. To review Annual Procurement Plan in relation to budget estimates
- l. To ensure efficient and effective procurement and stores management
- m. Oversight responsibility on ICT issues

Operations Committee

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

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 is disclosed in the notes to the financial statements. There being no Board during the year under review, no payment accrued in respect of the Board activities.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below analyses the performance of the company during the year ended 30.06.2022

	ACTUAL	BUDGET	ACTUAL	ACTUAL
OPERATIONS DATA	2021-2022	2021-2022	2020-2021	2019-2020
Tons of Cane Milled	497,552	544,000	370,301	133,270
Tons of Sugar Bagged	42,105	55,488	25,753	4,394
Tons of Sugar Sold	41,406	55,488	25,749	4,540
Tons of Molasses Sold	20,061	16,491	13,666	6,170
FINANCIAL DATA	ACTUAL	BUDGET	ACTUAL	ACTUAL
	Ksh'000'	Ksh'000'	Ksh'000'	Ksh'000'
Sales Revenue (Sugar)	3,635,273	4,931,035	2,054,057	353,973
Other Revenue	3,038	72,719	2,942	54,671
Total Revenue	3,638,311	5,003,754	1,990,621	401,152
Total Direct Costs	2,671,246	3,327,963	1,584,303	642,191
Total In-Direct Costs	1,349,195	1,541,343	1,513,020	1,259,612
Total Operating Costs	4,020,441	4,869,306	3,097,323	1,901,803
Operating Profit/(Loss)	(382,130)	134,448	(1,106,702)	(1,500,651)
Finance Costs	(134,705)	(68,552)	(199,112)	155,657
Pre Tax Profit/Loss	(516,835)	65,896	(1,305,814)	(1,656,308)
Corporation Tax	-	(19,769)	(291)	-
Profit/Loss After Tax	(516,835)	(46,127)	(1,306,105)	(1,656,308)

The Company operated under the environment of unstable and depressed sugar prices as a result of unregulated sugar imports and rising sugar cane (raw material) prices. Unfair competition from our competitors contributed greatly to loss of investment in sugar cane development.

A total of 497,552 tons of cane was milled during the year, which indicates a decrease against a budget of 544,000 by 46,448 tons and more than same period last year volume of 370,301 tons by 127,251 tons.

Actual sugar bagged during the year was 42,105 tons which is a shortfall against the budget by 13,383 tons, and also higher than last year's performance by 16,352 tons, an indication of improvement in performance. This increase came about as a result of factory uptime for the better part of the year amid several challenges that were comprehensively addressed by the Management

Revenue

Sales revenue realized in the year was Kshs. 3,635 million and Kshs.2.4 million from sugar and other revenue respectively. This falls far below the budgeted revenue of Kshs.4,931 million and Kshs.72.7 million for sugar and other revenue by 1,296 million and 70.3 million respectively.

Operating Volumes

The Company milled 497,552 tons of cane in the year under review against a budget of 544,000 tons. This performance was 91.46% under achievement on budget. Same period last year the Company milled 370,301 tons of cane.

Sugar produced in the year was 42,105 tons against 55,488 tons budget. This was 75.88% achievement on budget, and is 16,352 tons more than 25,753 tons produced last year. This increase is due to improved efficiency as a result of factory repairs that was carried out between May and August 2020. Efficiency is projected to improve further after factory annual plant maintenance expected in quarter two of 2022/23 fiscal year.

Sugar sold in the year was 41,406 tons against a budget of 55,488 tons which is 74.62% under achievement on budget and more than last year sales of 25,749 tons by 15,657 tons.

Financial Performance

The total revenue realized in the year was Kshs. 3,637.7 million against a budget of Kshs. 5,003 million which is 72.7% below the budget. The lower production and sales volumes in the year coupled with delayed investment in alternative/additional revenue streams budgeted for contributed to this under achievement

During the year, the Company incurred a total operating cost of Kshs. 4,020.6 million (Fixed cost component-Kshs. 1,363.5 million) against a budgeted operating cost of Kshs. 4,869.31 million (Fixed cost component-Kshs. 1,541.34 million). This resulted in an operating loss of Kshs. 382 million against a budgeted Operating profit of Kshs. 134.49 million. Finance related charges amounted to Kshs. 152.96 million against a budgeted allocation of Kshs 68.55 million resulting in a pre-tax loss of Kshs.535.92 million against a budgeted pre-tax profit of Kshs. 65.90 million

Five year financial performance summary

	30-Jun-22 Shs'000	30-Jun-21 Shs'000	30-Jun-20 Shs'000	30-Jun-19 Shs'000	30-Jun-18 Shs'000
Statement of comprehensive income					
Revenue	3,635,273	2,054,068	353,973	2,674,078	2,514,125
Operating loss	(382,130)	(1,162,918)	(1,500,651)	(1,193,799)	(1,981,976)
Loss before income tax	(516,835)	(1,305,814)	(1,656,308)	(1,345,564)	(2,109,764)
Statement of financial position					
Total assets	5,228,067	5,250,733	5,486,103	5,992,808	6,299,750
Total liabilities	9,583,495	9,101,152	7,993,407	6,843,804	5,792,403
Total equity	(4,355,428)	(3,850,419)	(2,507,304)	(850,996)	507,346
Net working capital	(6,691,358)	(6,509,515)	(5,365,488)	(4,473,752)	(3,606,875)

**Management discussion and analysis
(continued)**

Five year operational performance summary

	30-Jun-22	30-Jun-21	30-Jun-20	30-Jun-19	30-Jun-18
Milled cane (tons)	497,552	370,301	133,270	420,486	420,973
Sugar sold (tons)	41,406	25,749	4,540	31,351	32,491
Rendement (%)	8.55	6.96	3.49	7.42	7.56

Environment and Sustainability reporting

The company supports growing of sugarcane in out growers and at the same times owns Nucleus Estate for sugarcane production. The Company receives sugarcane as raw material from the farms, process sugar and have byproducts like molasses and bagasse. These activities if left free without controls, would degrade environment and become inhabitable. In order to maintain/sustain the environment, the Company has put in place several measures to eliminate or minimize the exploitation / pollution of the environment.

The Company is certified in ISO 9001 (QMS) and 14001 (EMS) and is compliant to EMCA ACT 2015 and OSHA ACT 2007 requirements. In order to comply with the two acts, the company fire engine and ambulance has been on standby and responded to emergencies within the company and the community.

The Company maintains its ground, carryout landscaping, sanitation, and manages its waste (both liquid and solid). The Company has a tree nursery where tree seedlings are developed and nurtured for purposes of afforestation and re afforestation within the Company and its environs.

In short, the Company has different departments that are responsible for quality inspection, control and assurance of systems, processes, products and services. Management systems are in place to ensure all processes are controlled within allowable limits and compliance to regulatory institutions are observed with utmost care.

As part of giving back to the community, the Company undertook several corporate social responsibility obligations through structured initiatives to establish and sustain the cordial relation and coexistence among the employees, the local community and all stakeholders; as a dependable entity within the community. In so doing, the Company upheld ethical conducts and best professional practices with the welfare of the employees, the community and all stakeholders, in mind.

The Company maintained the road network with the station, nucleus and outgrower areas. We also continue to provide affordable housing to the employees as well as maintaining both the internal and external housing environments.

On environmental conservation, the Company partnered with Equity Bank Foundation and acquired 5,000 tree seedlings planted within the nucleus estate in the month of April. Additionally, the Company sponsored NEMA's tree planting initiative as well as Rongo University tree planting campaign during the World Environment Day in June 2022.

