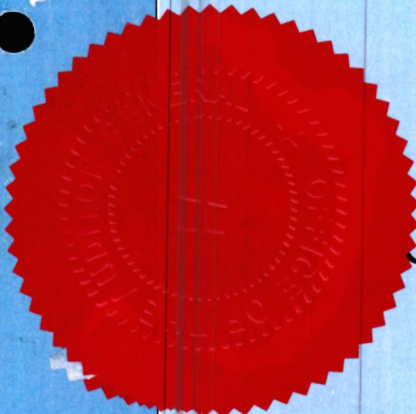


Paper laid by the Senate of

REPUBLIC OF KENYA

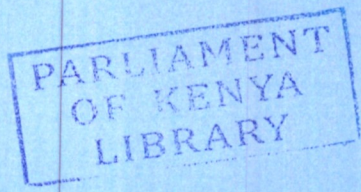
Majority Party

27/6/2018



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2017**



SONYSUGAR
Simply The Sweetest

SOUTH NYANZA SUGAR COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Table of contents	<u>Page No</u>
Corporate information	2 -3
Board of Directors	4
Management team	5
Chairman's report	6 – 8
Managing Director's report	9– 13
Statement on Corporate governance	14– 16
Statement on Corporate social responsibility	17
Directors' report	18- 19
Statement of Directors' responsibilities	20
Report of Independent Auditor	21 – 23
Report of the Auditor General	24 - 26
Financial statements:	
Statement of comprehensive income	27
Statement of financial position	28
Statement of changes in equity	29
Statement of cash flows	30
Notes to the financial statements	31 – 67
Financial performance summary	68
Statement of comparison of Budget and Actual Expenditure	69-70
Progress on follow up of auditors recommendations	71
Key projects implemented/planned by the entity	72

CORPORATE INFORMATION

Background information

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

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

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

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

DIRECTORS

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

Ambrose O. Weda	Chairman
Bernard Otieno	Managing Director(Ag) (Appointed 2 June 2017)
Jane P. Odhiambo	Managing Director (Retired 2 June 2017)
Eliud Mathu	Director (Retired 3 Feb 2017)
James Waniohi	Alternate – Principal Secretary, Ministry of Agriculture, Livestock and fisheries (Appointed 3 Feb 2017)
Cheryl Majiwa	Alternate – Cabinet Secretary, the National Treasury
Cyprian Omollo	Director (Deceased 3 March 2017)
Joseph L. Ole Kasae	Director
Thomas M. Nyangi	Director
Eng. James O. Mageto	Director
Caleb K. Kiplagat	Director
Angeline Y. Siparo	Director

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

SENIOR MANAGEMENT

Bernard A. Otieno	Managing Director (Ag)-Appointed 02.06.2017
Jane P. Odhiambo	Managing Director-Retired on 02.06.2017
CPA Peter O. Otieno	Head of Finance (Ag) - ICPAK Reg. No.14613
Gabriel Otiende	Company Secretary-ICPSK Reg. No. 1386
Stephen Ligawa	Head of Manufacturing (Ag)
Ken Nyangwara	Head of Marketing & Business Development(Ag)
Gabriel O. Nyangweso	Head of Agriculture
Judith O. Kagia	Head of Human Resources
James O. Oluoch	Head of ICT
Simon Korir	Head of Procurement

CORPORATE INFORMATION (CONTINUED)

REGISTERED OFFICE

PO Box 107 - 40405
Sare-Awendo

BANKERS

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

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

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

INDEPENDENT AUDITOR

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

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

COMPANY LAWYERS

Okongo, Wandago & Co Advocates
SUNA MIGORI

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

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

BOARD OF DIRECTORS



Ambrose Weda
Chairman

**Advocate of the High Court of Kenya, LLB, Masters in Law,
Bachelors degree in Economics**



Bernard Otieno
Managing Director (Ag)

MA-Projects, BSc. Bio Chem



Mr. Caleb Kiplagat
Director

BSc. Industrial Engineering



Joseph ole Kasae
Director

Insurance Expert



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

MSc. Agriculture, BSc. Agriculture



Mwita Thomas Nyangi
Director

Finance Expert, B.Com, MBA



Eng. James O. Mageto
Director

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



Angeline Y. Siparo
Director

MA. Counselling Psychology, BA



Cheryl Majiwa,
Alternate PS,
Ministry of National Treasury

MBA. Strategic Management, Bcom

SENIOR MANAGEMENT



Bernard Otieno
Managing Director (Ag)

MA. Projects, BSc. Bio Chem



Stephen Ligawa
Head of Manufacturing(Ag)



Peter Otieno
Head of Finance(Ag)

MSc. Chemistry, BSc. Chemistry



James Otieno Oluoch
Head of ICT



Gabriel Otiende
Company Secretary

BBM. Accounting, CPAK

MBA. Strat Mgt, BBA. MIS



Judith Oketch- Kagia
Head of Human Resource



Simeon Korir
Head of Procurement

LLB. Hons. Dip. Law

MBA. Strat Mgt, Bcom. HR



Gabriel Nyangweso
Head of Agriculture



Ken Nyangwara
**Head of Marketing & Business
Development (Ag.)**

MBA. Strat Mgt, Bcom.

MBA. Strat Mgt, BSc. Agriculture

MBA. Strat Mgt, BBA. Marketing

CHAIRMAN'S REPORT

I am greatly honored to present my statement as the Chairman of South Nyanza Sugar Company Limited.

Despite political and macro-economic uncertainty during the year under review, the business remained resilient and reported a positive growth. Of concern were creeping inflation, disrupted cane supply to the factory due to unfair competition and adverse weather conditions that affected the region. I am however happy to report that despite these challenges, we are confident that we are placed to manage the shifting economic landscape within the sugar industry.

In line with our core values of customer focus, intrapreneurship, team work, timeliness, integrity and professionalism, social responsibility and safety, we recognize progressive changes and national transformation strategies embedded in government policy documents and operations. Our strategic plan emphasizes on efficiency and high productivity thereby aimed at putting South Nyanza Sugar Company Limited at the fore front in the development of the industry in line with the vision 2030 goals.

As a team, we continue to work towards a strong risk management framework designed to identify and manage significant risks in our operations and constantly monitor the risk profile in relation to our activities.

Macroeconomic Environment

During the year, the business environment was challenging at both Micro and Macro levels. According to the World Bank's Kenya Economic update, Kenya Gross Domestic Product (GDP) was projected to decelerate to 5.5 percent by December 2017, a 0.5 % point mark down from the 2016 forecast, the driving factors being crop failures and increased food insecurity due to long dry spell. As a net oil importer, the rise in global oil prices compared to the lows of 2016 has had dampening effect on economic activities.

Further, with hydropower being the cheapest source of energy in Kenya, poor rains increased energy costs, their effects spilling over to the sugar sub-sector. The rise of food and energy prices drove inflation to a five year high of 10.3%.

The World Bank further noted that Kenya faces a marked slowdown in credit growth to the private sector, pointing out that at 4.3%, it remains well below the ten year average of 19% and subsequently weighing on private investment and house hold consumption.

On the positive side, the medium term, economic growth is projected to rebound to 5.8% in 2018 and 6.1% in 2019, consistent with Kenya's underlying growth potential. The positive overall performance of the economy is expected to anchor the current projections, ultimately creating an improved industry environment for sugar millers to operate.

Strategic focus

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

Results, Business & Operating Environment

As a business, we have continued with implementation of our wide-ranging corporate strategy. I am pleased to say that we are very much on track. I remain extremely positive and confident about the future of this great business. This is despite the challenging environment in the sector.

In the year 2015/2016, we were faced with the difficult decision to concentrate our milling on cane which had passed its maturity period. We succeeded on this strategy and now focusing on major factory rehabilitation to optimize performance and grow the business to great heights.

CHAIRMAN'S REPORT (CONTINUED)

During the year, the Company realized Shs 5,788 million as compared to Shs 5,736 million in 2016 in gross turnover. This reflected an improvement of 1% over last year. Volume of cane reduced by 20% to 602,711 metric tons compared to last year's figure of 757,143. Sugar production also reduced to 53,768 metric tons compared to the previous year's figures of 66,978 while the gross profit was Shs. 1,090 million compared to the previous year's Shs 702 million an improvement of 55%. Details of the performance are outlined in later pages of this report.

The Sugar Industry

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

On the market dynamics, the assurances from the Government authorities to increase vigilance on illegally imported and counterfeit sugar would be critical factor in ensuring competitive sugar price and growth.

