

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NZOIA SUGAR COMPANY**

**FOR THE YEAR ENDED
30 JUNE 2014**



NZOIA SUGAR COMPANY LIMITED

**ANNUAL REPORTS AND
FINANCIAL STATEMENTS**

30 JUNE 2014

NZOIA SUGAR COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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NZOIA SUGAR COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Abiud Wasike Simiyu - Chairman Saul S. Wasilwa - Managing Director James Karanja - IDB Capital Frederic Thrum - FCB Siega Social Cabinet Secretary - Treasury Principal Secretary - Agriculture Roselinder Simiyu
COMPANY SECRETARY	Benson Khwatenge (CPS) P O Box 285 Bungoma
REGISTERED OFFICE	Nzoia Sugar Company Limited Off Webuye – Malaba Road 5 kms from Bukembe Junction P O Box 285-00100 Bungoma
PRINCIPAL AUDITORS	The Auditor General P O Box 30084 - 00100 Nairobi
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki way, Muthangari P O Box 40092 – 00100 Nairobi
BANKERS	National Bank of Kenya Limited Bungoma Branch P O Box 25 – 50200 Bungoma The Co-operative Bank of Kenya Limited Bungoma Branch P O Box 1964 – 50200 Bungoma Kenya Commercial Bank Limited Bungoma Branch P O Box 380 – 50200 Bungoma
ADVOCATES	Olotch & Company Advocates P O Box 7146 – 00100 Nairobi Buluma & Company Advocates P O Box 6152 – 30100 Eldoret Wekesa & Simiyu Advocates P O Box 10299 – 00100 Nairobi

NZOIA SUGAR COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2014

The directors present their report together with the audited financial statements of Nzoia Sugar Company Limited (the "company") for the year ended 30 June 2014, which shows its state of affairs.

PRINCIPAL ACTIVITIES

The principal activities of the company are the production and sale of sugar.

RESULTS

	Shs'000
Loss before taxation	(2,564,834)
Taxation credit	498,900
	<hr/>
Loss for the year	(2,065,934)
	<hr/> <hr/>

DIVIDENDS

The directors do not recommend a dividend in respect of the year (2013 – Shs Nil).

PRODUCTION

The following are the comparative statistics of cane processed and sugar production for the last five years:

	Sugar bagged (Tonnes)	Cane milled (Tonnes)	Outturn
2014	49,648	596,186	8.3
2013	55,535	680,364	8.2
2012	64,669	690,998	9.4
2010	61,886	652,170	9.5
2009	65,859	654,597	10.1
2008	68,254	679,568	10.0
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The reduction in sugar bagged compared to cane milled is as a result of crushing immature cane, which has a lower sucrose yield.

DIRECTORS

The current directors of the company are listed on page 2.

NZOIA SUGAR COMPANY LIMITED

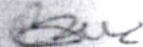
REPORT OF THE DIRECTORS (Continued)

AUDITORS

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

Deloitte & Touche, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 30 June 2014.

BY ORDER OF THE BOARD


Secretary

Bugoma

24 April 2015

NZOIA SUGAR COMPANY LIMITED

CHAIRMAN'S STATEMENT

On behalf of the board of directors and management of the company allow me to present to you the Annual report on the business and operations of the company and financial results for the year ended 30 June 2014. Unlike the previous years, the results for this year are negative due to various challenges the sugar industry in Kenya has been experiencing the company included. I urge you esteemed shareholders to receive the results objectively. The Board is working with management to ensure that the company bounces back to profitability.

Sugar Market Outlook

United States – Production is forecast unchanged from last year at 7.7metric tons. Consumption continues to rise.

Brazil- Production is forecast to ease 1.0metric tons to 36.8 metric tons as drought conditions lower yield. Consumption is expected to increase slightly reflecting population growth and expansion in the food processing sector. Exports are forecast down 1.0 million tons to 25.3 million.

Thailand – Production is projected to decline by 400,000 tons as yields return to normal, more than offsetting an increase in area. Consumption continues to trend higher, driven by rising household and industrial use.

India – Production is expected to increase nearly 900,000 tons to 27.9 million tonnes due to increased yield as consumption is forecast to continue rising. Exports are forecast to fall to 1.5metric tons to meet domestic demand.

European Union- Production is forecast at 16.3 million tons up 200,000 on both increased sugar belt area and yield. Consumption continues to trend higher.

China – Production is projected at 13.7 million tons, down 600,000 on lower yield. Rising consumption, which outpaces production, and lower imports are expected to drawdown stocks.

Production

	2013/14 (million tons)	2014/15 (million tons)
Production	175,703	175,589
Consumption	167,486	170,528
Stocks	45,515	44,441

Source: <http://www.fas.usda.Foreign Agriculture Service>

Dividends

Due to poor performance in year under review the Directors do not recommend the payment of dividends.

Future Outlook

Nzoia Sugar Company is a strong company. The board is making every effort to address issue of cane supply, cane yield and production volumes. Market positioning, diversification and efficiency will be key drivers in coming years as other opportunities are being explored.

The board will continually review the various business strategies in place to ensure sustained business profitability and growth. The board thanks the various stakeholders for the business support and hope they will support the company especially in the impending diversification and privatization.

NZOIA SUGAR COMPANY LIMITED

MANAGING DIRECTOR'S REPORT

On behalf of management, I take the pleasure in presenting to you the financial results for the year ended 30 June 2014. The year under review has been quite challenging due to strained cash flows as a result of continued influx of cheap illegal sugar (causing sugar prices to drop to a low of Sh 3,066 per 50 kilo bag net of taxes) and low production volumes caused by scarcity of mature cane. Despite the challenges, management has put in place stringent cost control measures and improved factory efficiency for business continuity.

Market Overview

International Market

World sugar production for the fourth consecutive season recorded a net surplus in 2013/14 despite witnessing the first fall in the sugar output after 2008/09. Adverse weather conditions in Brazil helped check an otherwise unabated rise in world production.

Sugar production for 2013/2014 year stood at 181.8 million tons of sugar as compared to consumption of 179.8 million tons. Stock piles stood at 45 million tons of sugar as at the end of June 2014.

Global Sugar averaged USD 490 per tonne (Sh 43,610 per ton). The lower prices of world market sugar were due to surplus production in India, Brazil, China and Thailand. This surplus sugar found its way to COMESA countries; Kenya included.

Source: June 2014 Report of European Committee for the common organization of agricultural markets.

Low global sugar prices continue to stress the financial health of the sugar industry and the outlook for earnings still remains difficult in 2014/2015. The largest change predicted by USDA in the 2014/2015 year is growth in world sugar consumption by over 2.5 million metric tons. World production is shown lower, while expansion in consumption drew down the stocks built up from the previous 2 years. Brazilian sugar production is expected to fall by 700,000 tonnes to 37.0m tonnes in 2014-15 - pegging shipments from the top exporting country at 25.5m tonnes.

World exports are projected in 2014/15 to be at about the same level as in 2013/14, or 55.24 million Metric Tons Raw Value (MTRV). Exports from Brazil in 2014/15 are expected at 25.50 million MTRV, a reduction of about 3.6 percent from 2013/14.

Source: <http://www.fas.usda.gov/data/sugar-world-markets-and-trade>

Local Market

COMESA safeguards were extended for another one year and are set to expire in March 2015. Currently, Kenya is allowed to cap sugar imports from the 19 COMESA countries, an agreement that was first enforced in March 2002. This was intended to help the sub-sector lower its production costs to levels that would see local produce compete against cheaper sugar from the trading bloc.