In term of healthcare, SonySugar Medical Centre and SonySugar Comprehensive Care Unit was open throughout the year to the staff and members of the public at subsidized costs. The company's fire engine and ambulance has been on standby and responded to emergencies within the company and the community. SonySugar also has a vibrant St. Johns Ambulance team which offered free first aid services during the 2021 Madaraka Day celebrations held in Kisumu on June 1st. The team also offered assistance to factory staff undertaking the Annual Plant Maintenance in the months of June and July 2021.

To ensure equal opportunities and inclusivity, the Company complied with the spirit of our business policies such as availing tender opportunities to the youth with, the women and persons with disability with Access to Government Procurement (AGPO) certification. On cohesion, inclusivity and diversity, the company upheld Access and Opportunities Act, and ensured the workforce consisted of people from all cultures, religion, ethnicities and irrespective of age, gender, marital status, sexual orientation or physical or mental disability.

On talent and career building, the Company supported Sony Youth Group talent show in April 2022. In December 2021, the Company sponsored Sony Youth Football team to attend a tournament in Mbita Town. Also, the Company offered opportunity to 16 young professionals with various professional backgrounds on Public Service

Commission Internship programme. The Company also offered chances to volunteers as periodic staff to exercise their academic knowledge gained and acquire more practical experience. On average the Company provided training opportunities for 1000 students on industrial attachment.

On education, the Company offered trainings on ethical practices. The in-house training was offered by Ethics and Anti-Corruption Commission to both the Company's Integrity Committee and senior management. The Company also offered chances for industrial training for college and university students. Additionally, the Company continued to support the SonySugar Nursery and SonySugar Complex schools by maintaining their physical environment, ensuring their security and meeting the welfare requirement of teachers and all employees of the schools. The Company also donated timber for construction of classrooms at SonySugar Secondary in preparation for Junior Secondary intake on CBC curriculum.

On disaster management, the Company intervened in fires within its nucleus estates, out-grower zones and other areas within Migori County, using its own firefighting engine.

For sustainability, the Company strategizing as follows:

1. Improve product visibility in key retail outlets and Improve order turnaround time.
2. Maximise sales turnover by selling all products made at the best market prices
3. Improve external customer service and invest in building brand equity.
4. Continually improve product packaging and baling to enhance product quality.
5. Enhance product distribution through effective channel and key accounts management.
6. Develop untapped local market to increase product availability
7. Maximize sale of branded sugar.

SonySugar Company is committed to responsible marketing and advertising having achieved ISO certification standards and several superbrand awards in the last 10 years. Customer fast being key corporate value and value for the customers, we promote the benefits of our products using many different channels of brand communication. Marketing and advertising will be enforced as a strength to inform both customers and consumers. Social media e.g. company website, Facebook will be used to inform people about the benefits of our products and innovations

On market place practices, competition policy aims to promote fair competition and this shall apply to ensure responsible competition is practiced both in the national and regional marketing environment. The regional COMESA Commission promotes and encourages competition by preventing restrictive business practices and other restrictions that deter the efficient operation of markets, thereby enhancing the welfare of the consumers in the Common Market, and protecting consumers against offensive conduct by market actors as per COMESA Official Gazette Vol. 9 No.2 as Decision No. 43 of Notice No 2 of 2004.

The COMESA safeguard that expires in 2023 will also promote healthy competitive business environment in the budget period and offers relief to Kenyan millers and farmers who face competition from cheap imports.

However, the government initiatives by newly formed East Africa Sugar Industry Association towards enforcement of the Rules of Origin for imports, coupled with increased control through AFFA – Sugar Directorate, on imports, the sugar prices are expected to be more stable leading to improved sugarcane prices.

Competition on price and cane supply front is anticipated to intensify in the budget year following restoration of milling efficiency of competing mills in SonySugar zone by 70% and increased cane poaching in the sugar sub sector. This will call for creative ways for managing cane yield and competition through exercising financial discipline, improving service delivery to farmers, effective marketing of the Company's products and full utilization of the ERP system.

DIRECTORS' REPORT

The Directors are required to submit their report together with the audited financial statements of South Nyanza Sugar Company Limited (the 'Company') for the year ended 30 June 2022. In view of the intended leasing of public sugar mills, the Government dissolved the entire Board on the 16th July 2020 through Gazette Notice number CXXII – NO. 148 dated August 3, 2020. No Board / Committee meetings were therefore held during the period under review to approve the accounts.

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 8 – 11.

Production and sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2022.

Cane Deliveries (tons)	2022	2021
Nucleus estate	64,553	60,174
Outgrowers	432,999	310,127
Total	497,552	370,301
Sugar Produced (tons)	42,105	25,753
Rendement	8.55%	6.96%

DIVIDEND

The net loss for the year of Kshs 505,009,000 (2021: net loss of Kshs 1,343,115,000) has been added to accumulated losses. The decision on dividend will be made at AGM.

DIRECTORS

During the year under review, the Company operated without the Board of Directors. The Government dissolved the entire Board on the 16th July 2020 through Gazette Notice number CXXII – NO. 148 dated August 3, 2020.

DISCLOSURE OF INFORMATION TO AUDITORS

The management confirm that with respect to each manager at the time of issue of this report:

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

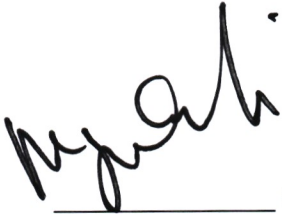
South Nyanza Sugar Company Limited
Annual report and Financial statements
For the year ended 30 June 2022
Directors' report (continued)

AUDITORS

The Auditor General is responsible for the Statutory Audit of South Nyanza Sugar Company Limited in accordance with Article 229 of the constitution of Kenya and section 48 of the Public Audit Act 2018 for the year ended 30 June 2022.

EMPLOYEES

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



_____ 2022

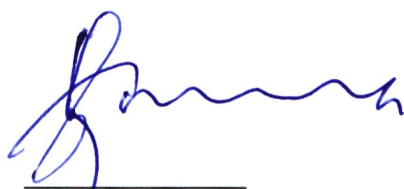
Maurice Omondi
Company Secretary

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, 2022. 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.

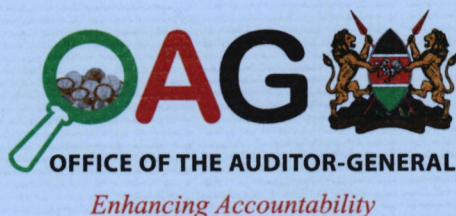
However, the Government dissolved the entire Board on the 16th July 2020 through Kenya Gazette Notice number CXXII – NO. 148 dated August 3, 2020. No Board / Committee meetings were therefore held during the period under review to approve the accounts.



Stephen Ligawa
Managing Director (Ag)

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 1 to 47, which comprise the statement of financial position as at 30 June, 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant

Report of the Auditor-General on South Nyanza Sugar Company Limited for the year ended 30 June, 2022

accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the South Nyanza Sugar Company Limited as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Trade and Other Receivables

The statement of financial position and as disclosed in Note 18 to the financial statements, reflects trade and other receivables net balance of Kshs.32,648,000. However, the following unsatisfactory matters were noted:

1.1 Unsupported and Long Outstanding Debtors

The trade and other receivables balance includes gross other debtors balance of Kshs.200,384,847,000 out of which, Kshs.2,191,000 and Kshs.43,070,000 were in respect of long outstanding staff debtors and medical insurance claims receivable respectively.

The trade and other receivables also includes deposits with suppliers gross balance of Kshs.112,494,000 out of which, Kshs.44,123,000 was held by a company, being advocates deposit for the decretal sums and interest together with taxed costs in joint interest earning account. However, included in the advocates deposits is an amount of Kshs.25,141,000 whose existence could not be confirmed since Management did not provide relevant documents to support the amount.

In the circumstances, the recoverability of the long outstanding receivables could not be confirmed. In addition, the existence of the advocates deposits of Kshs.25,141,000 could not be confirmed.