Privatization of state owned mills positioned to reduce inefficiency is in progress and will boost the industry in providing capital to drive expansion, diversification, modernization and much needed value addition.

Corporate Governance

During the year, there were some changes to the Board. The Board lost the invaluable and incisive contribution of Mr. Cyprian Omollo who passed on after a short illness, while Mr. Eliud Mathu retired and was replaced by Mr. James Wanjohi as alternate Principal Secretary, Ministry of Agriculture, Livestock & Fisheries. We also appointed a new Managing Director, Mr. Bernard Otieno on acting capacity following the exit of Mis Jane Pamela Odhiambo on expiry of her contract as Managing Director. I welcome the new Directors and wish to sincerely thank Mr. Eliud Mathu and Mis Jane Pamela Odhiambo for their contribution during their tenure on the board.

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

Conclusion

The company looks forward to better performance in the coming years based on work the Board has done in identifying challenges facing the company and putting in place measures to turn around the company. Among the initiatives undertaken by the Board includes improved farmer/staff engagement programs that is aimed at securing a sustainable supply of adequate quantities of good quality cane, strengthening internal control environment, engage with key stakeholders and initiating organization culture change.

The Board and staff has remained focused, united and diligent. I want to emphasize again how hard our team members in the Board and staff have worked during the year under review and thank them for their commitment and enthusiasm in remaining focused on meeting customers' needs and on issues that drive the business for the benefit of all our stake holders.

On behalf of the Board of Directors and Management of SonySugar, I would like to thank farmers, customers and all stakeholders for their continued partnership and support

CHAIRMAN'S REPORT (CONTINUED)

I would like to acknowledge guidance and leadership that we continue to receive from the relevant government Ministries and for the platform to move the business to the next level,

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

**Ambrose Otieno Weda (Esq.) (LL.B, BA Economics, LL.M, Advocate, Legal Consultant,
Leadership & Life Trainer and Author,**

Chairman, Board of Directors



30 November 2017

MANAGING DIRECTOR'S REPORT

It is my obligation to present to you the business performance highlights for the year ended 30th June 2017 and to highlight key areas of our operations that underlie the reported financial performance.

Financial Performance

The net turnover for the year 2017 increased by 5% to Shs 4,997 million from Shs 4,756 million in the year 2016. This comprised Shs 4,830 million (2016: Shs 4,689 million) from sugar sales and Shs 167 million (2016: Shs 66.4 million) from molasses sales. This increase in net turnover was realized despite a 20% drop in volume of sugar manufactured and sold, and a 12% drop in molasses sales volumes. The general shortage of sugar in the local market resulted to better average sugar prices compared to the previous year.

The Company realized a gross profit of Shs 1,090 million (2016: Shs 702 million) in the year under review. After adjustment for administrative expenses, this resulted into an operating loss of Shs 188 million (2016: Shs 774 million) and a net loss before tax of Shs 297 million (2016: Shs 879 million). This loss is a reduction of 66% as compared to the same period last year.

Agricultural Operations

During the year under review, the area under cane declined by 14% to 13,368.63 hectares (15,628 Ha in 2016). Out of this, 2,403 hectares are in the Nucleus Estate and 10,964.79 Ha is in the Out growers zone. Efforts to increase the cane area by contracting self-developed cane and planting of additional cane on fallow land continued in the year under review, with a total of 1,487 hectares newly planted while another 352 hectares of self-developed cane being contracted. This was below target.

Average cane yield dropped by 17% to 65.75 Tch (2016: 79.2 Tch). This drop was a result of non-use of fertilizer in planting and top dressing in part of the season affecting the cane harvested during the year. Availability of fertilizer at the requisite time was due to non-availability of the GoK subsidized NCPB supplied fertilizer. The milling cane age also dropped by 20% to an average of 22.3 months (2016: 28.1 months) hence impacting on the yield. At the close of the financial year, the harvest cane age reduced further to 16.25, below the recommended age hence marking a closure to the overage cane problem. This cane has not developed the requisite biomass hence the reduction in yields.

Milling Cane deliveries to the factory during the year dropped by 20% to 603,303 tons down from 756,578 tons realized in the previous year. The Nucleus Estate contributed 127,178 tons (21%) while 476,125 tons (79%) was sourced from contracted farmers, and those with self-developed plots.

The Company continued to directly engage sugar cane farmers and key Industry stakeholders in an effort to rally farmers to increase planted cane area. Farmer education and entrepreneurship training was regularly undertaken to enhance skills and knowledge in sugarcane production and help realize the targeted cane area.

The Ndege Oriedo cane bulking centre in Rongo Constituency is ready for commissioning. This centre will expand cane production in Rongo Constituency and further secure raw material for cane milling.

Factory Performance

Cane processed was 602,711 metric tons compared to 757,143 metric tons in the previous year a drop of 20%. This was mainly attributed to cane shortage that hit the Company's sugar belt and the entire Kenyan sugar industry. As a result of this, sugar production dropped by 20% to 53,768 tons (2016: 66,978 tons). The conversion ratio during the financial year was a rendement of 8.91% This was a marginal improvement on rendement of 8.85% realized last year. A total of 23,658 tons of sugar representing 44% of total production was packaged in branded retail packs with the balance in bulk packs.

MANAGING DIRECTOR'S REPORT (CONTINUED)

In the period, investment in factory infrastructure was inadequate due to delays in obtaining GoK approvals for capital investment. The Annual Plant Maintenance (APM) that was scheduled for April/May 2017 was re-scheduled to October 2017 due to sugar shortage in the country on request of Agriculture and Food Authority (AFA) and the parent ministry. The delay in undertaking APM and Capital investment in Sugar Production machinery and equipment impacted the Factory production performance.

The equipment specific factors that impacted sugar production during the year include low availability of cane yard/handling machinery, delays in spares supplies due to overseas procurement challenges, staffing inadequacy and general plant fatigue due to 24 months continuous operation without maintenance. These factors had significant impact on sugar recovery, factory capacity utilization & throughput, cane milling, steam generation & bagasse handling, and juice & sugar processing. Drop in cane quality/age was a significant factor in sugar yield in processing.

Operational Costs

The overall cost of production per ton of sugar increased by 15% to Shs 99,162 per ton from Shs 84,557 per ton realized in 2016. The increase was due to lower volumes of cane/capacity utilization in the year. The high cost of cane driven by high sugar prices coupled with the fixed costs such as depreciation and staff costs were major factors in this increase. Total expenditure however went down by Shs 343 million from Shs 5,669 million in 2016 to Shs 5,326 million in 2017 largely on account of variable costs associated with depressed levels of operations.

The Market

A total of 53,472 tons of sugar was sold during the year. This was a decrease of 21% over the previous year's sales volume of 67,733 tons, as a result of reduced sugar production. Gross turnover stood at Shs 5,788 million (2016: Shs 5,736 million) which is a modest 1% above last year. Sugar prices significantly improved in the last half of the year. The prices were driven by the sugar shortage experienced in the market. The Company gained on this opportunity by producing and selling more branded sugar than last year. The Company achieved a higher average net selling price of Shs 90,321 per ton of sugar compared to Shs 69,442 in the previous year.

Competition continues to impact the business in several ways. Contraband sugar in the market was prevalent in local area. Competition for supermarket retail shelf space was mainly on account of an upsurge of supermarkets own brands. The Company's marketing investment was however limited during the year on account of low production. All credit sales were suspended to avert bad debt. Nakumatt and Uchumi debts remain uncollected despite several efforts.

Human Capital

Our strategic thrust in Human Capital Development was to build a strong entrepreneurial management to ensure SonySugar curves out a niche in the sugar industry to assure its growth and sustainability. Targeted training and Development was undertaken.

A new performance management system was introduced using the Balanced Score Card (BSC) as a performance monitoring and evaluation tool. Employees were trained and appraised on the benefits of BSC. The BSC has inculcated a culture of performance in the Company. The relationship between Management and Union remained harmonious with routine consultations on the Collective Bargaining Agreement (CBA) and staff welfare matters with staff and the Union. Negotiations for CBA 2016-2018 were completed and implementation is underway.

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

MANAGING DIRECTOR'S REPORT (CONTINUED)

Litigation, Legal Exposure & Compliance with Laws

During the year, several cases filed against the Company by farmers on cane contract agreement were concluded. Bulk of these cases were adjudicated in favour of the farmers subsequent to which the Company paid out a sum of Shs. 128 million as court awards (inclusive of costs and interest) in respect to the concluded cases. Some of the cases relate to prior periods in the 1990s when an envisaged factory expansion that was widely publicized to the community was not realized even cane fields were expanded by farmers to match the anticipated expanded factory capacity. The outcome of this expansion in cane area beyond factory capacity was an overall increase in milling cane ages and some plots went to waste hence the litigation.