The Agriculture Food and Fisheries Authority expects Kenya's sugar production to climb by 17 per cent to 700,000 tonnes this year, on the back of improved cane supply and higher factory capacity. It estimates the cost of producing a tonne of sugar in western Kenya to be about Sh49,500. Other COMESA countries' production costs range between Sh20,800 and Sh25,200. However, millers are trying to change this through diversification and introduction of early maturing varieties to improve yields.

The government through the Privatization Commission is yet to conclude the sale of five government owned sugar factories. Currently the sugar industry is ailing as a result of constrained cash flows due to lack of market brought about by the cheap illegal imports.

The Company's weighted raw cane price averaged Sh 3,526 per metric ton (gross of taxes) in year under review. It milled and bagged 596,186 and 49,648 metric tons of cane and sugar respectively compared to cane milled and sugar bagged of 680,364 and 55,535 respectively in the same period last year.

MANAGING DIRECTOR'S REPORT (Continued)

The low production is attributed to among others delay in annual maintenance that lasted two and half months, milling of immature cane and running the factory for one and half years without maintenance.

Economic Review

The World Bank has projected that the Kenyan economy will grow by a modest 4.7 percent in 2014 a downward revision of the country's economic forecast by the government which had put its projection at 5.8 percent. The bank has attributed the forecast to drought, insecurity, weak budget execution and tighter global credit.

Inflation rose to a seven-month high in June 2014 to 7.39 percent, raising the prospect of increase in interest rates. The cost of living measure, which rose for the fourth month in a row, crept up from 7.30 percent in May on rising food, electricity and transport expenses, putting macroeconomic stability, private investment, and projected growth at risk. Kenya's coffee and tea exports have been hit by acute price declines while tourism is at its record low.

Financial Performance

Total turnover for the year was Sh 3.2 billion (2013- Sh 4.7 billion) compared to budget of Sh 6 billion. This represents a decline of 47 percent against last year's turnover. The depressed sales are mainly as a result of low sugar prices in the market and low production volumes caused by milling of immature cane with low pol%. The company made negative earnings before tax of Sh 2.6 billion (2013- Sh 1.4 billion loss). Budgeted earnings before interest and tax was Sh 499 million.

Milestones for 2013-2014 are as follows;

- Successfully completed the Annual maintenance which was done in April/May.
- Procurement of syrup clarifier and 3rd packaging machine. This will improve the colour of sugar and expand the branded sugar market.
- Rehabilitation of cane carrier elevator that was successfully commissioned during annual maintenance.
- Successfully commissioned Boilers I and II after rehabilitation. This has since improved steam generation by 40%.
- Installation of 4 MW generator to improve on power supply in factory.
- Continued to maintain feeder roads and construction of culverts in the out growers zones and nucleus estate.
- Continued to increase market visibility of our brand through major retail chains in the country by procurement of 10ton delivery lorry for transport.
- Installation and commissioning of spray pond water system that has improved the sugar recovery process. This has improved vacuum from 15inch mercury to 22inch mercury.
- Installation of 2nd new dryer and evaporators to reduce lead time on weekly maintenance.

Challenges for the period under review were as follows;

- Milled 596,186 tons (2013 – 680,364) of sugar cane. This was 14% lower than the same period last year. During the period, the company bagged 49,648 tons of sugar (2013 – 55,535) tons of sugar. This was 12% lower than that produced the same period last year. This was due to long stoppage for annual maintenance, unavailability of mature cane, worn out factory machinery parts and low efficiency.
- Influx of cheap imported sugar causing decline in prices of sugar that has affected cash-flows and payment of our farmers and suppliers.
- High cost of production.
- Decline in cane yields.
- Cost of cane remained high.
- Factory efficiency.

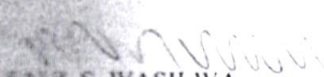
NZOLA SUGAR COMPANY LIMITED

MANAGING DIRECTOR'S REPORT (Continued)

Way Forward

The company plans to counter the various challenges as follows: -

- Enhance austerity measures to cut costs and improve efficiencies.
- Strengthening brand and improve distribution channels.
- Engage regulator to curb illegal sugar imports.
- Improve on crop husbandry and fertilizer regimes.
- Diversification to increase alternative revenue streams.
- Automation of business processes.
- Build on the newly acquired super brand status.
- Staff rationalization to reduce on staff costs


SALL S. WASILWA
MANAGING DIRECTOR

NZOIA SUGAR COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT

Nzoia Sugar Company is established by and derives its authority and accountability from the State Corporations Act Cap 446 and the Company's Act Cap 486 of the laws of Kenya.

The Board of Directors, duly cognizant of its role in safeguarding shareholders' assets and ensuring a suitable return on investment, reaffirms its commitment to upholding policies and strategies that enhance transparency and accountability. The Board has a board charter that outlines the structure, duties, procedure and the standard of service delivery.

The company is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations. The company has a code of ethics which gives senior management the responsibility of ensuring legal and statutory compliance. In addition, the Code deals with situations relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of business.

Corporate Governance

- Consultation between the Chairman of the board, Managing Director and parent ministry were made during the year under review.
- Company had all necessary licenses to operate e.g. Sugar Miller License.
- Key board decisions were forwarded to the parent ministry for necessary approvals before implementation.
- Strategic Plan was reviewed and approved.
- Board charter was in place.
- Board received adequate information in time for decision making and carried out visits to its Nucleus Estate and Outgrowers.
- ISO Audits were successfully carried out in the course of the year under reviews.

NZOIA SUGAR COMPANY LIMITED

SOCIAL RESPONSIBILITY REPORT

We believe that the future success of the company depends on the company focusing on the interests of the primary stakeholders, who include government, customers, suppliers, employees as well as the community. The Company has a corporate social responsibility policy in place.

During financial year 2013/2014, the following projects were undertaken: -

Education

The company has continued to invest in the education sector and this has been underpinned by the recognition that a skilled and high impact talent pool is critical for Kenya's long term economic development. As a demonstration of the commitment to the education sector, the company has partnered with primary and secondary schools in the larger Bungoma County. Some of the beneficiaries of the educational investments in year 2013/2014 include PEFA primary school in Webuye (Sh 53,000) plus 60 iron sheets, Nzoia Girls Secondary School and Nzoia sugar Primary School (60 seater bus).

Healthcare

The company has continued to support the community by offering medical services on an emergency basis to the community including provision of mother to child healthcare services and others medical services from the company clinic. The company has a VCT centre for counselling and testing for HIV/AIDS and this clinic is open to the community. The company also partnered with the Kakimanyi community to put up a modern dispensary during the year 2103/2014.

Infrastructure

A well maintained infrastructure is key to the socio economic development of the region. The company maintained several roads at our out grower areas.

Environmental Sustainability

The company continues to place safety at workplace as its first priority. The company has also conserved the environment by giving out tree seedlings for the community to plant in the annual tree planting exercise and partnered with Bungoma county government in the clean-up exercise for Webuye & Bungoma towns.

Calamities

The company employees donated blood and foodstuffs towards violence victims in Bungoma County. Nzoia Sugar Company has also continuously over the years donated clean drinking water both to the local community.