1.2 Undisclosed Receivables Relating to Staff on Secondment

The trade and other receivables net balance of Kshs.32,648,000 excludes an amount of Kshs.9,999,000 relating to staff costs in respect of two (2) employees who were seconded to Agriculture and Food Authority and Muhoroni Sugar Company. Although Muhoroni Sugar Company Limited (in Receivership) had made a written commitment vide letter Ref:MUSCO/JRM/04/2022 dated 5 April, 2022 to reimburse Kshs.6,899,000 to the Company, the amount had not been received as at 30 June, 2022. The amount receivable

from Agriculture and Food Authority of Kshs.3,101,000 had also not been received as 30 June, 2022.

In the circumstances, the accuracy and completeness of trade and other receivables balance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the South Nyanza Sugar Company Limited Management in accordance with ISSAI 130 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 Related to Going Concern

I draw attention to Note 4 to the financial statements which indicates that the Company incurred a net loss after tax amounting to Kshs.505,009,000 (2021: Kshs.1,343,115,000) during the year and had accumulated losses of Kshs.8,145,750,000 as at 30 June, 2022 (2021: Kshs.7,628,915,000). In addition, the Company's current liabilities of Kshs.7,559,409,000 exceeded its current assets of Kshs.868,051,000, resulting in a negative working capital of Kshs.6,691,358,000 (2021 - Kshs.6,509,515,000). These conditions indicate existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. The Management indicated that the Company's future depended on the ongoing major rehabilitation of the factory which is expected to increase efficiency.

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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,551,345,000 and Kshs.3,635,183,000 respectively, resulting to under-performance of Kshs.916,163,000 or 20% of the budget.

In the circumstances, the under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management did not resolve the issues. In addition, the issues were not disclosed in the format prescribed in the Annual Financial Reporting Template for state corporations.

3. Other Information

The Directors are responsible for the other information, which comprises the Report of the Managing Director, Statement of Company's Performance against the Predetermined Objectives, Statement of Corporate Governance and Management Discussion and Analysis. The other information does not include the financial statements and my auditor's report thereon.

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

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 effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Rendement (Yield) Below the Industry Standards

The statement of profit or loss and other comprehensive income reflects gross sales amount of Kshs.4,216,916,000. However, records provided for audit indicated that the Company Milled 497,551 tonnes of cane during the year under review and produced 42,104 tonnes of sugar bagged, resulting to a rendement of 8.6% of the produced sugar. Although there was marked improvement in rendement in the last three (3) years, the 8.6% was below the recommended industry standard of 10%.

In the circumstances, the efficiency of the factory was below the standards set by the industry.

2. Failure to Settle Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.6,181,095,000 which, according to the aging analysis provided for audit, includes a balance of Kshs.5,074,724,000 comprising of trade payables and other payables and accrued expenses of Kshs.242,836,000 and Kshs.4,831,888,000 respectively, that had been outstanding for a period of over 120 days. This was contrary to the provisions of The National Treasury Circular No. 7/2021, which requires that in order to ensure that there is no accrual in payment arrears (pending bills), accounting officers should ensure that carryover payments emanating from the 2020/2021 financial year are treated as a first charge against the budgetary allocation before entering into any new commitments.

In the circumstances, the Management was in breach of the Treasury Circular No. 7/2021. In addition, the Company may incur losses in form of fines or penalties in case of litigations due to the long outstanding debts.

3. Employee Benefit Expenses and Human Resource Management

Note 12 to the financial statements reflects employee benefits expense of Kshs.956,902,000. However, audit of the expenditure and examination of the Company's personnel records revealed the following unsatisfactory matters:

3.1 Employees in Acting Capacity

The employee benefits expense of Kshs.956,902,000 includes acting allowance amounting to Kshs.21,143,000 in respect of employees who had served in an acting capacity for more than six (6) months without confirmation or advertisement of vacancies. This was contrary to Section 34(3) of the Public Service Commission Act, 2017, which provides that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months. The Management attributed the failure to appoint the employees in substantive positions to the instructions issued by the Ministry of Agriculture, Livestock, Fisheries and Co-operatives through circular Ref: MOEALF&C/CS/ADM/30 dated 7 July, 2020, to the sugar millers that they should not hire any new employees or effect any new promotions or offer additional benefits other than what existing staff were then entitled to.

In the circumstances, Management was in breach of the law.

3.2 Engagement of Casual Employees

The employee benefits expense of Kshs.956,902,000 includes an expenditure of Kshs.101,429,000 incurred on payment of wages for seven hundred and fifty-eight (758) casual employees in various departments, who had worked continuously for a period of 12 months from July, 2021 to June, 2022. This was contrary to Paragraph 1.14 (ii) of the South Nyanza Sugar Company Limited Staff Administrative Code, revised 2007, which states that casual labour may be hired for a period not exceeding ninety (90) days

continuously. The Management indicated that they relied on casuals because the Government had frozen recruitment of new staff in 2017.

In the circumstances, the Company was in breach of the South Nyanza Sugar Company Limited Staff Administration Code, Revised 2007.

3.3 Violation of One Third Basic Salary Rule

An analysis of the payroll for permanent staff for the month of June, 2022 revealed that thirty (30) employees received net salaries that were below one third of their respective basic salaries. This was contrary to the provisions of Section 19(3) of the Employment Act, 2007, which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

In the circumstances, Management was in breach of the law.

3.4 Non-Compliance with the Law on Ethnic Composition of Staff

Review of the staff establishment for the year under review revealed that 86% of the Company's staff were from the same ethnic community. This was contrary the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, which stipulates that all public establishment shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, the Management was in breach of the law.

4. Property, Plant and Equipment - Capital Work in Progress

The statement of financial position reflects property, plant and equipment balance of Kshs.4,357,096,000 which, as disclosed in Note 14 to the financial statements, includes work in progress balance of Kshs.318,497,000 out of which Kshs.68,540,000 was additions for the year under review. However, additions for the year amounting to Kshs.12,991,215, was in respect of an advance payment for manufacture, supply, installation and commissioning of Rock Removal System awarded at a contract sum of Kshs.64,956,000 for a contract period of 21 weeks ending on 28 March, 2018. According to the contract, 20% of the contract sum was to be paid along with the order, against a bank guarantee of equivalent amount. The Company made part payment of Kshs.12,991,000 on 31 January, 2018 as stipulated in the contract. The contractor supplied part of the Retrofit of Rock Removal System but inspection and acceptance report was not provided for audit review.

Further, the contractor had not completed the works five (5) years after the expiry of the contract period, casting doubt on the capacity of the contractor to deliver the whole contract.

In the circumstances, value for money of the advance payment of Kshs.12,991,000 could not be confirmed. Further, the delayed delivery of the Rock Removal System may adversely affect the performance of the Company.

5. Failure to Remit Statutory Deductions

The statement of financial position reflects trade and other payables balance of Kshs.6,181,095,000 which, as disclosed in Note 26 to the financial statements, includes other payables and accrued expenses balance of Kshs.5,749,303,000. The other payables and accrued expenses balance includes VAT of Kshs.1,351,854,000 and Pay-As-You Earn of Kshs.475,665,000 that had not been remitted to the Kenya Revenue Authority and Kshs.25,154,000 which had not been remitted to the National Social Security Fund. This was in contravention of Section 19(4) of the employment Act, 2007 which provides that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

In the circumstances, the Management was in breach of the law. In addition, the Company may lose funds through payment of fines 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

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Weaknesses in Corporate Governance Structures

Review of the Company's corporate governance structure revealed the following weaknesses:

1.1 Lack of Board of Directors

Information provided indicated that the Company had operated without Board of Directors since 16 July, 2020. The appointment of the then Board of Directors was revoked through the Kenya Gazette Notice Reference Vol. CXXII - No. 148 dated 22 July, 2020. As a result, the corporate governance decisions had been left to the Senior Management Committee and the parent Ministry. As a result, the Chairman's Statement and the Report of the Directors were not included in the financial statements. In addition, the statement of financial position was not signed by the Chairman of the Board.