The repeal of the Sugar Act resulted in disbandment of the Sugar Arbitration Tribunal, hence most cases that were initially before the Tribunal were transferred to the courts. This resulted in an upsurge of cases in the courts and the corresponding awards made at higher rates. Currently, there are over 3000 active cases against the Company in the courts and at various stages of hearing. The potential outcome of the cases, if ruled against the Company, may cost an estimated additional Shs. 250 million in the financial year 2017/2018. An exercise to determine the extent is on-going. Disclosures have been included in the note on contingent liabilities in the financial statements.

As a mitigation measure against the upsurge of litigation, the Company has embarked on streamlining operations, both in Cane production and factory processing so as to avoid incidences of cane related contract breaches. Joint capacity planning on a longer term basis and remodelling of the Out grower cane production model is on-going. The Company also continues to explore options to minimize cane farming disputes and has embraced alternative dispute resolution involving all stake holders while ensuring that the interest of all parties is fairly addressed.

Information and Communication Technology

This period was the fourth year of implementation of the SAP Enterprise Resource Planning (ERP) and the Agriculture Management System (AMS). These mission critical systems require high availability and utilization and hence were continually monitored. The process of acquiring a Data Recovery (DR) system was initiated but not completed due to cash flow constraints and lengthy technology options appraisal process in light of the large capital outlay. It is proposed for phased implementation with initial acquisition of servers to replace current aging Server infrastructure in data centre that would find utility in the DR plan.

The Information and Communications Technology (ICT) systems were the subject of a sustained drive for enhanced utilization and availability in the year. Specific actions included addressing staff capability gaps and instituting controls in business processes to ensure system utilization and addressing the downtime challenges.

In the year 2017/2018, the Company shall embark on consolidating the gains/exploiting opportunities in investments in systems automation. Connecting the Nairobi and Kisumu sales offices with the voice over internet protocol telephony to the Awendo site and availing AMS systems to the sector offices besides optimizing use of website by introducing interactivity with the stakeholders online are some specific initiatives being undertaken.

The Company in compliance with the government guidelines has adopted the standards and guidelines set by the ICT Authority of Kenya. The Company is committed to supporting the Presidential Digital Talent Program (PDTP) and shall participate in capacity building of ICT personnel needed to enhance service delivery in the Public Sector.

MANAGING DIRECTOR'S REPORT (CONTINUED)

Management Systems

The Company maintained and complied with its obligations under various quality schemes - ISO 17025:2005 Laboratory Management System (LMS), ISO 9001:2008 Quality Management System (QMS) and ISO 14001:2004 Environmental Management System (EMS). Regular management reviews and internal/external surveillance audits helped sustain the systems. Recertification audits for QMS were successfully carried out by Kenya Bureau of Standards (KEBS) during the year.

Through QMS, sustained improvements in product and service quality, operational efficiencies, customer and employee satisfaction, and Company reputation were realized. In addition, the EMS mitigated complex environmental liability risks, assured sustainable use of resources, provided assurance to stakeholders, reduced costs associated with waste management and promoted a positive Company image. LMS has assured laboratory testing in conformance with documented procedures and validated all test methods.

The Company maintained its compliance with the Standardization and Diamond Mark of Quality requirements. The brown sugar product had its Diamond Mark of Quality certification obtained earlier renewed in April 2016 for the next three years.

Future Outlook

The Strategic focus in the coming period shall target eight areas. These are:

- Sugarcane production. Yield, quality, productivity, land development and planted cane area improvements.
- Improvements in Farmer Company relations. Reduce cane payment cycle time, improve extension personnel service quality and customer relationship skills, theft of contracted cane, cane development, ICT, business environment and manufacturing.
- Cost management. Optimal resource allocation and reduction in wastage across business lines.
- Litigation risks. Mitigate risks and address process lapses resulting to litigation.
- ICT. Enhance use of ERP in business processes and decision processes.
- Manufacturing. Capacity utilization and recovery performance enhancement.
- Marketing and Sales. Enhanced sales of branded retail packed sugar, address counterfeiting and dominate Southern Nyanza markets.
- Human ware. Improvement in Human relations, Staffing and Human resource development.

Cane yields and productivities are expected to decline further in the new financial year as the mean cut-off age continues to be low and impact of fertilizer shortage continues to be felt – NCPB/GoK subsidized fertilizer. The Company shall embark on an aggressive introduction of early maturing sugar cane varieties to address raw material shortage in coming period. Other interventions include increasing the area under cane, improved planning, yield improvement, prompt farmer payments and competitive cane prices.

Significant increase in diversion of contracted cane has resulted in cane shortage. Of greater concern is that cane poaching has spread to much younger cane (12-14 months) further diminishing future cane availability. Legal and social interventions will be pursued alongside improvements in farmer relations with extension staff. At a national level, we shall continue to engage with the regulator to lobby for regulations.

The present cane area cannot support the current crushing capacity of the factory that is expected to improve after the Annual planned Maintenance. The Company's projection for cane planting in 2017-2018 in 4,200ha in the Out growers and 400 ha in the Nucleus Estate. This will further be increased to 5,000 ha per year for the next three subsequent years in order to build the cane area to a desired level of 18,000 ha for sustained operations alongside yield and quality improvements.

MANAGING DIRECTOR'S REPORT (CONTINUED)

The effective use of ICT is essential to support our operational efficiency and derive value through improved information and automation of processes. SonySugar ICT investment shall focus on assisting the organization achieve its strategic objectives. Two major ERP systems i.e. the Agricultural Management System and the SAP ERP shall be supported by investments in a Data Centre and network resources and clean power systems infrastructure to ensure high levels of availability and reliability.

Sugar prices in the local market are projected to drop in the first half of the financial year, as the anticipated favourable prices occasioned by product shortage, is not realizable, having been dampened by significant imports of Non COMESA sugar that qualifies to be categorized as dumped sugar. The Company shall increase the production of pre-packed branded sugar, the product for which prices are projected to be stable in the ensuing competitive market.

Kenya's sugar production in 2017/2018 is expected to remain flat due to the continued milling cane shortage and poor performance of some sugar milling plants. The anticipated privatization of the public owned sugar mills has not taken place and they continue to suffer low investments in capital plant and sugar cane development besides the indebtedness leading to poor services to the farmers. Privately owned mills and Jaggeries have encroached in some cane growing areas that were previously zoned-off for individual mills and now provide alternative cane buying outlets. Locally produced sugar shall remain uncompetitive relative to other COMESA producers at the current cost of production estimated at \$900 USD per ton. Management therefore undertakes to respond through addressing bottlenecks in the cane production and processing through targeted investments in the front end of the plant, making business processes lean and agile and remodelling its Out growers and Nucleus Estate cane production systems.

Conclusion

On behalf of Management, I wish to thank the Board of Directors of South Nyanza Sugar Company Limited for its prudence, guidance and direction to the business and employees. I wish to express my appreciation to the entire staff for their dedication and support of the business and its processes. I appreciate our farmers for their resilience and support, our trade customers and suppliers for the business and consumers for making SonySugar their brand of choice. Finally, I congratulate all our stakeholders and shareholders for their unwavering support to the business. As we work together as a team, SonySugar will be the envy of the Kenya Sugar Industry.



Bernard Otieno
Managing Director (Ag)

30 November 2017

STATEMENT ON CORPORATE GOVERNANCE

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

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

Board of Directors

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

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

As the Company is a State Corporation, the Inspector General of State Corporations attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

The Company Secretary attends all meetings of the Board and advises the Board on all corporate governance matters as well as prevailing statutory requirements. The Company Secretary offers secretarial services at all Board meetings/functions.

Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so in order to handle a back log or an urgent matter that cannot otherwise await a normal Board meeting. The meetings that were held by the Board are as per the table below:

Committee	Type	Mandated	Actual
Main Board	Regular	4	6
	Special	2	3
BAC	Regular	4	2
	Special	2	0
BFC	Regular	4	6
	Special	2	3
OPC	Regular	4	4
	Special	2	2
GPC	Regular	4	5
	Special	2	2

During the year, BAC held less meetings than mandated due to quorum related challenges following the passing on of one of the members.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Committees of the Board

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

Board Audit & Risk Committee

The membership of the Audit Committee comprises the following directors:

- 1) Engineer Caleb Kiplagat - Chairman
- 2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury
- 3) Mr. Joseph Ole Kasae
- 4) Engineer James Mageto
- 5) Ms. Theodora Gichana - Representative to Inspectorate, State Corporations

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

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

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

General Purpose Committee

The membership of the General Purpose Committee comprises the following directors:

- 1) Engineer James Mageto - Chairman
- 2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury
- 3) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock & Fisheries
- 4) Mr. Thomas Nyangi
- 5) Ms. Angeline Siparo
- 6) Ms. Theodora Gichana - Representative to Inspectorate, State Corporations

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

The Committee held four (4) regular meetings in the year under review.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Finance Committee

The membership of the Finance Committee comprises the following directors:

- 1) Mr. Thomas Nyangi - Chairman
- 2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury
- 3) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock & Fisheries
- 4) Ms. Angeline Siparo
- 5) Ms. Theodora Gichana - Representative to Inspectorate, State Corporations

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

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

Operations Committee

The membership of the Operations Committee comprises the following directors:

- 1) Mr. Joseph Ole Kasae - Chairman
- 2) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock & Fisheries
- 3) Mr. Thomas Nyangi
- 4) Mr. Caleb Kiplagat
- 5) Ms. Theodora Gichana - Representative to Inspectorate, State Corporations

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

The Committee held four (4) regular meetings in the year under review.

Risk Management and Internal Controls

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

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

Creating Shareholders' Value

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

Directors' Emoluments and Loans

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

There were no arrangements for the directors to acquire benefits through the acquisition of the Company's shares. No directors were paid loans and advances during the period under review.

Corporate Social Responsibility Statement

Sony Sugar recognizes its obligations to act responsibly, ethically and with integrity in its dealings with all stakeholders, including the interest of employees and their families, the need to foster the Company's business relationships with partners, customers, suppliers, and the impact of company's operation on the local communities and surrounding environment.

The company is dedicated to supplying products of the highest quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards as it makes contribution to local communities in arrears where it operates its business.

As in previous years, The company actively worked with local community projects to deliver social value where corporate social responsibility (CSR) was an integral part of the Company operations in areas of community need such as education, health and sanitation, environment, disaster response and sports talent development. The company drilled two bore holes located at Thim Kaloo and Ndege Oriedo as well as upgrading 808 kms of roads in the locality.

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

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

In education, the Company supported local schools such as Sony Primary School, Karda Primary School, Owiro Akoko Girls High School and St Joseph's Rapogi School. The Company also significantly contributed towards student attachment and internship programs to nurture the youth in readiness for the job market.

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

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of South Nyanza Sugar Company Limited (the 'Company') for the year ended 30 June 2017.

BUSINESS REVIEW

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

The company's performance

The company's performance is set out in the Managing Director's report on pages 9-13.

Production and sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2017.

Cane Deliveries (tons)	2017	2016
Nucleus estate	127,178	77,902
Outgrowers	476,125	678,675
Total	603,303	756,577
Sugar Produced (tons)	53,768	66,978
Rendement	8.91%	8.85%

DIVIDEND

The net loss for the year of Shs 296,782,000 (2016: net loss of Shs 770,341,000) has been added to accumulated losses. The Directors do not recommend the payment of a dividend.

DIRECTORS

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

DISCLOSURE TO AUDITORS

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

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

DIRECTORS' REPORT (CONTINUED)

TERMS OF APPOINTMENT OF AUDITORS

The Auditor General is mandated by law to audit South Nyanza Sugar Company Limited. This mandate was delegated to PricewaterhouseCoopers for the audit of financial year ended 30 June 2017.

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

EMPLOYEES

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

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 30 November 2017.

BY ORDER OF THE BOARD



Gabriel Otende
Company Secretary

_____ 2017

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, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

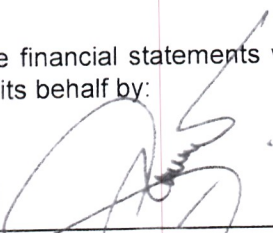
The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act 2015, PFM Act, 2012 and the State Corporations Act section 14. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

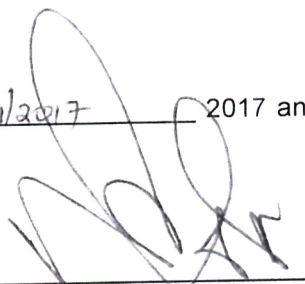
The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approval of the financial statements

The financial statements were approved by the Board on 30/11/2017 2017 and signed on its behalf by:



Ambrose Weda Esq.
Chairman



Bernard Otieno
Managing Director (Ag)

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 27 to 72, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effects of the 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 South Nyanza Sugar Company Limited as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property Plant and Equipment

The property, plant and equipment figure of Kshs.3,032,796,000 (2015-2016 Kshs.3,385,075,000). The Company policy on property, plant and equipment states that property, plant and equipment are stated at fair less depreciation based on valuation by the external independent valuers done on a periodic basis of at least once every five years. IAS 16 requires re-valuations to be done with sufficient regularity so that the carrying amount does not differ materially from fair value at the end of the reporting period. Note 13 under property, plant and equipment indicates the last valuation was done by external valuers seven years ago. In the absence of a recent re-valuation, we are unable to confirm whether the carrying values of property, plant and equipment materially differ from that which would have been determined using fair values at the end of the year.

2. Receivables from Outgrowers

As reported in the previous year, the Company's statement of financial position as at 30 June 2017 reflects receivables from outgrowers of Kshs.234,613,000 (2015/16:Kshs.134,524,000) as shown under note 19. The balance arises from the Company's provision of agricultural inputs and services to the outgrowers and the related accrued interest recoverable. The gross receivables balance is an aggregation of outgrowers' balances from the main Agricultural Management Systems (AMS), outgrowers' ledger and old balances uploaded in a separate ledger in the AMS system. Included in the aggregate balance is a sum of Kshs.351,023,000 being old balances uploaded into the AMS sub-ledger that has however, not been linked into individual farmer's accounts.

Further, validation of the individual outgrowers' balances revealed several unsupported transactions in the outgrowers' ledger, inconsistent transactions between the underlying outgrowers files and ledger, and transactions on outgrowers files not recorded in the ledger. In addition, a provision for impairment of receivables from outgrowers totaling Kshs.829,843,000 (2015/16: Kshs.873,654,000) was made at the year end.

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

3. Statement of Changes in Equity

The statement of changes in equity balance of Kshs.439,635,000 includes Kshs.13,121,000 in respect of other reserves. However, the management did not provide description on the nature and purpose of the 'other reserves'. The equity should disclose the nature and purpose of all the reserves held by the entity during the period under review. As per IAS 1 paragraph 79 (b) an entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes: A description of the nature and purpose of each reserve within equity.

Consequently, the accuracy and validity of the other reserve figure of Kshs.13,121,000 could not be confirmed.

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

Key Audit Matters

Key audit matters are those matters which, in my professional judgment are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Emphasis of matter sections of my report. I determine that these were no Key Audit Matters to communicate in my report.

Emphasis of Matter

1. Going Concern

Note 2 (a) to the financial statements states that South Nyanza Sugar Company Limited incurred a net loss after tax of Kshs.296,782,000 (2015/16: loss after tax of Kshs.770,341,000) and as of that date, the company's current liabilities exceeded its current assets by Kshs.1,822,397,000 (2015/16: Kshs.2,299,796,000). These events or conditions, along with other matters as set forth in Note 2(a) to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern, and further implies that the Company's existence is dependent upon continued support from the shareholders and creditors.

2. Unpaid Tax

As similarly reported in the previous year, under note 25 to the financial statements, there are outstanding Value Added Tax (VAT) payables totalling Kshs.547 million (2015/16: Kshs.657 million) spanning several months of non-payment during the year under review.

Management has indicated that it has paid some of the outstanding obligations and intends to approach the Kenya Revenue Authority for waiver of applicable interest and penalties.