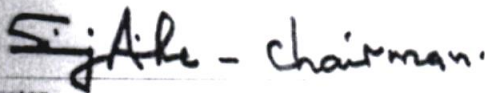
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

As disclosed in note 3 to the financial statements, the directors acknowledge that the company's ability to continue with its operations as a going concern depends on continued financial support from its shareholders. The directors are confident that the company will successfully return to profitable operations in the near future. Accordingly, the directors consider the going concern assumption appropriate.


Director
24.04.2015
2015


Director

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NZOIA SUGAR COMPANY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Nzoia Sugar Company set out on pages 15-50 which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act 2003. 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.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Payables

The Company's payables of Kshs.2,102,774.00 (2013 - Kshs.1,793,911,000) reflected on the statement of financial position as at 30 June 2014 include an amount of Kshs.62,855,000.00 (2013 - Kshs.15,179,000.00) due to the Agriculture Food and Fisheries Authority related to unpaid principal and penalties for Sugar Development Levy. The confirmation from the Agriculture Food and Fisheries Authority shows that the Authority is demanding from the company an amount of Kshs.3,057,532,517.00 (2013 - Kshs.2,764,456,313.00) in principal and penalties. As at the date of audit, management was still in the process of following up with the Agriculture Food and Fisheries Authority to reconcile and agree on the amount due.

As a result, I was unable to satisfy myself on the accuracy and validity of the payables balance and could not determine whether any adjustments might have been found necessary in respect of the recorded payable balances as at 30 June 2014.

2. Property, Plant and Equipment

(i) The Company's property, plant and equipment balance of Kshs.7,495,098,000 as at 30 June 2014 includes a plant with a value of Kshs.2,135,218,000.00 based on a valuation carried out on 30 June 2009 by Metrocosmo Limited. This plant was acquired in the period between the years 1990 to 1993 when the company undertook an expansion of the factory capacity from 3,000 TCD to 7,000 TCD. The expansion programme was not completed and the plant has been lying idle since acquisition and has not generated any income for the company.

In the circumstances, the company should have obtained a current valuation of the plant to ascertain if the plant was impaired. I am therefore not able to determine the accuracy of the plant's carrying value as at 30 June 2014.

(ii) In addition, International Accounting Standard (IAS) 16 on property, plant and equipment requires assets carried at valuation to be revalued regularly at least once within a period of five years. Five years have lapsed since the last valuation carried out by Metrocosmo Limited on 30 June 2009, contravening the requirements of IAS 16. Consequently, it has not been possible to establish the effects on the financial statements for the failure to comply with the requirements of IAS 16.

3. Out-growers (Farmers) Balances

As previously reported, the Company operated two different information systems for the management of farmers records in the out growers and finance departments.

The Ebiz frame system in out growers captures individual farmers' record, Syspro system in finance maintains a control account of the total out grower balances.

The systems are not interfaced though manually done. There is no prompt periodical reconciliation between the two systems and as such weighbridge, outgrowers and financial records are not upto date. Further, interest charged on farmers amounts for advances is computed outside of the system.

In view of the foregoing, the accuracy of the out growers balances; accrued interest and recovery of advances could not be confirmed as correct as at 30 June 2014.

4. Loans

Government of Kenya guaranteed loans stood at Kshs.33,299,872,000.00 as at 30 June 2014 comprising of Principal Kshs.9,969,634.00 and Kshs.23,330,237,680.00 accrued interest.

It is noted that a sessional paper no. 12 of 2012 on write off of excess Government of Kenya debt owed by Sugar Company presented to parliament in 2009 by the Finance Minister indicate a debt of Kshs.21,782,367.00. The figure is much lower than the outstanding loan liability. The Company continues to default on repayments while there is no actionable evidence of write off previously expected from the Government.

In the circumstance, it is not clear how the management intend to address this adverse state of debt.

5. Loan from the Kenya Sugar Board

The company's borrowings held at 30 June 2014 in the statement of financial position include a loan amount of Kshs.2,059,173,000.00 (2013 – Kshs.1,020,137,000.00) due to the Kenya Sugar Board. The recorded loan balance is lower than the amount confirmed of Kshs.3,057,532,517.00 as of the date of audit. Management was still in the process of following up with the Kenya Sugar Board to reconcile the variance.

As a result, I am unable to satisfy myself on the accuracy of the loan balance and could not therefore determine whether any adjustments might have been found necessary in respect of the recorded loan amount as at 30 June 2014.

6. Non-Compliance with Tax rules

During the year, the Company failed to deduct and remit in time tax due thereby accruing penalty in particular PAYE and VAT amounting to Kshs.271,290,142.00 and Kshs.36,908,313.00 which remained outstanding as at 30 June 2014. Further, staff deductions to third parties amounting to Kshs.361,362,781.00 were not remitted.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, financial position of the Company as at 30 June 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

Emphasis of the Matter

I draw attention to note 3 of the financial statements which gives disclosure concerning the going concern basis of the company. At 30 June 2014, the company had a shareholders deficit of Kshs.29,872,239,000.00 (2013 - Kshs.27,823,891,000.00) and current liabilities exceeded current assets by Kshs.35,516,937,000.00 (2013 - Kshs.33,571,562,000.00). Further, the results of the Company continued to decline significantly during the year with a loss of Kshs.2,065,934.00 as at 30 June 2014 (2013 - Kshs.1,323,884.00 Restated) thereby increasing the accumulated loss to Kshs.33,418,436.00 compared to the restated loss of Kshs.31,655,136.00 in 2012/2013.

This situation, along with other matters set forth in note 3, indicates the existence of material uncertainty which may cast doubt on the company's ability to continue as going concern. The financial statements have, however, been prepared on the going concern basis on assumption that it will continue to get financial support from government and creditors.

The Company also operated during the year without a formally approved Board of Directors. The term of the previous Board had expired in December 2012 and replacement had not been made. The Company was therefore hindered in the implementation of strategic decision that requires Board approval.

My opinion is not qualified in respect to this matter.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 June 2015

NZOIA SUGAR COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Shs'000	2013 (restated) Shs'000
Revenue	4	3,190,925	4,708,085
Fair value gain on biological assets	13	156,564	163,017
Operating income		3,347,489	4,871,102
Cost of sales		(3,627,373)	(4,298,042)
Gross (loss)/profit		(279,884)	573,060
Other operating income		83,942	41,162
Marketing and distribution costs		(21,054)	(26,744)
Administrative expenses		(1,619,788)	(1,562,945)
Finance income	5(a)	13,739	35,895
Finance costs	5(b)	(744,789)	(494,987)
Loss before taxation	6	(2,564,834)	(1,434,559)
Taxation credit	8	498,900	110,675
Loss for the year		(2,065,934)	(1,323,884)
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Defined benefit scheme remeasurement gain/(loss)		17,586	(8,934)
Total other comprehensive income/(loss)		17,586	(8,934)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(2,048,348)	(1,332,818)