In the circumstances, any strategic decisions made by the Company without Board of Directors may face litigations by interested parties.

1.2 Lack of an Audit Committee

During the year under review, the Company operated without an audit committee. This was as a result of the revocation of the appointment of the Board of Directors on 16 July, 2022 through a Kenya Gazette Notice.

In the absence of an audit committee, it was not possible to confirm the effectiveness of risk management, internal controls and governance processes in the Company.

1.3 Lack of a Substantive Managing Director

During the year under review, the Company did not have a substantive Managing Director. The management of the company affairs was undertaken by an Acting Managing Director who was appointed by the Board of Directors on 21 November, 2019.

In the circumstances, it was not possible to confirm how critical decisions affecting the Company were made in the absence of substantive Managing Director and the Board of Directors.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, the Management is 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 Management is aware of the intention to liquidate the Company or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 February, 2023

South Nyanza Sugar Company Limited
Financial Statements
At 30 June 2022

Statement of profit or loss and other comprehensive income for the year ended 30 June 2022

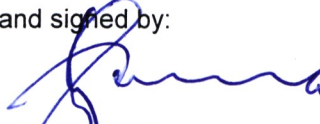
	Notes	Year ended 30 June	
		2022	2021
		Shs'000	Shs'000
Gross sales		4,216,916	2,382,719
Indirect taxes:			
- Value Added Tax (VAT)		(581,643)	(328,651)
Revenue	6	3,635,273	2,054,068
Loss/gains arising from changes in fair value less costs to sell of biological assets	16	(90)	(11)
		3,635,183	2,054,057
Cost of sales	7	(3,413,210)	(2,548,919)
Gross loss/profit		221,973	(494,862)
Other income	8	3,038	2,942
Distribution costs	9	(13,002)	(12,518)
Administrative expenses	10	(594,139)	(658,480)
Operating loss		(382,130)	(1,162,918)
Finance costs	11	(134,705)	(142,896)
Loss before income tax		(516,835)	(1,305,814)
Income tax credit	13	-	(291)
Loss for the year		(516,835)	(1,306,105)
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Remeasurement of post-employment benefits obligation	29	16,895	(52,871)
Deferred income tax thereon	25	(5,069)	15,861
		11,826	(37,010)
Total comprehensive loss for the year		(505,009)	(1,343,115)

South Nyanza Sugar Company Limited
Financial Statements
At 30 June 2022

Statement of financial position as at 30 June 2022

	Notes	30 June 2022 Shs'000	30 June 2021 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	4,357,096	4,492,220
Intangible assets	15	2,920	3,183
		<u>4,360,016</u>	<u>4,495,403</u>
Current assets			
Biological assets	16	281,239	261,312
Inventories	17	392,279	336,052
Trade and other receivables	18	32,648	42,341
Receivables from out growers	19	8,534	76,475
Cash and bank balances	20	153,351	39,150
		<u>868,051</u>	<u>755,330</u>
TOTAL ASSETS		<u>5,228,067</u>	<u>5,250,733</u>
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	21	353,970	353,970
Revaluation reserve	22	3,413,405	3,413,405
Other reserve	23	22,947	11,121
Accumulated losses		<u>(8,145,750)</u>	<u>(7,628,915)</u>
Total equity		<u>(4,355,428)</u>	<u>(3,850,419)</u>
Liabilities			
Non-current liabilities			
Grants	24	778,326	586,768
Borrowings	27	863,266	853,021
Deferred income tax	25	16,153	11,083
Retirement benefits obligation	29	366,341	385,435
		<u>2,024,086</u>	<u>1,836,307</u>
Current liabilities			
Trade and other payables	26	6,181,095	5,904,776
Borrowings	27	1,370,895	1,352,650
Current income tax	13	7,419	7,419
		<u>7,559,409</u>	<u>7,264,845</u>
TOTAL EQUITY AND LIABILITIES		<u>5,228,067</u>	<u>5,250,733</u>

The financial statements on pages 1 to 49 were approved for issue by Management on 30.09.2022 and signed by:


Stephen Ligawa
Managing Director (Ag)


Samson Mbayi
Head of Finance (Ag)

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2022

Statement of changes in equity for the year ended 30 June 2022

	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 2021						
At the start of year		353,970	3,413,405	48,131	(6,322,810)	(2,507,304)
Loss for the year		-	-	-	(1,306,105)	(1,306,105)
Other comprehensive income		-	-	(37,010)	-	(37,010)
Total comprehensive loss		-	-	(37,010)	(1,306,105)	(1,306,105)
At end of year		353,970	3,413,405	11,121	(7,628,915)	(3,850,419)
Year ended 30 June 2022						
At start of year		353,970	3,413,405	11,121	(7,628,915)	(3,850,419)
Loss for the year		-	-	-	(516,835)	(516,835)
Other comprehensive income		-	-	11,826	-	11,826
Total comprehensive gain		-	-	11,826	(516,835)	(505,009)
At end of year		353,970	3,413,405	22,947	(8,145,750)	(4,355,428)

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2022

Statement of cash flows for the year ended 30 June 2022

	Notes	2022 Shs'000	2021 Shs'000
Cash flows from operating activities			
Cash generated from operations	28	285,736	117,004
Interest received	8	274	379
Interest paid and other finance charges	11	(134,704)	(142,896)
Net cash generated from/ (used in) operating activities.		151,306	(25,513)
Cash flows from investing activities			
Purchase of property, plant and equipment	14	71,329	78,154
Purchase of intangible assets	15	-	-
Proceeds from sale of fixed assets		-	-
Net cash used in investing activities		71,329	78,154
Cash flows from financing activities			
Borrowings		-	-
Repayment of borrowings	27	(108,434)	(16,587)
Net cash (used in)/generated from financing activities		(108,434)	(16,587)
Net (decrease)/ increase in cash and cash equivalents		114,201	36,054
At start of year		39,150	3,096
At end of year	20	153,351	39,150

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2022

Statement of Comparison of Budget and Actual amounts for the period ended 30 June 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022
Revenue	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	%
Sale of Sugar	4,484,868	0	4,484,868	3,542,371	(942,497)	78.98%
Other Revenue	66,477	0	66,477	92,812	26,335	139.62%
Total income	4,551,345	0	4,551,345	3,635,183	(916,163)	79.87%
Expenses						
Direct costs	3,304,309	150,000	3,454,309	3,413,210	41,099	98.81%
Staff costs	905,547	(350,000)	555,547	343,331	212,216	61.80%
Board and director costs	30,000	0	30,000	0	(30,000)	0%
Repair and maintenance	176,860	100,000	276,860	260,772	16,088	94.19%
Total Operating costs	4,416,716	0	4,316,716	4,017,313	239,403	97.73%
Operating profit/Loss	134,629	0	234,629	(382,130)	(616,759)	(283.84%)
Finance costs	68,552	100,000	168,552	134,705	33,847	79.92%
Pretax profit/ Loss	66,077	0	66,077	(516,835)	(582,912)	(782.17%)
Corporation Tax	(7,212)	0	(7,212)	(0)	(7,212)	0%
Profit/Loss after Tax	58,865	0	58,865	(516,835)	(575,700)	(878.00%)

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2022

Statement of Comparison of Budget and Actual amounts (continued)

Explanation of major variances

- i. Sale of Sugar: The Company realized lower sales volumes due to less stocks occasioned by lower production levels.
- ii. Other revenue: This increased as a result of favorable molasses sales prices realized in the year.
- iii. Staff Costs: A number of staff have retired in the last three years without replacement awaiting lifting of ministerial directive.
- iv. Board and director costs: The Government dissolved the entire Board on the 16th July 2020 through Gazette Notice number CXXII – NO. 148 dated August 3, 2020. No Board / Committee meetings were therefore held during the year under review.
- v. Finance Cost: This is due to increased engagements with the banks occasioned by the cash flow constraints experienced in the year under review.