Other Information Included in the Annual Report

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and 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 thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information which I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 which 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 of Kenya. 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

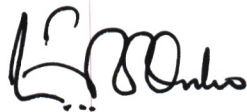
I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENT

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of 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;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

Nairobi

10 May 2018

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Statement of comprehensive income

	Notes	Year ended 30 June	
		2017	2016
		Shs'000	Restated Shs'000
Gross sales		5,788,227	5,736,590
Indirect taxes:			
- Value Added Tax (VAT)		(791,560)	(792,902)
- Sugar Development Levy (SDL)		-	(188,048)
Revenue	5	4,996,667	4,755,640
Gains arising from changes in fair value less costs to sell of biological assets	15	3,828	6,762
		5,000,495	4,762,402
Cost of sales	6	(3,910,938)	(4,060,839)
Gross profit		1,089,557	701,563
Other income	7	28,519	28,015
Distribution costs	8	(56,180)	(60,742)
Administrative expenses	9	(1,249,429)	(1,443,079)
Operating loss		(187,533)	(774,243)
Finance costs	10	(109,249)	(104,396)
Loss before income tax		(296,782)	(878,639)
Income tax credit	12	-	108,298
Loss for the year		(296,782)	(770,341)
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Remeasurement of post-employment benefits obligation	28	39,800	(17,148)
Deferred income tax thereon	24	(11,940)	5,144
		27,860	(12,004)
Total comprehensive loss for the year		(268,922)	(782,345)

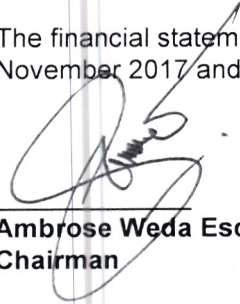
**REPORT OF THE AUDITOR GENERAL TO THE MEMBERS OF SOUTH NYANZA SUGAR
COMPANY LIMITED (CONTINUED)**

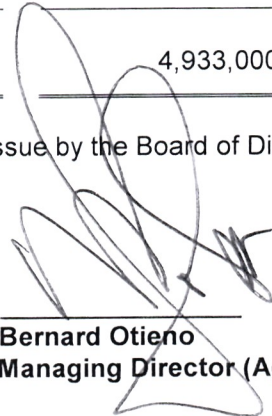
South Nyanza Sugar Company Limited
Financial Statements
At 30 June 2017

Statement of financial position

	Notes	30 June 2017 Shs'000	30 June 2016 Restated Shs'000	30 June 2015 Restated Shs'000
ASSETS				
Non-current assets				
Property, plant and equipment	13	3,032,796	3,385,075	3,743,438
Intangible assets	14	107,594	158,796	204,801
		<u>3,140,390</u>	<u>3,543,871</u>	<u>3,948,239</u>
Current assets				
Biological assets	15	554,055	583,440	594,860
Inventories	17	442,946	401,956	441,504
Trade and other receivables	18	36,222	98,070	99,450
Receivables from out growers	19	234,613	134,524	387,603
Current income tax		5,650	5,369	5,369
Cash and bank balances	20	347,877	165,770	48,851
		<u>1,621,363</u>	<u>1,389,129</u>	<u>1,577,637</u>
TOTAL ASSETS		<u>4,761,753</u>	<u>4,933,000</u>	<u>5,525,876</u>
EQUITY AND LIABILITIES				
Equity attributable to owners				
Share capital	21	353,970	353,970	353,970
Revaluation reserve	22	1,270,938	1,374,448	1,464,851
Other reserve		13,121	(14,739)	(2,735)
Accumulated losses		(1,198,394)	(1,005,122)	(325,184)
Total equity		<u>439,635</u>	<u>708,557</u>	<u>1,490,902</u>
Liabilities				
Non-current liabilities				
Grants	23	81,051	85,381	103,556
Borrowings	26	366,556	-	392,559
Deferred income tax	24	11,940	-	113,442
Retirement benefits obligation	28	418,811	450,137	436,076
		<u>878,358</u>	<u>535,518</u>	<u>1,045,633</u>
Current liabilities				
Trade and other payables	25	1,947,486	2,173,675	1,675,554
Borrowings	26	1,194,231	1,261,837	912,643
Bank overdraft	26	302,043	253,413	401,144
		<u>3,443,760</u>	<u>3,688,925</u>	<u>2,989,341</u>
TOTAL EQUITY AND LIABILITIES		<u>4,761,753</u>	<u>4,933,000</u>	<u>5,525,876</u>

The financial statements on pages 28 to 68 were approved for issue by the Board of Directors on 30 November 2017 and signed on its behalf by:


Ambrose Weda Esq.
Chairman


Bernard Otieno
Managing Director (Ag)

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Statement of changes in equity

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Other reserve Shs'000	Accumulated losses Shs'000	Total equity Shs'000
Year ended 30 June 2016						
At the start of year						
- as previously stated		353,970	1,464,851	(2,735)	(296,115)	1,519,971
- IAS 41 and 16 amendment adoption (Note 16)		-	-	-	(29,069)	(29,069)
- as restated		353,970	1,464,851	(2,735)	(325,184)	1,490,902
Loss for the year		-	-	-	(770,341)	(770,341)
Other comprehensive income		-	-	(12,004)	-	(12,004)
Total comprehensive loss		-	-	(12,004)	(770,341)	(782,345)
Transfer of excess depreciation	22	-	(129,147)	-	129,147	-
Deferred income tax on transfer	22	-	38,744	-	(38,744)	-
Net transfer of excess depreciation		-	(90,403)	-	90,403	-
At end of year		353,970	1,374,448	(14,739)	(1,005,122)	708,557
Year ended 30 June 2017						
At start of year						
- as previously stated		353,970	1,374,448	(14,739)	(970,481)	743,198
- IAS 41 and 16 amendment adoption(note 16)		-	-	-	(34,641)	(34,641)
- as restated		353,970	1,374,448	(14,739)	(1,005,122)	708,557
Loss for the year		-	-	-	(296,782)	(296,782)
Other comprehensive income		-	-	27,860	-	27,860
Total comprehensive loss		-	-	27,860	(296,782)	(268,922)
Transfer of excess depreciation	22	-	(147,871)	-	147,871	-
Deferred income tax on transfer	22	-	44,361	-	(44,361)	-
At end of year		353,970	1,270,938	13,121	(1,198,394)	439,635

Statement of cash flows

	Notes	Year ended 30 June	
		2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Cash generated from operations	27	61,000	526,827
Interest received	7	25,609	32,020
Interest paid and other finance charges	10	(109,249)	(104,396)
		<hr/>	<hr/>
Net cash generated from operating activities.		(22,640)	454,451
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(149,077)	(141,428)
Purchase of intangible assets	14	-	(5,195)
Proceeds from sale of fixed assets		6,244	187
		<hr/>	<hr/>
Net cash used in investing activities		(142,833)	(146,436)
		<hr/>	<hr/>
Cash flows from financing activities			
Borrowings		366,556	-
Repayment of borrowings	26	(67,606)	(43,365)
		<hr/>	<hr/>
Net cash from financing activities		298,950	(43,365)
		<hr/>	<hr/>
Net increase/ (decrease) in cash and cash equivalents		133,477	264,650
At start of year		(87,643)	(352,293)
		<hr/>	<hr/>
At end of year	18	45,834	(87,643)
		<hr/> <hr/>	<hr/> <hr/>

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 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Going Concern

The Company made a loss after tax of Shs 296,782,000 (2016: Shs 770,341,000) during the year which was added to accumulated losses totaling Shs 1,198,394,000 (2016: Shs 1,005,122,000). In addition, the Company was in a net current liability position of Shs 1,822,397,000 (2016: Shs 2,299,796). The amounts that had become due for repayment on the Commodities fund (SDF) Loan as at year end were not settled. Management has put in place the following to address the situation:

- The company has a 12 months renewable overdraft facility of Shs 300 million from Co-op Bank to finance working capital due for renewal in November 2017
- The company also has a Letter of Credit facility from Co-op Bank for up to Shs 52.5 million.
- The Company is planning a major factory rehabilitation in December 2017 to boost factory performance.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted

Amendment to IAS 16 and IAS 41 IAS 41 Agriculture now distinguishes between bearer plants and other biological asset. Bearer plants must be accounted for as property plant and equipment and measured either at cost or revalued amounts, less accumulated depreciation and impairment losses.

A bearer plant is defined as a living plant that:

- is used in the production or supply of agricultural produce
- is expected to bear produce for more than one period, and
- has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Agricultural produce growing on bearer plants remains within the scope of IAS 41 and is measured at fair value less costs to sell with changes recognised in profit or loss as the produce grows.

The Company has applied the amendment and there has been significant impact on the company's financial statements. The company's roots of sugarcane qualify as bearer plants under the new definition in IAS 41. For more information about the change in accounting policy for the bearer plants refer to note 16.

Amendments to IAS 1, 'presentation of Financial Statements' The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.
- According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Annual Improvements to IFRSs 2012-2014 Cycle The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de-recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted

Amendment s to IAS 16 and IAS 38 The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

Clarification of Acceptable Methods of Depreciation and Amortisation IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either:

- The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

As these amendments merely clarify the existing requirements, they do not affect the company's accounting policies or any of the disclosures.

New standards, amendments and interpretations not yet effective and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, 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', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The amendment is not expected to have significant impact on the company's financial statements.