NIGRA SUGAR COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

		2014	2013	2012
	Note	Shs '000	(restated) Shs '000	(restated) Shs '000
ASSETS				
Non-current assets				
Property, plant and equipment	9	7,495,098	7,664,848	7,964,485
Intangible assets	10	2,734	3,906	6,956
Due from out-growers	11	73,769	85,797	134,839
		7,571,601	7,754,551	8,106,280
Current assets				
Due from out-growers	11	147,538	171,591	269,677
Investments	12	1,084,109	1,354,904	1,057,189
Biological assets	13	535,054	617,490	438,719
Trade and other receivables	14	204,720	178,535	137,384
Defined benefit scheme asset	18(b)	83,924	63,429	69,270
Taxation recoverable	8(c)	822	1,580	2,023
Short term deposits	15	32,821	248,457	432,577
Cash and bank balances		3,316	6,165	571,451
		2,092,304	2,642,151	2,978,290
Total assets		9,663,905	10,396,702	10,997,429
EQUITY AND LIABILITIES				
Equity				
Share capital	16	543,000	543,000	543,000
Retainment surplus		3,003,197	3,288,245	3,588,049
Retained deficit		(33,418,436)	(31,655,136)	(30,622,122)
Shareholders' deficit		(29,872,239)	(27,823,891)	(26,491,073)
Non-current liabilities				
Deferred taxation	17	1,507,139	2,006,880	2,118,095
Borrowings	19(a)	419,764	-	-
		1,926,903	2,006,880	2,118,095
Current liabilities				
Retirement benefits obligations	18(a)	502,325	542,605	499,075
Borrowings	19(a)	34,939,281	33,806,728	33,363,456
Trade and other payables	20	2,102,774	1,793,911	1,477,014
Provision for staff leave pay	21	64,861	70,469	30,862
		37,609,241	36,213,713	35,370,407
Total equity and liabilities		9,663,905	10,396,702	10,997,429

The financial statements on pages 15 to 50 were approved and authorised for issue by the board of directors on 24 April 2015 and were signed on its behalf by

Sij Aibe - chairman.
Director 24/04/2015.

[Signature]
Director

NZOIA SUGAR COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2014

	Share capital Shs'000	Revaluation surplus Shs'000	Retained deficit Shs'000	Total Shs'000
At 1 July 2012				
- As previously stated	543,000	3,588,049	(30,691,392)	(26,560,343)
- Prior year adjustment (note 28(b))	-	-	69,270	69,270
As restated	543,000	3,588,049	(30,622,122)	(26,491,073)
Total comprehensive loss	-	-	(1,332,818)	(1,332,818)
Transfer of excess depreciation	-	(428,292)	428,292	-
Deferred tax on excess depreciation	-	128,488	(128,488)	-
At 30 June 2013	543,000	3,288,245	(31,655,136)	(27,823,891)
At 1 July 2013				
- As previously stated	543,000	3,288,245	(31,718,565)	(27,887,320)
- Prior year adjustment (note 28(b))	-	-	69,270	69,270
- Prior year adjustment (note 28(a))	-	-	(8,934)	(8,934)
- Prior year adjustment (note 28(a))	-	-	3,093	3,093
As restated	543,000	3,288,245	(31,655,136)	(27,823,891)
Total comprehensive loss	-	-	(2,048,348)	(2,048,348)
Transfer of excess depreciation	-	(407,211)	407,211	-
Deferred tax on excess depreciation	-	122,163	(122,163)	-
At 30 June 2014	543,000	3,003,197	(33,418,436)	(29,872,239)

The revaluation surplus represents the net cumulative surplus arising from revaluation of property, plant and equipment net of depreciation and deferred taxation. The revaluation surplus is non-distributable.

NZOIA SUGAR COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

		2014	2013
	Note	Shs'000	(restated) Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	23(a)	(294,466)	(68,240)
Interest received	5(a)	13,739	35,895
Taxation paid	8(c)	(83)	(97)
		<hr/>	<hr/>
Net cash used in operating activities		(280,810)	(32,442)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	9	(395,237)	(346,309)
Proceeds on disposal of fixed assets		-	9,894
Additions to biological assets	13	(349,966)	(328,834)
		<hr/>	<hr/>
Net cash used in investing activities		(745,203)	(665,249)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	19(b)	839,528	-
Loans repaid	19(b)	(32,000)	(51,715)
		<hr/>	<hr/>
Net cash from/(used in) financing activities		807,528	(51,715)
		<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS		(218,485)	(749,406)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		254,622	1,004,028
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23(b)	<u>36,137</u>	<u>254,622</u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
	The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.
New and revised standards on consolidation and joint arrangements, associates and disclosures	In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.
	The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the company does not have any joint arrangements.
IFRS 13 Fair Value Measurement	The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014 (Continued)*

IFRS 13 Fair Value Measurement (Continued)	IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.
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IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)	The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.
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The application of amendments to IAS 1 has not had any material impact since the company has not restated its financial statements.

IAS 19 Employee Benefits (as revised in 2011)	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs.
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NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014 (Continued)*

IAS 19 Employee Benefits (as revised in 2011) (Continued)	All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.
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The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011).

The company recognised all actuarial gains and losses through other comprehensive income in order for the net pension asset recognised in the statement of financial position to reflect the full value of the plan surplus, and restated the comparative amounts on a retrospective basis.

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014
Amendments to IAS 36	1 January 2014
Amendments to IAS 39	1 January 2014

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014*

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

1 ACCOUNTING POLICIES (Continued)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014 (Continued)*

IFRS 9 Financial Instruments

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the company's financial statements as the company does not have any significant assets that have been deemed to be impaired.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014 (Continued)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the company's financial statements as the company does not have any significant financial assets and financial liabilities that qualify for the offset.

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

(iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting as modified to include the revaluation of certain assets. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years and are set out below:

Revenue recognition

(i) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recorded net of estimated customer returns, rebates and other similar allowances. Revenue from the sale of sugar and molasses is recognised when all the following conditions are satisfied and is stated net of Value Added Tax, Sugar Development Levy, excise duty and discounts where applicable:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- Sugar Development Levy does not apply to export sugar and molasses sales. Value Added Tax does not apply to export sugar sales as well as sales to exempted entities.

(ii) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(iii) Other income

All other income earned by the company is recognised on the accruals basis.

Foreign currencies

In preparing the financial statements of the company, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Taxation

Income taxation expense represents the sum of current taxation and deferred taxation.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred income taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income taxation.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. All property, plant and equipment are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and any accumulated impairment losses. Such valuation is carried out at periodic intervals, usually after every five years.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining the profit before taxation. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

The carrying values of property, plant and equipment are reviewed annually and adjusted for impairment where it is considered necessary.

Any revaluation increase arising on the revaluation is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation is calculated on the reducing balance method to write off the cost or the revalued amount of each asset to its estimated residual value over its estimated useful life. The annual rates used are:

Land development	Nil
Buildings	5% - 10%
Factory plant and machinery	10%
Heavy mobile machinery and trailers	15% - 35%
Motor vehicles	25%
Computer systems	30%
Water and electrical installations	15%
Other equipment and fixtures	15%

The annual depreciation on the revaluation surplus element of property, plant and equipment is transferred from the revaluation surplus to retained earnings.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Inventories

Finished sugar and molasses inventories are stated at the lower of production cost and net realisable value. Production cost comprises expenditure directly incurred in the manufacturing process and an allocation of normal production overheads attributable to the process. Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

Spares, fertilisers, chemicals and other consumable stores are stated at cost net of provisions for impairment where applicable. Cost is calculated on the weighted average cost basis and includes the purchase price, import duties and other taxes (other than those subsequently recoverable by the company from the taxation authorities), and transport, handling and other costs directly attributable to the acquisition of the item.