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 2022

Amendments to IAS 12	The amendments to IAS 12 Income Taxes clarify the following aspects:
Recognition of Deferred Tax Assets for Unrealised Losses	• 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.

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 2022 (Continued)

Annual Improvements: 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 applied for the year ended 30 June 2022

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022, 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.

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 applied for the year ended 30 June 2022

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 Management 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 Management 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 2021.

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 applied for the year ended 30 June 2022 (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 Management do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance.

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 applied for the year ended 30 June 2022(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 applied for the year ended 30 June 2022 (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.

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 applied for the year ended 30 June 2022 (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.

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 applied for the year ended 30 June 2022 (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 2022.

(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'.

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 - 60 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.

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. As consistently applied, provision is made for receivables in excess of 120 days.

(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.

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.

Current and deferred income tax for the year ended 30.06.2022 has been calculated at arm's length and incorporated in the financial statements.

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.

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.

Provision is determined based on the sugar development recovery cycle such that any balances beyond that cycle are fully provided. Sugar development recovery cycle is approximately 24 months.

The policy of the company is that impairment provision is determined for amounts in excess of the previous 24 months actual spent on sugar development, this has been applied consistently in preparation of the financial statements.

(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 505,009,000 (2021: Shs 1,343,115,000) during the year which was added to accumulated losses totaling Shs 8,145,750,000 (2021: Shs 7,628,915,000). In addition, the Company was in a net current liability position of Shs 6,691,358,000 (2021: Shs 6,509,515,000). 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 repairs undertaken between 25 May 2020 and 31 August 2020 and the major rehabilitation carried out between July and August 2021 have improved significantly, performance of the Company. Another major maintenance is scheduled between November and December 2022 and is projected to boost efficiency to over 80% from about 65%. The future of the company depends on the timely and annual factory rehabilitation and in addition to focus and dedicated staff. A comprehensive strategic plan is also in place aimed at achieving targeted goals in the following year.

Based on the above, the management believe that the company will continue in operational existence for at least 12 months from the date of these financial statements. It is therefore 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 2022, 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 14,400 (2021: Shs 21,402) 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 2022 and 30 June 2021, 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 2022 is made up as follows:

	2022 Shs'000	2021 Shs'000
Cash at bank (Note 20)	153,351	39,150
Trade receivables (Note 18)	1,801	2,893
Receivable from out-growers (Note 19)	8,534	76,475
Other receivables	30,847	39,448
	<u>194,533</u>	<u>157,966</u>

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:

	2022 Shs'000	2021 Shs'000
Past due but not impaired:		
- by up to 30 days	728	589
- by 31 to 60 days	373	193
	<u>1,101</u>	<u>782</u>
Total past due but not impaired		

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk (Continued)

	2022 Shs'000	2021 Shs'000
Total receivables:		
Carrying amount before provision for impairment loss	1,341,549	1,420,966
Provision for impairment loss	(1,300,367)	(1,302,151)
Net carrying amount	41,182	118,815

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 2022:			
Liabilities			
- borrowings	1,370,895	863,266	2,234,161
- trade and other payables	6,188,514	-	6,188,514
Total financial liabilities (contractual maturity dates)	7,559,409	863,266	8,422,675
At 30 June 2021:			
Liabilities			
- borrowings	1,352,650	853,021	2,205,671
- trade and other payables	5,912,194	-	5,912,194
Total financial liabilities (contractual maturity dates)	7,264,844	853,021	8,117,865

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.

	2022 Shs'000	2021 Shs'000
Total borrowings	2,234,161	2,205,670
Less: cash and cash equivalents	(153,351)	(39,150)
Net debt	2,080,810	2,166,520
Total equity	(4,355,428)	(3,850,419)
Total capital	(2,274,618)	(1,683,899)
Gearing ratio	-91%	-129%

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Notes (continued)

6	Revenue	2022 Shs'000	2021 Shs'000
	Analysis of revenue by category:		
	Sugar Sales	3,542,371	1,986,955
	Molasses Sales	92,902	67,113
		<u>3,635,273</u>	<u>2,054,068</u>
7	Cost of Sales		
	Cost of cane	1,941,947	1,348,439
	Agriculture: Overheads	446,024	419,521
	Agriculture: Depreciation	99,959	100,004
	Manufacturing: Costs	840,625	596,300
	Manufacturing: Depreciation	84,655	84,655
		<u>3,413,210</u>	<u>2,548,919</u>
8	Other income		
	Interest on receivables from Outgrowers	274	379
	Gain on disposal of fixed assets	-	-
	Miscellaneous income	2,764	2,563
		<u>3,038</u>	<u>2,942</u>
9	Distribution expenses		
	Marketing and advertising	142	378
	Production distribution	12,860	12,140
		<u>13,002</u>	<u>12,518</u>

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Notes (continued)

10	Administrative expenses	2022 Shs'000	2021 Shs'000
	Staff costs(Administrative departments)	343,331	359,874
	Provisions	(14,020)	56,216
	Rates, Levies and insurance	217,969	135,008
	Depreciation(Administrative)	29,783	29,783
	Travel and accommodation	9,667	17,626
	Ground maintenance & waste management	35,316	4,978
	Mobile Equipment usage expenses	5,590	6,326
	Board & Directors costs	-	465
	Spares & Consumables	31,623	16,667
	Audit & Consultancies	2,855	4,690
	Staff Acquisition & Development costs	3,146	1,485
	Utilities	3,584	52,079
	Other administrative costs (Net of recoveries)	(74,705)	(26,717)
		<u>594,139</u>	<u>658,480</u>
	The company offers services such as land development, farm inputs harvesting transport to farmers. These costs are subsequently recovered from the farmers at the point of payment.		
11	Finance costs		
	Interest expense-CF(SDF) and GoK loans	132,922	140,940
	Interest expense-bank charges	1,783	1,956
		<u>134,705</u>	<u>142,896</u>
12	Employee benefits expense		
	Salaries and wages	996,522	968,843
	Retirement benefits costs:		
	- Defined contribution scheme	(41,272)	47,544
	- National Social Security Funds	1,652	1,734
		<u>956,902</u>	<u>1,018,121</u>
13	Income tax credit		
	Deferred income tax (Note 25)	-	391,791
	Deferred tax asset not recognised	-	(391,791)
		<u>-</u>	<u>-</u>
	Income tax credit	<u>-</u>	<u>-</u>

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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:

	2022	2021
	Shs'000	Shs'000
Loss before income tax	(516,835)	(1,305,814)
Tax calculated at the statutory income tax rate of 30%	(155,050)	(391,791)
Tax effect of:		
Items not deductible for tax purposes	-	(19,605)
Under provision of deferred income tax in prior year	-	(162,420)
Deferred income tax asset not recognised	-	574,107
Income tax expense	-	291

Deferred income tax asset derecognition is made on the basis that it's not reasonably expected that the company would make profit in the foreseeable future to clear the accumulated losses.