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures

New standards, amendments and interpretations not yet effective and not early adopted (continued)

IFRS 15 Revenue from Contracts with Customers The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 Revenue from Contracts with Customers which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Key changes to the current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licences, warranties, non-refundable upfront fees and, consignment arrangements, to name just a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The new standard is effective for annual periods beginning on or after 1 January 2018. The directors do not anticipate the standard to have a significant impact on the company

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures

New standards, amendments and interpretations not yet effective and not early adopted (continued)

IFRS 16 IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

'Leases'

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

The directors do not anticipate the standard to have a significant impact on the company.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(c) Revenue recognition

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment

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

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

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

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

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

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 15 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

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Impairment of non-financial assets

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

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

(f) Inventories

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

(g) Trade receivables

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

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

(h) Trade payables

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

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

(i) Share capital

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

(j) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(k) Employee benefits

(i) Retirement benefit obligations

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

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

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.

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.

(l) Current and deferred income tax

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Current and deferred income tax (continued)

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

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

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

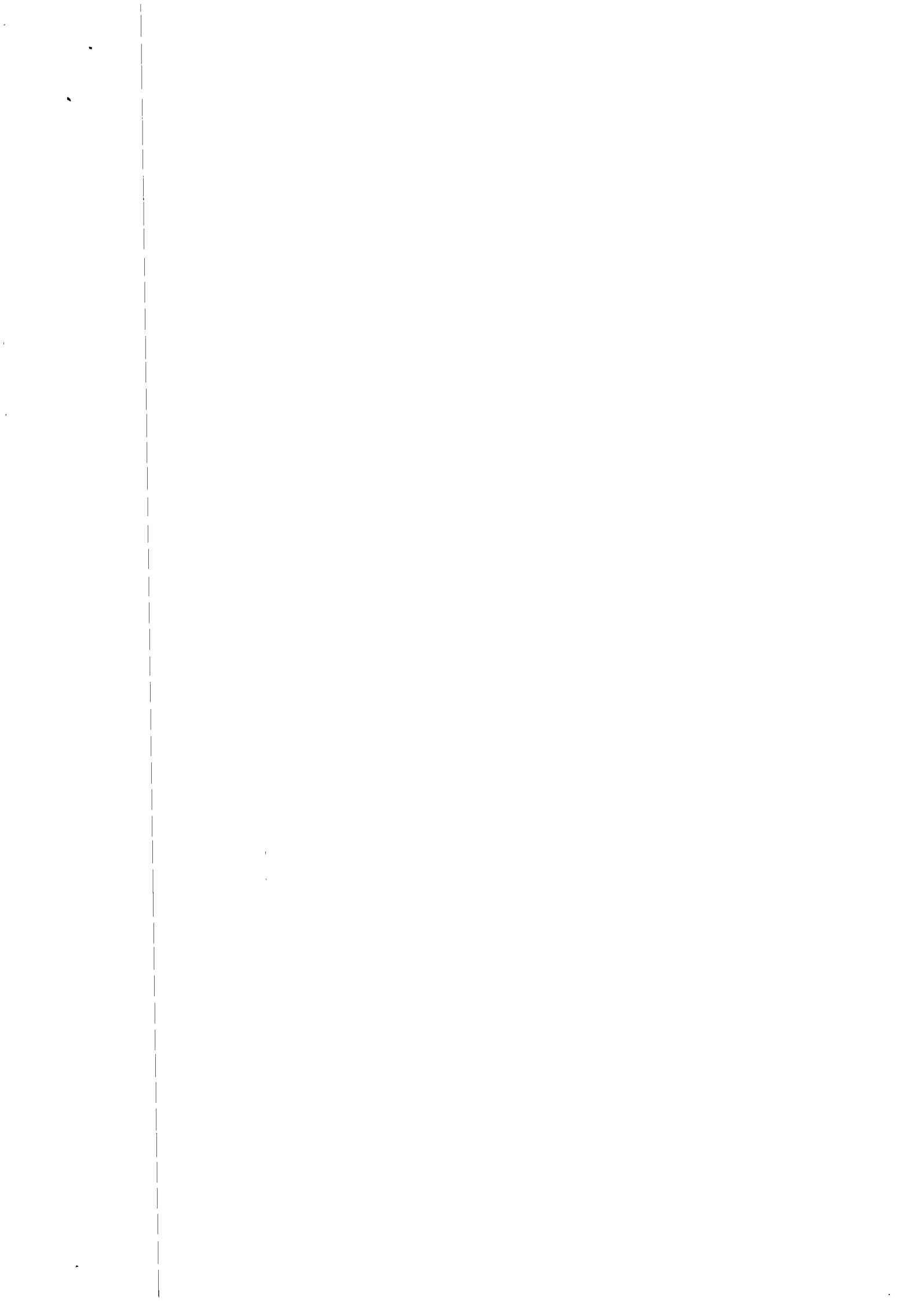
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable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

(m) Borrowings

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

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

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



Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Provisions

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

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

(o) Grants

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

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

(p) Leases

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

3 Critical accounting estimates and 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.

(i) Critical accounting estimates and assumptions

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

Biological assets

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

Notes (continued)

3 Critical accounting estimates and judgments (continued)

(i) Critical accounting estimates and assumptions (continued)

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.

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.

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

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

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

4 Financial risk management

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

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

Notes (continued)

4 Financial risk management (continued)

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 2017, if the Kenyan Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 127,654 (2016: Shs 296,858) higher/lower.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

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

At 30 June 2017 and 30 June 2016, the Company did not have any borrowings at variable rates.

(iv) Credit risk

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

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

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

Notes (continued)

4 Financial risk management (continued)

(iv) Credit risk (continued)

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2017 is made up as follows:

	2017	2016
	Shs'000	Shs'000
Cash at bank (Note 20)	347,877	165,770
Trade receivables (Note 18)	882	26,188
Receivable from out-growers (Note 19)	234,613	134,524
Other receivables	35,340	71,882
	<hr/>	<hr/>
	618,712	398,364
	<hr/>	<hr/>

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:

	2017	2016
	Shs'000	Shs'000
Past due but not impaired:		
- by up to 30 days	1,669	14,534
- by 31 to 60 days	541	9,681
	<hr/>	<hr/>
Total past due but not impaired	2,210	24,215
	<hr/>	<hr/>
Total receivables:		
Carrying amount before provision for impairment loss	1,307,061	1,261,688
Provision for impairment loss	(1,036,227)	(1,029,094)
	<hr/>	<hr/>
Net carrying amount	270,834	232,594
	<hr/>	<hr/>

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

Notes (continued)

4 Financial risk management (continued)

(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 2017:			
Liabilities			
- borrowings	1,496,274	366,556	1,862,830
- trade and other payables	1,947,486	-	1,947,486
<hr/>			
Total financial liabilities (contractual maturity dates)	3,443,760	366,556	3,810,316
<hr/>			
At 30 June 2016:			
Liabilities			
- borrowings	1,515,250	-	1,515,250
- trade and other payables	2,173,675	-	2,173,675
<hr/>			
Total financial liabilities (contractual maturity dates)	3,688,925	-	3,688,925
<hr/>			

Notes (continued)

4 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.

	2017 Shs'000	2016 Shs'000
Total borrowings	1,862,830	1,515,250
Less: cash and cash equivalents	(347,877)	(165,770)
	<hr/>	<hr/>
Net debt	1,514,953	1,349,480
Total equity	439,635	708,557
	<hr/>	<hr/>
Total capital	1,954,588	2,058,037
	<hr/>	<hr/>
Gearing ratio	78%	66%
	<hr/> <hr/>	<hr/> <hr/>

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

5 Revenue	2017	2016
	Shs'000	Shs'000
Analysis of revenue by category:		
Sugar Sales	4,829,646	4,689,240
Molasses Sales	167,021	66,400
	<u>4,996,667</u>	<u>4,755,640</u>
6 Cost of Sales		
Cost of cane	2,080,961	2,331,071
Agriculture: Overheads	527,999	479,199
Agriculture: Depreciation	155,611	154,231
Manufacturing: Costs	879,754	841,150
Manufacturing: Depreciation	266,613	255,188
	<u>3,910,938</u>	<u>4,060,839</u>
7 Other income		
Interest on receivables from Outgrowers	25,609	32,020
Gain/(loss) on disposal of fixed assets	1,830	(5,741)
Miscellaneous income	1,080	1,736
	<u>28,519</u>	<u>28,015</u>
8 Distribution expenses		
Marketing/advertisements	6,661	9,134
Production distribution	49,519	51,608
	<u>56,180</u>	<u>60,742</u>