Intangible assets

Computer software costs are recognised as assets and are stated at cost less accumulated amortisation. The costs are amortised on the straight line basis over the expected useful lives not exceeding a period of three years.

Biological assets

Biological assets (cane plantations) and agricultural produce (harvested cane) are stated at their fair values less estimated costs to sale.

The fair value of growing cane is determined based on the present value of expected net cash flows. The fair value of harvested cane is determined based on the prices of cane existing in the market less estimated point of sale costs

Immature growing cane is valued at cost.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

When a lease includes land and buildings elements, the company assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 2 to these financial statements.

The company as lessor

Assets held under finance leases are recognised as assets of the company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit and loss account over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The company as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Financial instruments

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

Financial assets

Classification

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held-to-maturity assets; and, available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable. Bad debts are written off when all reasonable steps to recover them have failed. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in number of delayed payments in the portfolio past average credit period as well as observable changes in national or economic conditions that correlate with default on receivables. The company's trade and other receivables as well as bank balances fall under this category.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available-for-sale. The collateral and the term deposits fall under this category.

Available-for-sale financial assets

This category represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Recognition

Financial assets are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are dealt with in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'. Financial liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of directly attributable transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The company's key other financial liabilities are:

Borrowings

Interest bearing loans are recorded at the proceeds received, net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade and other payables are stated at their nominal value which approximates amortised cost.

Impairment

At the reporting date, the company reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised through profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately through profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Employee benefits

Defined benefit scheme

The company operates a defined benefit post employment scheme for eligible non unionisable employees. The scheme was closed to new entrants with effect from 1 July 2007, following the setting up of a new defined contribution scheme. The assets of the scheme are held and administered independently of the company's assets.

The accrued (past service) liability in respect of each in-service Scheme member is taken as the present value of all benefits accrued as at the reporting date based on Pensionable Service to 30 June 2007 and Pensionable Salary as at 30 June 2007 revalued at 5% per annum compound, subject to a minimum of the accumulated contributions paid by and in respect of each member with interest to the valuation date. The accrued liability in respect of pensioners is taken as the present value of the expected future pension payments. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The net retirement benefit obligation represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Defined contribution schemes

The company operates a defined contribution provident fund for eligible unionisable employees. The fund is administered independently of the company's assets. It is funded by contributions from the company and employees. 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. The company's contributions to the fund are charged to profit or loss in the year to which they relate.

The company and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. The company's obligation is limited to a specified contribution per employee per month. Currently, the contribution is limited to a maximum of Shs 200 per employee per month. The company's contributions are charged through profit or loss in the year to which they relate.

Provision for staff leave pay

A provision is made to recognise staff entitlements in respect of annual leave not taken as at the end of the financial year.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared and appropriately authorized.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods. These are dealt with below:

(i) Critical judgements in applying the company's accounting policies

Held to maturity investments

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these assets to maturity, for example selling a more than insignificant amount close to maturity, it will be required to classify the entire class as available-for-sale. The assets would therefore have to be measured at fair value and not amortised cost with the difference arising from this change in valuation being a corresponding entry to a fair value reserve in shareholders' equity.

Classification of leases of land and buildings as finance or operating leases

At the inception of each lease of land or building, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (Continued)

(ii) Key sources of estimation and uncertainty

Biological assets

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

Property, plant and equipment and intangible assets

Critical estimates are made by the management in determining the useful lives of property, plant and equipment and intangible assets. This is the basis on which the depreciation and amortization rates applied on property, plant and equipment and intangible assets respectively are determined.

Impairment

At the reporting date, the company reviews the carrying amounts of its assets to determine whether there is any objective evidence that those assets have suffered an impairment loss. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Contingent liabilities

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

3 GOING CONCERN

At 30 June 2014, the company had a shareholders' deficit of Shs 29,872,239,000 (2013 - Shs 27,823,891,000) and current liabilities exceeded current assets by Shs 35,516,937,000 (2013 - Shs 33,571,562,000). This situation indicates the existence of a material uncertainty which may cast doubt on the company's ability to continue as a going concern.

The directors have assumed that the Government of Kenya (GOK) and Agriculture Food and Fisheries Authority will not demand for the settlement of the outstanding loan amounts. Should the Government of Kenya and the Agriculture Food and Fisheries Authority demand for the settlement of their net loans, adjustments will be required to restate the assets to their realisable values, to reclassify non current assets and long term liabilities to current liabilities and to provide for any further losses and liabilities that may arise.

As noted in a report presented to parliament, the cabinet has prepared a proposal for the write off of all Government of Kenya loans and accrued interest, taxes and related penalties. There are also plans to privatise the company which will include restructuring of the company and bringing new investors on board.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on the going concern basis.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Shs'000	2013 Shs'000
4	REVENUE ANALYSIS	
	3,844,966	5,674,675
	(123,701)	(183,875)
	(530,340)	(782,715)
	<hr/>	<hr/>
	Net sales	4,708,085
	<u>3,190,925</u>	<u>4,708,085</u>
	Net sales analysed as follows:	
	3,092,521	4,596,870
	98,404	111,215
	<hr/>	<hr/>
	<u>3,190,925</u>	<u>4,708,085</u>
5	(a) FINANCE INCOME	
	Interest income:	
	13,414	14,220
	315	21,639
	10	36
	<hr/>	<hr/>
	<u>13,739</u>	<u>35,895</u>
	The interest income on farmers' balances relates to the interest the company charges farmers in relation to credit advanced for farm inputs. The company recovers these amounts from the amounts payable to farmers on harvested cane.	
	2014	2013 (restated)
	Shs'000	Shs'000
	(b) FINANCE COSTS	
	744,789	494,987
	<hr/>	<hr/>
6	LOSS BEFORE TAXATION	
	Loss before taxation is arrived at after:	
	Charging:	
	865,434	934,566
	561,122	642,098
	1,172	3,050
	-	120
	6,263	5,706
	9,701	21,544
	6,000	5,400
	105,948	182,628
	3,865	-
	Crediting:	
	-	(6,056)
	2,575	-
	-	(6,046)
	<hr/>	<hr/>
	<u> </u>	<u> </u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014	2013
	Shs'000	(restated) Shs'000
7	STAFF COSTS	
	655,683	647,676
	49,105	33,232
	12,562	15,332
	53,159	51,145
	4,613	17,288
	80,568	66,503
	6,959	8,126
	-	52,396
	5,692	5,294
	(2,907)	(3,095)
	-	40,669
	<u>865,434</u>	<u>934,566</u>
8	TAXATION	
(a)	Taxation charge/(credit)	
	Current taxation based on the adjusted profit for the year at 30% - current year	
	841	540
	(393,769)	(111,215)
	(105,972)	-
	<u>(498,900)</u>	<u>(110,675)</u>
(b)	Reconciliation of expected tax based on loss before taxation charge/(credit)	
	(2,564,834)	(1,434,559)
	Tax at the applicable rate of 30%	
	(769,450)	(430,368)
	127,012	1,540
	(46,969)	(14,008)
	296,479	332,161
	(105,972)	-
	<u>(498,900)</u>	<u>(110,675)</u>
(c)	Taxation recoverable	
	(1,580)	(2,023)
	(83)	(97)
	841	540
	<u>(822)</u>	<u>(1,580)</u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land Shs '000	Factory building Shs '000	Residential & school buildings Shs '000	Plant & machinery Shs '000	Tractors, trailers & heavy vehicles Shs '000	Cars & motor cycles Shs '000	Furniture, fittings & equipment Shs '000	Computer system Shs '000	Factory tools & implements Shs '000	Water & electricity installation Shs '000	Capital WIP Shs '000	Total Shs '000
COST OR VALUATION												
At 1 July 2012	2,350,300	451,015	173,052	5,813,011	304,615	84,600	61,241	9,276	56,625	93,285	330,161	9,727,181
Additions	-	-	-	15,716	169,129	5,248	6,912	914	1,353	5,657	141,380	346,309
Transfers	-	39,588	-	6,669	-	-	-	-	-	-	(46,257)	-
Disposals	-	-	-	-	(5,615)	(5,615)	-	-	-	-	-	(11,230)
At 30 June 2013	2,350,300	490,603	173,052	5,835,396	468,129	84,233	68,153	10,190	57,978	98,942	425,284	10,062,260
At 1 July 2013	2,350,300	490,603	173,052	5,835,396	468,129	84,233	68,153	10,190	57,978	98,942	425,284	10,062,260
Additions	-	-	-	119,015	16,087	-	15,117	-	4,018	-	241,000	395,237
Transfers	-	44,329	-	21,763	-	-	-	-	1,500	-	(67,592)	-
Disposals	-	-	-	-	(9,147)	-	-	-	-	-	-	(9,147)
At 30 June 2014	2,350,300	534,932	173,052	5,976,174	475,069	84,233	83,270	10,190	63,496	98,942	598,692	10,448,350
COMPRISING												
Cost	-	338,853	123,517	2,107,670	372,465	79,057	57,328	10,190	24,892	26,096	598,692	3,738,760
Valuation - 2009	2,350,300	196,079	49,535	3,868,504	102,604	5,176	25,942	-	38,604	72,846	-	6,709,590
At 30 June 2014	2,350,300	534,932	173,052	5,976,174	475,069	84,233	83,270	10,190	63,496	98,942	598,692	10,448,350