Movement on deferred income tax on other income is as follows:

	2022	2021
	Shs'000	Shs'000
Opening income tax on other come	(7,419)	(7,128)
Income tax liability/asset (movement)	-	(291)
Income tax liability/asset	(7,419)	(7,419)

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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 2021									
Opening net book amount	931,788	607,650	2,223,440	419,188	20,140	97,510	175,060	153,471	4,628,247
Additions	-	-	3,258	-	-	-	74,896	-	78,154
Transfers	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	(23,467)	-	-	-	-	(23,467)
Depreciation charge	(9,606)	(26,413)	(67,955)	(83,645)	(5,962)	(4,240)	-	(16,360)	(214,181)
Depreciation adjust	-	-	-	23,467	-	-	-	-	23,467
Closing net book amount	922,182	581,237	2,158,743	335,543	14,178	93,270	249,956	137,111	4,492,220
At 30 June 2021									
Cost or valuation	1,000,502	891,746	4,393,411	1,418,720	304,394	137,402	249,956	238,268	8,634,399
Accumulated depreciation	(78,320)	(310,509)	(2,234,668)	(1,083,177)	(290,216)	(44,132)	-	(101,157)	(4,142,179)
Net book amount	922,182	581,237	2,158,743	335,543	14,178	93,270	249,956	137,111	4,492,220

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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 2022									
Opening net book amount	922,182	581,237	2,158,743	335,543	14,178	93,270	249,956	137,111	4,492,220
Additions	-	-	2,130	8,017	323	-	68,540	-	79,010
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-
Depreciation charge	(9,606)	(26,413)	(67,955)	(83,599)	(5,962)	(4,240)	-	(16,360)	(214,135)
Depreciation adjust	-	-	-	-	-	-	-	-	-
Closing net book amount	912,576	554,825	2,092,918	259,958	8,541	89,032	318,497	120,750	4,357,096
At 30 June 2022									
Cost or valuation	1,000,502	891,746	4,395,542	1,426,737	304,717	137,402	318,497	238,268	8,713,411
Accumulated depreciation	(87,926)	(336,921)	(2,302,624)	(1,166,780)	(296,176)	(48,370)	-	(117,518)	(4,356,315)
Net book amount	912,576	554,825	2,092,918	259,958	8,541	89,032	318,497	120,750	4,357,096

Work in progress largely relates cost of upgrading the plant and machinery which is an ongoing process.

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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:

	2022	2021
	Shs'000	Shs'000
Cost	8,965,843	8,894,513
Accumulated depreciation	(4,613,508)	(4,399,110)
Net book amount	<u>4,352,335</u>	<u>4,495,403</u>

Bank borrowings are secured on immovable property (Land/Buildings/Part of buildings)

15 Intangible assets

	Software	WIP	Totals
	Shs'000	Shs'000	Shs'000
Year ended 30 June 2021			
Opening net book value	650	2,795	3,445
Additions	-	-	-
Amortisation charge	(262)	-	(262)
Closing net book amount	<u>388</u>	<u>2,795</u>	<u>3,183</u>
At 30 June 2021			
Cost	257,317	2,795	260,112
Accumulated amortization	(256,929)	-	(256,929)
Net book amount	<u>388</u>	<u>2,795</u>	<u>3,183</u>

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15 Intangible assets (Continued)

	Software Shs'000	WIP Shs'000	Totals Shs'000
Year ended 30 June 2022			
Opening net book value	388	2,795	3,183
Additions	-	-	-
Amortisation charge	(263)	-	(263)
Closing net book amount	125	2,795	2,920
At 30 June 2022			
Cost	257,317	2,795	260,112
Accumulated amortisation	(257,192)	-	(257,192)
Net book amount	125	2,795	2920

16 Biological assets

Year ended 30 June 2021

	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
- At start of the year	285,198	1,482	286,680
- Additions due to development of cane	103,290	-	103,290
- Decrease due to harvest	(128,647)	-	(98,484)
- Loss arising from changes in fair value less cost to sell of biological assets	-	(11)	(11)
At end of year	259,841	1,471	261,312

Year ended 30 June 2022

At start of year	259,841	1,471	261,312
Additions due to development of cane	131,082	-	131,082
Transfer to bearer plant	-	-	-
Decrease due to harvest	(111,245)	-	(111,245)
Losses arising from changes in fair value less costs to sell of biological assets	-	90	90
At end of year	279,678	1,561	281,239

South Nyanza Sugar Company Limited
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Notes (continued)

16 Biological assets (continued)

Valuation of Biological Assets-Cost model

This represents the actual cost incurred on growing cane in the Nucleus Estate less the cost written off to profit or loss account for the cane harvested. Standing cane has not been insured against fire since insurance companies have declined to provide cover against this type of risk. No provision has been made in the accounts for any possible loss occasioned by cane fire.

17 Inventories

	2022 Shs'000	2021 Shs'000
Factory and agriculture spares	245,563	239,089
General consumables	84,210	66,212
	329,773	305,301
Finished goods (sugar & molasses)	4,664	3,577
Sugar in process	36,127	6,237
Goods in transit	21,715	20,937
	392,279	336,052

18 Trade and other receivables

Trade receivables	75,262	71,988
Less: provision for impairment losses	(73,461)	(69,095)
	1,801	2,893
Other receivables and prepayments	200,384	208,984
Less: provision for impairment losses	(169,536)	(169,536)
	30,847	39,448
	32,648	42,341

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Notes (continued)

18 Trade and other receivables (Continued)

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

	2022 Shs'000	2021 Shs'000
At start of year	238,632	238,518
Charge to profit or loss	4,366	114
At end of year	242,998	238,632

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

	2022 Shs'000	2021 Shs'000
Billable inputs and services	808,095	865,016
Unbilled services	67,778	67,778
Accrued interest on land development	190,030	207,200
Gross receivables from Outgrowers	1,065,903	1,139,994
Less: provision for impairment losses	(1,057,369)	(1,063,519)
	8,534	76,475

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

	2022 Shs'000	2021 Shs'000
At start of year	1,063,519	979,936
Charge to profit or loss/(write back)	(6,150)	83,583
At end of year	1,057,369	1,063,519

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:

	2022 Shs'000	2021 Shs'000
Cash and bank balances	153,351	39,150
Bank overdrafts	-	-
	153,351	39,150

Cash and bank balances details:

Petty cash account -Kisumu	-	-
Petty cash account -Nairobi	-	-
Cash in transit	-	-
Lipa na Mpesa Paybill	-	-
Barclays Bank of Kenya-Kisii – Acct 0081222509	2,570	277
Co-operative Bank-Migori- Acct 01136204628700	35,318	649
Kenya Commercial Bank-Migori- Acct 1106321308	153	9
National Bank of Kenya Awendo- Acct 01001045348700	31,112	198
National Bank of Kenya Awendo- (FD)Acct 01001045348700	60,000	-
Co-operative Bank Capex-Migori-Acct 01136204628701	14,460	3,805
Co-op Bank –VAT/SDL –Rongo- Acct 01136204628702	7,232	744
Co-operative Bank-Farmers-Rongo- Acct 01136204628703	629	4
NBK project account-Acct 01001045348702	1,877	1,954
Co-op Bank- Escrow acct HQ-Acct No-01692204628701	-	31,510
	153,351	39,150

21 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2021 and 30 June 2022	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:

	2022 Shs'000	2021 Shs'000
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	353,970	353,970

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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 2021	Shs'000
At start of year	3,413,405
Assets revaluation	-
At end of year	3,413,405
Year ended 30 June 2022	
At start of year	3,413,405
Asset revaluation	-
At end of year	3,413,405

23 Other reserves

	2022 Shs'000	2021 Shs'000
At start of the year	11,121	48,131
Comprehensive income	11,826	(37,010)
At end of the year	22,947	11,121

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, construction of bridges and payment of farmers' arrears. Assets are amortized over the life of the machinery. Additions during the year relates to funds paid directly to farmers' accounts by the Government. The movement in the year is as follows:

	2022 Shs'000	2021 Shs'000
At start of year	586,768	581,293
Additions	195,452	9,044
Amortisation charge	(3,894)	(3,569)
At end of year	778,326	586,768