***South Nyanza Sugar Company Limited**
Financial Statements
For the year ended 30 June 2017

Notes (continued)

9	Administrative expenses	2017 Shs'000	2016 Shs'000
	Staff costs(Administrative departments)	488,585	603,562
	Provision for tax penalties and legal cases	108,413	324,615
	Rates, Levies and insurance	264,158	194,650
	Depreciation(Administrative)	129,451	130,071
	Travel and accommodation	53,907	36,110
	Ground maintainance & waste management	45,505	24,840
	Mobile Equipment usage expenses	28,337	23,933
	Board & Directors costs	41,716	23,423
	Spares & Consumables	35,504	22,997
	Audit & Consultancies	10,874	21,240
	Staff Acquisition & Development costs	8,431	14,843
	Utilities	4,456	4,618
	Other administrative costs(Net of recoveries)	30,092	18,177
		1,249,429	1,443,079
10	Finance costs		
	Interest expense-CF(SDF) and GoK loans	59,065	59,668
	Interest expense-bank overdraft	50,184	44,728
		109,249	104,396
11	Employee benefits expense		
	Salaries and wages	1,260,069	1,298,726
	Retirement benefits costs:		
	- Defined contribution scheme	111,971	96,271
	- Gratuity current service cost	74,383	74,529
	- National Social Security Funds	2,384	2,556
		1,448,807	1,472,082
12	Income tax credit		
	Deferred income tax (Note 24)	19,170	(170,257)
	Deferred tax asset/ (liability) not recognised	(19,170)	61,959
		-	(108,298)

Notes (continued)

12 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:

	2017	2016
	Shs'000	Shs'000
Loss before income tax	(296,782)	(878,639)
Tax calculated at the statutory income tax rate of 30% (2016 - 30%)	(89,034)	(263,592)
Tax effect of:		
Expenses not deductible for tax purposes	14,301	93,723
Under provision of deferred income tax in prior year	31,944	(388)
Deferred income tax asset not recognised	42,789	61,959
	<hr/>	<hr/>
Income tax expense	-	(108,298)
	<hr/>	<hr/>

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

13 Property, plant and equipment

	Leasehold Land	Building	Plant and machinery	Trailers, tractors and motor vehicles	Office and other equipment	Roads and fencing	Work in progress	Bearer plants	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2016									
Opening net book amount	604,740	600,445	1,464,861	474,450	148,482	92,529	340,358	17,573	3,743,438
Additions	-	-	32,727	28,147	20,179	144	49,944	10,287	141,428
Transfers	-	650	311,687	-	-	18,344	(330,681)	-	-
Disposals (net)	-	(7,380)	-	(185)	-	-	-	-	(7,565)
Depreciation charge	(6,414)	(27,974)	(237,839)	(154,046)	(55,358)	(5,023)	-	(5,572)	(492,226)
Closing net book amount	598,326	565,741	1,571,436	348,366	113,303	105,994	59,621	22,288	3,385,075
At 30 June 2016									
Cost or valuation	677,675	1,116,887	4,384,028	1,680,801	392,177	194,463	59,621	56,928	8,562,580
Accumulated depreciation	(79,349)	(551,146)	(2,812,592)	(1,332,435)	(278,874)	(88,469)	-	(34,640)	(5,177,505)
Net book amount	598,326	565,741	1,571,436	348,366	113,303	105,994	59,621	22,288	3,385,075

The company has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 July 2015, refer to Note 16 for further information.

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

13 Property, plant and equipment (continued)

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

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

Notes (continued)

13 Property, plant and equipment (continued)

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

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

	2017 Shs'000	2016 Shs'000
Cost	4,256,095	4,224,110
Accumulated depreciation	(3,387,868)	(3,138,797)
Net book amount	868,227	1,085,313

Bank borrowings are secured on properties to the value of Shs 2,895,808,000 (2016: Shs 3,350,772).

14 Intangible assets

	Software Shs'000	WIP Shs'000	Totals Shs'000
Year ended 30 June 2016			
Opening net book value	204,801	-	204,801
Additions	-	5,195	5,195
Transfers	-	-	-
Amortisation charge	(51,200)	-	(51,200)
Closing net book amount	153,601	5,195	158,796
At 30 June 2016			
Cost	256,001	5,195	261,196
Accumulated amortization	(102,400)	-	(102,400)
Net book amount	153,601	5,195	158,796

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

14 Intangible assets (continued)

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

15 Biological assets

Year ended 30 June 2016	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
At the start of the year			
- as previously reported	639,710	1,792	641,502
- Impact of amended IAS 41 and IAS 16	(46,642)	-	(46,642)
- as restated	593,068	1,792	594,860
Additions at cost	144,271	-	144,271
Decrease due to harvest	(162,453)	-	(162,453)
(Losses)/ gains arising from changes in fair value less costs to sell of biological assets	6,973	(211)	6,762
At end of year	581,859	1,581	583,440
Year ended 30 June 2017			
At start of year			
- as previously reported	638,788	1,581	640,369
- Impact of amended IAS 41 and IAS 16	(56,929)	-	(56,929)
- as restated	581,859	1,581	583,440
Additions at cost	186,380	-	186,380
Decrease due to harvest	(219,593)	-	(219,593)
(Losses)/ gains arising from changes in fair value less costs to sell of biological assets	3,607	221	3,828
At end of year	552,253	1,802	554,055

Notes (continued)

15 Biological assets (continued)

The key assumptions made concerning the future are as follows:

- The valuation is based on a market price of Shs 126,362 per ton of sugar (2016: Shs 89,137).
- Estimated average cane yield 75tch for plant crop & 65tch for Ratoon (2016: 78tch)
- Estimated average tonnage for cane above 6 months 71,246 tons (2016: 136,466 tons)
- Cane at the age of six months and below has no reliably determinable market value and has been stated at cost excluding the cost of roots which has been accounted for as bearer plants. Mature cane has been stated at fair value less costs to sell.
- The estimated sucrose content per ton of mature cane (pol value) at various stages of growth will remain constant at between 8.5% and 10.5% depending on the age of the cane across the sugar belt.

The Company had 36 herds of dairy cattle at 30 June 2017 (2016: 28 herds). Two died during the year.

16 Adoption of amended IAS 41 and 16

As explained in note 2, the company has adopted the amendments made to IAS 16 and IAS 41 in relation to bearer plants. These amendments have resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

Bearer plants

In June 2014, the IASB made amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture which distinguish bearer plants from other biological assets. Bearer plants are solely used to grow produce over their productive lives and are seen to be similar to an item of machinery. They will therefore now be accounted for under IAS 16. However, agricultural produce growing on bearer plants will remain within the scope of IAS 41 and continue to be measured at fair value less cost to sell.

The company's roots of sugar cane qualify as bearer plants under the new definition in IAS 41. As required under IAS 8, the change in accounting policy has been applied retrospectively. As a consequence, the roots were reclassified to property, plant and equipment effective 1 July 2015 and comparative figures have been restated accordingly.

The roots are now measured at cost and depreciated over their useful life which is estimated to be 6 years.

Impact on financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the change have not been included.

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

16 Change in accounting policy in these financial statements (continued)

Impact on the statement of financial position and statement of profit or loss

	Biological assets Shs'000	PPE Shs'000	Accumulated losses Shs'000	Loss before income tax Shs'000
At 30 June 2015				
As previously stated	641,502	3,725,865	296,115	1,154,275
Transfer of bearer plants	(46,642)	17,573	29,069	29,069
As restated	594,860	3,743,438	325,184	1,183,344
At 30 June 2016				
As previously stated	640,369	3,362,787	970,481	873,067
- Impact of amended IAS41 and IAS 16 amendment for the year 2015	(46,642)	17,573	29,069	-
- Impact of amended IAS41 and IAS 16 amendment for the year 2016	(10,287)	4,715	5,572	5,572
As restated	583,440	3,385,075	1,005,122	878,639

17 Inventories

	2017 Shs'000	2016 Shs'000
Factory and agriculture spares	230,291	101,915
General consumables	118,357	231,971
	348,648	333,886
Finished goods(sugar & molasses)	36,068	21,311
Sugar in process	29,759	32,544
Raw material cane on yard	355	3,117
Goods in transit	28,116	11,098
	442,946	401,956

Factory & Agriculture spare parts are carried net of provision for obsolete inventories of Shs 137,575,000 (2016. Shs 137,575,000)

South Nyanza Sugar Company Limited
 Financial Statements
 For the year ended 30 June 2017

Notes (continued)