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land Shs '000	Factory building Shs '000	Residential & school building Shs '000	Plant & machinery Shs '000	Tractors, trailers & heavy vehicles Shs '000	Cars & motor cycles Shs '000	Furniture, fittings & equipment Shs '000	Computer system Shs '000	Factory tools & implements Shs '000	Water & electricity installation Shs '000	Capital WIP Shs '000	Total Shs '000
DEPRECIATION												
At 1 July 2012	-	117,126	24,681	1,314,281	187,751	40,321	18,322	4,504	20,991	34,719	-	1,762,696
Charge for the period	-	37,348	7,419	473,478	89,475	10,978	7,475	743	5,548	9,634	-	642,098
Disposals	-	-	-	-	(4,073)	(3,309)	-	-	-	-	-	(7,382)
As at 30 June 2013	-	154,474	32,100	1,787,759	273,153	47,990	25,797	5,247	26,539	44,353	-	2,397,412
At 1 July 2013	-	154,474	32,100	1,787,759	273,153	47,990	25,797	5,247	26,539	44,353	-	2,397,412
Charge for the year	-	38,046	7,048	418,712	65,161	9,061	8,621	742	5,544	8,187	-	561,122
Disposals	-	-	-	-	(5,282)	-	-	-	-	-	-	(5,282)
At 30 June 2014	-	192,520	39,148	2,206,471	333,032	57,051	34,418	5,989	32,083	52,540	-	2,953,252
NET BOOK VALUE (Valuation)												
As at 30 June 2014	2,350,300	342,412	133,904	3,769,703	142,037	27,182	48,852	4,201	31,413	46,402	598,692	7,495,098
At 30 June 2013	2,350,300	336,129	140,952	4,047,637	194,976	36,243	42,356	4,943	31,439	54,589	425,284	7,664,848
NET BOOK VALUE (Cost)												
At 30 June 2014	-	240,090	80,704	2,613,732	29,167	1,409	13,704	4,202	9,178	64	598,692	3,590,942
At 30 June 2013	-	238,129	84,952	2,590,652	37,932	1,878	1,005	4,943	5,279	75	425,284	3,390,129

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment were revalued on 30 June 2009, by Metrocosmo Limited. Assets were revalued using the depreciated replacement cost method.

Capital work in progress mainly represents expenditure on incomplete factory works that were in progress at the end of the reporting period.

In 1977, the company was granted leasehold land registration East Bukusu/North Sangalo/1904, East Bukusu/East Sangalo/1444 and Ndivisi/Khalumuli/1459 and a 50 year land grant for land reference 4857/64 with effect from April 2002 from the Government of Kenya. In 2009, the leasehold land was valued at Shs 2,350,300,000.

10 INTANGIBLE ASSETS

	2014 Shs'000	2013 Shs'000
COST		
At 1 July and 30 June	32,544	32,544
AMORTISATION		
At 1 July	28,638	25,588
Charge for the year	1,172	3,050
At 30 June	29,810	28,638
NET BOOK VALUE	2,734	3,906

Intangible assets represent computer software costs.

11 DUE FROM OUTGROWERS

Due from outgrowers	570,392	505,845
Less: provision for doubtful debts	(349,085)	(248,457)
	221,307	257,388
Due within 1 year	147,538	171,591
After 1 year	73,769	85,797
	221,307	257,388

Due from outgrowers relates to credit advanced to farmers towards farm inputs. The cane planted acts as collateral for the amount advanced. The cane plants take a maximum of 2 years to harvest, all unrecovered debt after two years is therefore provided for as doubtful.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Shs'000	2013 Shs'000
12	INVENTORIES	
	69,775	52,577
	27,353	67,884
	-	1,900
	986,981	1,232,543
	<u>1,084,109</u>	<u>1,354,904</u>
	=====	=====
13	BIOLOGICAL ASSETS	
	617,490	438,719
	349,966	328,834
	(588,966)	(313,080)
	<u>378,490</u>	<u>454,473</u>
	200,923	163,017
	(44,359)	-
	<u>156,564</u>	<u>163,017</u>
	535,054	617,490
	=====	=====

Significant assumptions made in determining the fair values of biological assets and agricultural produce are:

- The valuation is based on a market price of Shs 3,200 per tonne of sugar cane (2013 – Shs 3,800).
- Carrying value of cane at the age of nine months and below is stated at cost. Mature cane has been stated at fair value less point of sale costs.
- The estimated sucrose content per tonne of mature cane (pol value) at various stages of growth will remain constant at between 12.5% and 13.5% depending on the age of the cane across the sugar belt.
- The valuation is based on a yield of 59.20 tonnes per hectare on completion of 18 months

In determining the present value of expected net cash flows, the company has not discounted the cash flows as standing cane will mature within the next reporting period and therefore the impact of time value of money on estimated future cash flows is not significant.