South Nyanza Sugar Company Limited
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Notes (continued)

25 Deferred income tax

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

	2022 Shs'000	2021 Shs'000
At start of year	11,083	26,944
Credit to income statement (Note 13)	-	(391,791)
Debit to other comprehensive income	5,070	(15,861)
(Over)/under provision of deferred income tax in prior year	-	-
Deferred income tax not recognized	-	391,791
At end of year	16,153	11,083

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 2022	1 July 2021 Shs'000	Charged/ (credited) to P/L Shs'000	(Credited to equity) Shs'000	30 June 2022 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	528,854	(25,274)	-	503,580
- on revaluation surplus	614,471	-	-	614,471
Biological assets	78,394	5,978	-	84,372
	1,221,719	(19,296)	-	1,202,423
Deferred income tax assets				
Other temporary differences	(633,264)	(2,830)	-	(636,094)
Post-employment benefit obligation	(115,631)	5,728	5,069	(109,903)
Tax losses	(2,023,858)	(105,017)	-	(2,128,875)
	(2,772,753)	(102,119)	5,069	(2,874,872)
Net deferred income tax	(1,551,034)	(121,415)	5,069	(1,672,449)
Deferred income tax not recognised	1,558,503	130,099	-	1,656,296
Final deferred income tax	7,469	8,684	5,069	16,153

Notes (continued)

Year ended 30 June 2021	1 July 2020 Shs'000	Charged to P/L Shs'000	Charged to equity Shs'000	30 June 2021 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	399,457	129,397	-	528,854
- on revaluation surplus	403,680	210,791	-	614,471
Biological assets	102,482	-	-	102,482
	905,619	340,188	-	1,245,807
Deferred income tax assets				
Other temporary differences	(610,949)	(22,319)	-	(633,268)
Post-employment benefit obligation	22,453	(131,649)	(15,861)	(125,057)
Tax losses	(1,365,974)	(657,844)	-	(2,023,818)
	(1,954,470)	(811,812)	(15,861)	(2,782,143)
Net deferred income tax asset	(1,048,851)	(471,624)	(15,861)	(1,536,336)
Deferred income tax asset not recognised	(1,075,795)	(471,624)	-	(1,547,419)
Final deferred income tax	26,944	-	(15,861)	11,083

26 Trade and other payables

	2022 Shs'000	2021 Shs'000
Trade payables	337,373	331,937
Customer payments in advance	94,419	41,342
Other payables and accrued expenses	5,749,303	5,531,497
	6,181,095	5,904,776

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

Notes (continued)

27	Borrowings	2022 Shs'000	2021 Shs'000
	Commodities fund (SDF) loan	503,246	499,378
	Government of Kenya (GOK/ODA)	867,649	843,309
	Co op bank	863,266	853,021
	KCB	-	9,963
		2,234,161	2,205,671
i)	Maturity analysis		
	Non-current		
	Commodities fund (SDF) loan	-	-
	Co op bank	863,266	853,021
	Current		
	Commodities fund (SDF) loan	503,246	499,378
	KCB	-	9,963
	Government of Kenya (GOK/ODA)	867,649	843,309
		1,370,895	1,352,650
	Total GOK/CF loans	2,234,161	2,205,671
	Bank overdraft	-	-
	Total borrowings	2,234,161	2,205,671

- Commodities Fund loans of Kshs 503M had fallen due for payment as at 30.06.2022.
- GOK/ODA loans totalling Kshs 867.6M had fallen due for payment as at 30.06.2022.
- The Company has a long term loan with Co-op bank to the tune of Kshs 863M payable within 60 months on reducing balance basis. As at 30.06.2022, this loan was under moratorium up-to 31.08.2022 August 2022.
- KCB loan for Insurance Premium Financing of Kshs 9,963M was fully paid during the year ended 30.06.2022.

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	Co-op Shs '000	KCB Shs '000	Total Shs '000
At start of year	843,309	499,378	853,021	9,963	2,205,671
Additions	-	-	-	-	-
Accrued interest	24,340	3,868	262,963	-	291,171
Movement/payme	-	-	(252,718)	(9,963)	(262,681)
Net movement	24,340	3,868	10,245	(9,963)	28,490
At end of year	867,649	503,246	863,266	-	2,234,161

Notes (continued)

28 Cash generated from operations	2022 Shs'000	2021 Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Loss before income tax	(516,835)	(1,305,814)
Adjustments for:		
Interest income (Note 8)	(274)	(379)
Interest expense (Note 10)	134,705	142,896
Loss/(gain) on disposals of property plant & equipment	-	-
Changes in biological assets (Note 15)	(11)	(11)
Decrease due to harvest	-	-
Depreciation of property, plant and plant (Note 14)	214,135	190,975
Amortisation of intangible assets (note 15)	262	262
Items expensed from WIP (note 15)	-	-
Grant amortization (Note 24)	3,894	(3,569)
Post-employment benefit obligation	16,895	32,717
Changes in working capital:		
- Inventories	(56,227)	47,063
- Trade and other receivables	9,692	(32,080)
- Outgrowers' balances	203,180	30,624
- Trade and other payables	276,320	1,014,844
Cash generated from operations	285,736	117,004

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:

	2022 Shs'000	2021 Shs'000
Present value of unfunded obligations	366,341	385,435

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

	2022 Shs'000	2021 Shs'000
At start of year	385,435	406,293
Adjustment on opening balance	-	(45,532)
Net periodic cost	63,852	56,965
Movement in the year	(66,051)	(85,162)
Remeasurement	(16,895)	52,871
Liability in the statement of financial position	366,341	385,435

Notes (continued)

29 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	2022	2021
-discount rate	13.75%	12.75%
-inflation	8.00%	6.50%
-salary increases	9.50%	8.00%

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 2021			
Present value of obligation	385,435	389,288	381,580
Percentage changes	-	1.00%	(1.00%)
At 30 June 2022			
Present value of obligation	366,341	343,546	391,725
Percentage changes	-	1.00%	(1.00%)

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

Notes (continued)

30 Related party transactions

a.) Government of Kenya

The Company is controlled by the Government of Kenya with 99% ownership. 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.

Transactions with related parties:

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:

	2022 Shs'000	2021 Shs'000
Salaries and other short-term employment benefits	33,109	29,219

ii) Directors' remuneration

Remuneration as management	-	41
Fees and allowances for services as director	-	-
	-	41

iii) Government of Kenya

During the year, the Government released Kshs 138.9M towards payment of farmers arrears directly to the individual farmers' accounts and Kshs 56.6M towards factory maintenance and paid directly to various suppliers. These funds were released through Agriculture Food Authority. The Government is yet to give direction on the treatment of these funds in our books.

	2022 Shs'000	2021 Shs'000
Total bailout by the Government during the year (Grant)	195,454	6,340

31 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Company also has an open tax items for the last one year in respect to importation of sugar under tax exemption regime where KRA is demanding Kshs 2,905,607,000 in taxes. This matter is still 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.

Notes (continued)

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

	2022 Shs'000	2021 Shs'000
Farmers' cases	165,000	180,000
Staff cases	100	100
Tax matters	2,905,607	2,905,607
	3,070,707	3,085,707

The management have made accumulative provision in the financial statements amounting to Kshs. 198 million based on legal advice. The management do not believe that any significant additional liability will arise from the resolution of these matters.