18 Trade and other receivables

	2017	2016
	Shs'000	Shs'000
Trade receivables	33,915	56,710
Less: provision for impairment losses	(33,033)	(30,522)
	<hr/>	<hr/>
Net trade receivables	882	26,188
	<hr/>	<hr/>
Other receivables and prepayments	208,692	196,801
Less: provision for impairment losses	(173,352)	(124,919)
	<hr/>	<hr/>
Net other receivables and prepayments	35,340	71,882
	<hr/>	<hr/>
	36,222	98,070
	<hr/> <hr/>	<hr/> <hr/>

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

	2017	2016
	Shs'000	Shs'000
At start of year	155,441	119,655
Provision in the year	50,943	35,786
	<hr/>	<hr/>
At end of year	206,384	155,441
	<hr/> <hr/>	<hr/> <hr/>

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

19 Receivables from outgrowers

	2017	2016
	Shs'000	Shs'000
Billable inputs and services	835,247	767,153
Unbilled services	67,778	67,778
Accrued interest on land development	161,431	173,247
	<hr/>	<hr/>
Gross receivables from Outgrowers	1,064,456	1,008,178
Less: provision for impairment losses	(829,843)	(873,654)
	<hr/>	<hr/>
	234,613	134,524
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

19 Receivables from Outgrowers (continued)

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

	2017 Shs'000	2016 Shs'000
At start of year	873,653	769,303
(Write back of)/ additional provision in the year	(43,810)	104,351
	<hr/>	<hr/>
At end of year	829,843	873,654
	<hr/>	<hr/>

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

20 Cash and bank balances

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

	2017 Shs'000	2016 Shs'000
Cash and bank balances	347,877	165,770
Bank overdrafts (Note 26)	(302,043)	(253,413)
	<hr/>	<hr/>
	45,834	(87,643)
	<hr/>	<hr/>

Cash at Bank and in Hand

	2017 Shs'000	2016 Shs'000
Petty cash account -Kisumu	139	106
Petty cash account -Nairobi	170	29
Lipa na Mpesa Paybill	9,887	-
Barclays Bank of Kenya-Kisii – Acct 0081222509	5,530	3,608
Co-operative Bank-Migori- Acct 01136204628700	(302,043)	(253,413)
Kenya Commercial Bank-Migori- Acct 1106321308	50,061	38,763
National Bank of Kenya Awendo- Acct 01001045348700	24,412	32,419
Co-operative Bank Capex-Migori-Acct 01136204628701	24,941	31,345
Co-op Bank –VAT/SDL –Rongo- Acct 01136204628702	13,829	48,054
Co-operative Bank-Farmers-Rongo- Acct 01136204628703	10,725	11,446
NBK project account-Acct 01001045348702	208,183	-
	<hr/>	<hr/>
	45,834	(87,643)
	<hr/>	<hr/>

South Nyanza Sugar Company Limited
 Financial Statements
 For the year ended 30 June 2017

Notes (continued)

21 Share capital	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2016 and 30 June 2017	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:	2017 Shs'000	2016 Shs'000
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	<u>353,970</u>	<u>353,970</u>

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 2016	Shs'000
At start of year	1,464,851
Transfer of excess depreciation	(129,147)
Deferred income tax on transfer of excess depreciation	38,744
At end of year	<u>1,374,448</u>
Year ended 30 June 2017	Shs'000
At start of year	1,374,448
Transfer of excess depreciation	(147,871)
Deferred income tax on transfer of excess depreciation	44,361
At end of year	<u>1,270,938</u>

Notes (continued)

23 Grants

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

	2017 Shs'000	2016 Shs'000
At start of year	85,381	103,556
Amortisation charge	(4,330)	(18,175)
	<hr/>	<hr/>
At end of year	81,051	85,381
	<hr/>	<hr/>

24 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%). The gross movement on the deferred income tax account is as follows:

	2017 Shs'000	2016 Shs'000
At start of year	-	113,442
Credit to income statement (Note 12)	(19,170)	(170,257)
Credit to other comprehensive income	(11,940)	(5,144)
Deferred income tax not recognized	43,050	61,959
	<hr/>	<hr/>
At end of year	11,940	-
	<hr/>	<hr/>

South Nyanza Sugar Company Limited
 Financial Statements
 For the year ended 30 June 2017

Notes (continued)

24 Deferred income tax (continued)

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

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

24 Deferred income tax (continued)

Year ended 30 June 2016	1 July 2015	Charged/ (credited) to P/L	Charged to equity	30 June 2016
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	232,130	41,515	-	273,645
- on revaluation surplus	568,181	(38,744)	-	529,437
Biological assets	191,913	197	-	192,110
	992,224	2,968	-	995,192
Deferred income tax assets				
Other temporary differences	(409,106)	(90,831)	-	(499,937)
Post-employment benefit obligation	(130,823)	926	(5,144)	(135,041)
Tax losses	(338,853)	(83,320)	-	(422,173)
	(878,782)	(173,225)	(5,144)	(1,057,151)
Net deferred income tax liability	113,442	(170,257)	(5,144)	(61,959)
Deferred income tax asset not recognised	-	61,959	-	61,959
Final deferred income tax	113,442	(108,298)	(5,144)	-

25 Trade and other payables

	2017 Shs'000	2016 Shs'000
Trade payables	181,005	190,512
Customer payments in advance	18,267	62,933
Other payables and accrued expenses	1,748,214	1,920,230
	1,947,486	2,173,675

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

26 Borrowings

	2017 Shs'000	2016 Shs'000
Commodities fund (SDF) loan	814,840	540,230
Government of Kenya (GOK/ODA)	745,947	721,607
Bank overdraft	302,043	253,413
	1,862,830	1,515,250

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

26 Borrowings (continued)

i) Maturity analysis	2017 Shs'000	2016 Shs'000
Non-current		
Commodities fund (SDF) loan	366,556	-
Current		
Commodities fund (SDF) loan	448,284	540,230
Government of Kenya (GOK/ODA)	745,947	721,607
	1,194,231	1,261,837
Bank overdraft	302,043	253,413
Total borrowings	1,862,830	1,515,250

- The company has an overdraft facility of Shs 300 million from Co-op Bank for a tenure of 12 months renewable at a rate of 14% per annum.
- Commodities Fund loans of Shs 373,000,465 and 24,283,233 at interest rates of 5% and 4% respectively had fallen due for payment at 30 June 2017.
- Commodities Fund loan of Shs 51,000,000 had fallen due for payment at 30 June 2017.
- GOK loans of Shs 211,118,750 had fallen due for payment at 30 June 2017. Interest payable @ 11% p.a.
- GOK/ODA of Shs 534,828,332 had fallen due for payment at 30 June 2017. Interest payable @ 12% p.a.
- Shs 335,000,000 was received from Commodities Fund in the year ended 2017 towards factory rehabilitation. Interest rate 5% p.a.
- A short term loan of Shs 102.4M from KCB to finance premiums was fully paid at year end.

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

Loans movement

	G.o.K Kshs '000	G.o.K/ODA Kshs '000	CF Kshs '000	KCB Kshs000	Total Kshs '000
Loan bal. 30.06.2016	204,959	516,64	540,231	0	1,261,838
Additions	0	0	335,000	102,456	437,456
Accruals	6,160	18,180	29,609	3,439	57,388
Repayment	0	0	(90,000)	(105,895)	(195,895)
Net movement	6,160	18,180	274,609	-	298,949
Loan bal. 30.06.2017	211,119	534,828	814,840	-	1,560,787

South Nyanza Sugar Company Limited
Financial Statements
For the year ended 30 June 2017

Notes (continued)

27 Cash generated from operations	2017	2016
	Shs'000	Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Loss before income tax	(296,782)	(878,639)
Adjustments for:		
Interest income (Note 7)	(25,609)	(32,020)
Interest expense (Note 10)	109,249	104,396
(Gain)/loss on disposals of property plant & equipment	(1,830)	5,741
Changes in biological assets (Note 15)	3,828	6,762
Depreciation of property, plant and plant (Note 13)	496,942	492,226
Amortisation of intangible assets (note 14)	51,202	51,200
Grant amortization (Note 23)	(4,330)	(18,175)
Post-employment benefit obligation	33,750	3,208
Changes in working capital:		
- Inventories	(40,990)	39,548
- Trade and other receivables	61,848	1,380
- Outgrowers' balances	(100,089)	253,079
- Trade and other payables	(226,189)	498,121
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Cash generated from operations	61,000	526,827
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28 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:

	2017	2016
	Shs'000	Shs'000
Present value of unfunded obligations	418,811	450,137
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