	2014 Shs'000	2013 Shs'000
14	TRADE AND OTHER RECEIVABLES	
	42,131	74,369
	(23,846)	(18,526)
	<u>18,285</u>	<u>55,843</u>
	32,730	22,063
	140,928	89,206
	12,777	11,423
	<u>204,720</u>	<u>178,535</u>
	=====	=====

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Shs'000	2013 Shs'000
15	SHORT TERM DEPOSITS	
	National Bank of Kenya Limited	248,220
	Standard Chartered Bank of Kenya Limited	237
	<u>32,641</u>	<u>248,457</u>
	<u>180</u>	<u>237</u>
	<u>32,821</u>	<u>248,457</u>
	=====	=====
	The effective interest rates was as follows:	
	2014	2013
	%	%
	National Bank of Kenya Limited	9
	Standard Chartered Bank of Kenya Limited	8
	<u>11</u>	<u>8</u>
	<u>9</u>	<u>8</u>
	=====	=====
16	SHARE CAPITAL	
	2014	2013
	Shs'000	Shs'000
	Authorised:	
	30,000,000 ordinary shares of Shs 20 each	600,000
	<u>600,000</u>	<u>600,000</u>
	Issued and fully paid:	
	27,150,000 ordinary shares of Shs 20 each	543,000
	<u>543,000</u>	<u>543,000</u>
	=====	=====
17	DEFERRED INCOME TAXATION LIABILITY	
	Deferred income taxes are calculated on all temporary differences under the liability method using the current enacted tax rate of 30%.	
	2014	2013
	Shs'000	Shs'000
	The net deferred taxation liability is attributable to the following items:	
	Deferred taxation liabilities:	
	Accelerated capital allowances	798,510
	Fair value adjustment - biological assets	185,247
	Revaluation surpluses	1,023,123
	<u>660,288</u>	<u>1,023,123</u>
	<u>160,516</u>	<u>185,247</u>
	<u>900,960</u>	<u>1,023,123</u>
	=====	=====
	Total liabilities	2,006,880
	<u>1,721,764</u>	<u>2,006,880</u>
	=====	=====

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 DEFERRED INCOME TAXATION LIABILITY (Continued)

	2014 Shs'000	2013 Shs'000
Deferred taxation assets:		
Provision for service gratuity	(150,697)	(162,781)
Provision for staff leave pay	(19,458)	(21,141)
Unrealised exchange losses	(2,382)	(1,996)
General doubtful debts provision	(5,558)	(94,988)
Provision for obsolete stock	(36,530)	(8,940)
Tax losses available for offset against future profits	(6,225,413)	(5,455,963)
Deferred tax assets not recognised	6,225,413	5,745,809
	<hr/>	<hr/>
Total assets	(214,625)	-
	<hr/>	<hr/>
Total	1,507,139	2,006,880
	<hr/> <hr/>	<hr/> <hr/>
The movement on the deferred taxation account during the year was as follows:		
At 1 July	2,006,880	2,118,095
Current year credit (note 8(a))	(393,769)	(111,215)
Prior year over provision	(105,972)	-
	<hr/>	<hr/>
At 30 June	1,507,139	2,006,880
	<hr/> <hr/>	<hr/> <hr/>

The deferred tax asset has not been recognised in the financial statements because of the uncertainty regarding the company's ability to generate sufficient taxable profits in the foreseeable future that will allow the deferred tax asset to be recovered. The directors consider it prudent not to recognise any deferred tax asset until the future of the company can be predicted reliably. The tax losses can only be carried forward for a maximum period of four years, to be offset against future taxable profits.

18 RETIREMENT BENEFITS OBLIGATIONS

	2014 Shs'000	2013 Shs'000
(a) AMOUNTS DUE TO STAFF PROVIDENT FUND		
Balance at the beginning of the year	542,605	499,075
Provision for the year	-	52,396
Paid during the year	(40,280)	(8,866)
	<hr/>	<hr/>
Balance at the end of the year	502,325	542,605
	<hr/> <hr/>	<hr/> <hr/>

These are amounts payable to the Nzoia Sugar Company Staff Provident Fund and related to accrued retirement benefits and other gratuity benefits due to unionisable employees up to the reporting date.

Following a government directive, the gratuity arrangement due to unionisable staff members under the Collective Bargaining Agreement between the company and the Union, was terminated on 30 June 2012. Accrued member benefits as at this date were transferred to the provident fund. From 1 July 2012, the company's liability related to staff retirement benefits is limited to the amounts transferrable to the provident fund, and the company's monthly contributions to the provident fund on behalf of eligible members.

The company has however not transferred the retirement benefits amounts to the provident fund due to lack of funds. The unpaid amount due to the provident fund attracts interest at 7% per annum.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 RETIREMENT BENEFITS OBLIGATIONS (Continued)

(b) DEFINED BENEFITS SCHEME ASSET

The company also operated a contributory defined benefit scheme for qualifying non unionisable employees, with the company meeting the balance of the cost of providing the benefits under the scheme. The scheme was closed to new entrants and to future accrual of benefits with effect from 1 July 2007. The accrued (past service) benefits in respect of the scheme's in-service members at the closure date are revalued at 5% per annum over the period to retirement or earlier exit from service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Alexander Forbes Financial Services (EA) Limited. Normal retirement age for scheme members was assumed to be 60 years. The accrued liability in respect of pensioners was taken as the present value of the expected future pension payments.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Interest rate per annum	13%
Rate of revaluation of deferred benefits (per annum)	5%
Rate of pension increases per annum	Nil
Retirement age (years)	60

	2014	2013 (restated)
	Shs'000	Shs'000
The credit recognised in profit or loss in respect of the scheme is as follows:		
Current service cost	4,726	-
Net interest on the net defined benefit asset	(7,633)	-
Prior year adjustment (note 28)	-	(3,095)
	<u> </u>	<u> </u>
Total included in staff costs in respect of scheme	(2,907)	(3,095)
	<u> </u>	<u> </u>
The (credit)/charge recognised in other comprehensive income in respect of the scheme is as follows:		
Actuarial gains	(4,857)	-
Return on plan assets	(12,729)	-
Prior year adjustment (note 28)	-	8,934
	<u> </u>	<u> </u>
Total (credit)/charge to other comprehensive income	(17,586)	8,934
	<u> </u>	<u> </u>

The amount of scheme assets over accrued liabilities in respect of the defined benefit scheme is as follows:

	2014	2013 (restated)	2012 (restated)
	Sh'000	Sh'000	Sh'000
Value of accrued liabilities	(371,084)	(348,650)	(325,236)
Value placed on scheme assets	455,008	412,079	394,506
	<u> </u>	<u> </u>	<u> </u>
As previously reported	-	-	-
Prior year adjustment (note 28)	-	63,429	69,270
	<u> </u>	<u> </u>	<u> </u>
As restated	83,924	63,429	69,270
	<u> </u>	<u> </u>	<u> </u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2014 Shs'000	2013 Shs'000
19	BORROWINGS		
	a) Loans		
	National Treasury	33,299,872	32,786,591
	Agriculture Food and Fisheries Authority	2,059,173	1,020,137
		<u>35,359,045</u>	<u>33,806,728</u>

The borrowings are repayable as follows:

On demand or within 1 year	34,939,281	33,806,728
After 1 year	419,764	-
	<u>35,359,045</u>	<u>33,806,728</u>

The company has defaulted on loan repayments and the entire loan amount is due for repayment on demand.

		2014 Sh'000	2013 Sh'000
b) Movement in loans			
At 1 July		33,806,728	33,363,456
Accrued interest		744,789	494,987
Loans received		839,528	-
Loans repaid		(32,000)	(51,715)
		<u>35,359,045</u>	<u>33,806,728</u>
At 30 June		<u>35,359,045</u>	<u>33,806,728</u>
This is made up of:			
Principal		11,276,618	10,437,090
Accrued interest		24,082,427	23,369,638
		<u>35,359,045</u>	<u>33,806,728</u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 BORROWINGS (Continued)

e) **Interest rates**

2014	2013
%	%

The effective interest rates on the borrowings during the year were:

The National Treasury	5.1	5.1
Agriculture Food and Fisheries Authority	4.58	4.58
	=====	=====

d) **Details of securities for borrowings**

The loans from The National Treasury and the Agriculture Food and Fisheries Authority are unsecured.