32 Capital Commitments

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

	2022 Shs'000	2021 Shs'000
Authorized but not contracted	189,060	179,767
Authorized and contracted	80,827	90,841
	269,887	270,608

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, 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	Unsupported receivables from outgrowers: Receivables from Outgrowers: Validation of 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 in outgrowers files not recorded in the ledger.. Therefore, provision for impairment of receivables from outgrowers of Kshs. 1,063,519,000 is a indication that management that management is not able to recover the debts fully from the farmers.	The out-growers balances arise from the company's provision of farm inputs and agricultural extension services to the out-grower which are recovered from the farmers' accounts on delivery of harvested cane and represents a significant balance in the company's statement of financial position. The detailed listing for receivables from out-growers comprises balances whose recoverability is doubtful. Similar to prior years, the provision is largely determined based on the sugar development recovery cycle such that any balances beyond that cycle are fully provided. Sugar development recovery cycle is approximately 24 months. Hence, an impairment provision of Kshs 1,063,519,000 million is determined for amounts in excess of the previous 24 months actual spent on sugar development. During the year under review, provision has been written back by Kshs 6,150,000. This is an indication that the recovery is being done as and when the cane is delivered to the factory by the farmer.	Provision policy document supports the basis for provision as applied consistently through the years. Matter reviewed and in progress
2	Material uncertainty in relation to Going Concern: The company incurred a net loss after tax amounting to Kshs 1,343,115,000 during the year and had accumulated losses of Kshs 7,628,915,000. In addition, the company's current liabilities of Kshs 7,264,845,000 exceeded its current of assets of Kshs 755,330,000 resulting in a negative working capital of Kshs 6,509,515,000. 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.	For the year ended June 2021, the Company reported a comprehensive loss of Ksh. 1,343,115,000 compared to Ksh. 1,656,308,000 reported prior year. This reflects a reduction in comprehensive loss during the year by ksh. 313,193,000 which is a representative of improved performance during the year. This is a true reflection that the Company is on the right path to recovery given that Management has put in place various interventions to curb unnecessary leakages. In addition, the bulk of non-cash flow items due to provisions have also contributed to the current loss as reported. However, the numbers are expected to improve with	Recovery in progress

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
		improvement in company efficiency following the just concluded comprehensive factory rehabilitation. Further, the management has outlined interventions to mitigate the risks as follows: a. The Company is currently operating under austerity budget based on the level of activities. This will help in management of payroll cost to contain the wage bill. It's also important to emphasize that procurement of Capital items is currently based on priority basis so as to cut on unnecessary costs. b. Contributing to general under performance for the period under review was lower recoveries arising from operating the plant/factory below capacity. The company intends to carry out another factory maintenance in April/May 2022 to further enhance factory efficiency. With the just concluded factory rehabilitation carried out in the year under review, operations are at near normal guaranteeing continuity with attainment of the following operational levels: i. Time efficiency now averages over 80% from below 50% ii. Average sugar recovery rate is now 8.9% from below 5% in addition to significant improvement in tons of cane crushed per hour.	

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
3	Irregular payment for manufacture, supply, installation and commissioning of rock removal system.-Kshs 11,983,274	The Company entered into this contract in the year 2017 and it was expected to be done to completion in a period of 21 weeks during the plant shutdown period for annual maintenance. The plant maintenance never took place then due to financial constraints. We have since engaged the supplier on this matter and in due course management shall amicably have the matter resolved. We shall always ensure that our own regulations, procedures and guidelines are followed in the payments to suppliers.	In progress
4	Unremitted tax of Kshs 1,526,530,713 (both PAYE and VAT) including penalties.		
5	Unremitted statutory and other deductions—shs 487,578,512		
6	Unpaid audit and consultancy fee of Kshs 4,690,000 owed to an audit firm and Kshs 2,464,000 to Office of the Auditor General	Audit and consultancy fees accumulated during the period the company was not in meaningful production resulting to serious financial challenges. Settlement of the outstanding fees has commenced and will be cleared in the following financial year.	Payment in progress
7	Non paid borrowings including loans to the Government for Kshs 843,309,000 and Commodities Fund for Kshs 499,378,000	Following the Government plan to lease out the state owned sugar companies, these loans were earmarked for write off. Management is in the process of following up with the parent ministry on the next action.	In progress
8	Acting positions beyond the allowed six months period contrary to the law	Within a period of two years, the Company experienced high staff turnover as a result of poor performance and cash flow challenges. However, previous attempts to fill vacant positions have been unsuccessful due to the Company's inability to attract applicants for vacant positions. Lack/ Disbandment of a Board of Director and the Government Circular Ref. No. MOALF/C/CS/ADM/30 dated July 7, 2020	

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
		has hindered substantive filling of the vacant positions Our HR manual does not bar staff from acting on any grade as long as the staff meets the required minimum qualifications and has requisite experience (Staff Administration Code Revised 2007 Clauses 1.8.	
9	Non-compliance with law on ethnic composition.	This is a historical challenge that existed prior to promulgation of the new constitution in 2010 as the sugar factories were supposed to offer employment to the local community to check on rural urban migration. Management is gradually addressing the disparities as evidenced in new recruitments pattern where deliberate initiatives are undertaken to ensure diversity. Both in ethnicity and gender.	Compliance in progress

Key projects and investment decisions the entity is planning/implementing

Below are some of the ongoing major projects some of which will be completed in next factory maintenance scheduled for October/November 2022. The budget for capital expenditure projects is to be funded from internally generated funds and the Government of Kenya.

SR/ NO	ITEM DESCRIPTION	QTY	BUDGET	EXPENDITURE/ P.O. (vat incl.)	REMARK
Sugarcane Handling and Milling. (Pre-mills and Mills)					
1.	Refurbishment & Upgrade of spray pond piping	1	10,000,000	4,790,800	❖ To be completed in the next Financial year by 30.09.2022
2.	Design Supply, Install And Commission Mill 4 Electric Drive Motor	1	7,371,507	7,282,207	Motor delivered awaiting installation and commissioning ❖ To be completed by 15.11.2022
3.	Gantry Structure Reinforcement and alignment/ refurbishment	1	9,500,000	10,256,847	❖ To be completed by 15.11.2022
4.	Design, manufacture, supply & installation of new EOT crane	1	40,000,000	22,852,000	❖ To be completed by 15.11.2022

Juice, Sugar Processing and Packaging (Process house) and Product Packaging

1	Manufacture & Supply of a Multi-Deck Sugar Grader	1	9,000,000	USD 52,286.80 Kes. 5,385,540.4 (1USD=103)	To be completed by 15.11.2022
2	Mechanical works and Installation & commissioning of a Multi-Deck Sugar Grader	1		2,030,000	To be completed by 15.11.2022

Electrical Controls, Distribution, Protection and Instrumentation

1	Power Factor correction	2	6,000,000	P.O 4500014646	To be completed by 15.11.2022
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SUGAR CANE PROCESING AND SUGAR PRODUCTION		PROPOSED BUDGET	
1	Replace raw water line	18,750,000	To be completed by 15.11.2022
3	New injection pump to replace pump 2	10,000,000	To be completed by 15.11.2022
Sugar Processing Plant Rehabilitation and Upgrade			
1	Spares & Overhaul of KKK mills Turbines	10,000,000	To be completed by 15.11.2022
2	New set of rope coupling	8,000,000	To be completed by 15.11.2022
3	New mill roller shafts c/w shells for Mill 1 & 4	6,000,000	To be completed by 15.11.2022
6	Supply of new Fibrisor rotor	12,000,000	To be completed by 15.11.2022
Steam Production (Boilers)			
Electrical Controls, Distribution, Protection and Instrumentation			
1	Ventilation of HV rooms	10,000,000	To be completed by 15.11.2022
3	Power Factor Correction for HV3 & HV4	6,000,000	To be completed by 15.11.2022
7	Substation (ABC estate) RMU	7,000,000	To be completed by 15.11.2022
9	Module for mill no.4 VFD	6,000,000	To be completed by 15.11.2022
Juice, Sugar Processing and Packaging (Process house) and Product Packaging			
4	Filtration of Mixed Juice/mud system	20,000,000	To be completed by 15.11.2022