These loans were advanced in tranches on diverse dates in the 1980's and have been long outstanding. The company has defaulted on repayment of both principal and interest in the past. The terms and conditions of the loan could not be satisfactorily established due to the lapse in time and the lack of complete records.

	2014	2013
	Shs'000	Shs'000
20 TRADE AND OTHER PAYABLES		
Trade payables	550,334	422,989
Due to outgrowers	3,081	246,233
Tax penalties	955,098	888,716
Sugar Development Levy	62,855	15,179
Accruals	234,837	123,128
Other payables	296,569	97,666
	-----	-----
	2,102,774	1,793,911
	=====	=====
21 PROVISION FOR STAFF LEAVE PAY		
At the beginning of the year	70,469	30,862
Provision for the year	(2,575)	41,334
Paid in the year	(3,033)	(1,727)
	-----	-----
At the end of the year	64,861	70,469
	=====	=====
22 CAPITAL COMMITMENTS		
Commitments at the year-end for which no provision has been made in these financial statements:		
Authorised and contracted for	-	-
Authorised but not contracted for	599,886	293,686
	-----	-----
	599,886	293,686
	=====	=====

The capital commitments relate primarily to expenditure on factory improvement. The company intends to fund these commitments through internally generated funds and loans.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014	2013
	Shs'000	(restated) Shs'000
23	NOTES TO THE STATEMENT OF CASH FLOWS	
(a)	Reconciliation of loss before taxation to cash generated from operations	
	Loss before taxation	(2,564,834) (1,434,559)
	<i>Adjustments:</i>	
	Finance income (note 5(a))	(13,739) (35,895)
	Finance costs (note 5(b))	744,789 494,987
	Depreciation (note 9)	561,122 642,098
	Amortisation (note 10)	1,172 3,050
	Loss/(gain) on disposal of property, plant and equipment	3,865 (6,046)
	Fair value gain on biological assets (note 13)	(156,564) (163,017)
	Biological assets harvested (note 13)	588,966 313,080
	Cash used in operations before working capital changes	(835,223) (186,302)
	<i>Movements in:</i>	
	Out-growers balances	36,081 147,129
	Inventories	270,795 (297,715)
	Trade and other receivables	(26,185) (41,152)
	Staff provident fund	(40,280) 43,530
	Defined benefit obligation (note 23(c))	(2,907) (3,095)
	Trade and other payables	308,861 229,758
	Provision for staff leave pay	(5,608) 39,607
	Cash used in operations	(294,466) (68,240)
(b)	Analysis of the balances of cash and cash equivalents:	
	Cash and bank balances	3,316 6,165
	Short term deposits (note 15)	32,821 248,457
	36,137	254,622
(c)	Analysis of non- cash transactions:	
	Change in defined benefit obligation	(20,493) 5,839
	Credit/(charge) in other comprehensive income	17,586 (8,934)
	Amount included in the statement of cashflows (note 23(a))	(2,907) (3,095)

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Shs'000	2013 Shs'000
24	CONTINGENT LIABILITIES	
	18,000	18,000
	32,640	121,503
	=====	=====
25	RELATED PARTY BALANCES AND TRANSACTIONS	
	a) Key management compensation	
	The remuneration for key management during the year was as follows:	
	33,875	40,395
	=====	=====
	b) Directors' remuneration	
	-	120
	6,263	5,706
	9,701	21,544
	=====	=====
26	RISK MANAGEMENT POLICIES	

Overview

The company's activities expose it to a variety of operational and financial risks. These activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the company's business and the operational risks are an inevitable consequence of being in business.

The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. The key types of financial risks include:

- Credit risk
- Market risk
- Liquidity risk

The key operational risks include political and environmental risks.

The company's financial risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits. This is achieved by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in markets and emerging best practices. The company's overall risk management program focuses on the unpredictability of changes in the business environment and seeks to minimize potential adverse effects of such risks on its financial performance within the options available in the Kenyan market by setting acceptable levels of risks. Financial risk management is carried out by senior management under the supervision of the Board of Directors. Management in conjunction with various committees then identifies, evaluates and addresses risks accordingly.

26 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

In addition, the company has an independent internal audit department which reports directly to the Board Audit Committee. This department is responsible for assessing the risk faced by the company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls that address these risks. The company does not enter into or trade in financial instruments, including derivative financial instruments, for either hedging or speculative purposes.

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company is exposed to this risk in several areas including trade and other receivables and cash and cash equivalents. However, the company's credit risk is concentrated mainly in advances issued to farmers in the form of farming inputs and in trade receivables in the form of sugar debtors. The company gives advances to farmers in the form of farming inputs to facilitate sugarcane crop establishment and to improve the productivity of the growing crop. Advances to farmers are eventually deducted from the value of the cane delivered upon harvesting. The key risk is therefore that the yield from the crop will not be sufficient to cover the advanced credit.

The company counters this risk by placing significant emphasis on the vetting and selection of farmers. This is done with the aid of comprehensive and documented criteria which includes a review of farmers' payment histories. The company also monitors budgeted sales outputs and expected factory crushing capacity and also forecasts of expected environmental conditions to aid it in budgeting for these advances. However the existence of favourable weather conditions will always remain outside the control of the company. Political upheavals and general unrest also pose a risk to the company usually resulting in the burning of immature cane. Burning of immature cane reduces the quality and the quantity of the yield from such cane in addition to raising production costs and waste. While an element of this risk is outside the company's control, it has however sought to mitigate this risk by enhancing security in its nucleus estates. The company does not purchase burnt cane from farmers in order to discourage irresponsible burning of immature cane by farmers in order to readily obtain quick cash.

The bulk of the company's revenue relates to sugar sales. The company has a documented credit policy whose management and implementation is overseen by a Credit Committee. The Committee manages limits and controls concentrations of credit risk wherever they are identified. It structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to a debtor or categories of debtors. Such risks are monitored on a regular basis and are subject to regular reviews. Exposure to credit risk is managed through regular analysis of the ability of credit customers to meet their obligations and by adjusting the limits appropriately. The credit risk on trade receivables is further mitigated by requiring most credit customers to provide guarantees issued by reputable banks recommended by the company.

In measuring credit risk relating to trade receivables, the company therefore reflects three components: The 'probability of default' by the customer or counterparty on its contractual obligations; current exposures to the counterpart and its likely future development, from which the company derive the 'exposure at default; and the likely recovery ratio on the defaulted obligations. With regard to impairment of outstanding receivables, it is the company's policy to assess/review all debts over 60 days for impairment and to provide for all debts where a debtor is declared bankrupt or facing financial difficulties. In some cases where an unsecured customer is in arrears the whole amount is provided for.

Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the company at the end of the reporting period, without taking account of any collateral held or other credit enhancements attached. For reported financial assets, this exposure is based on net carrying amounts as reported in the statement of financial position.

26 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

Collateral

The collateral held for sugar debtors include guarantees from reputable banks recommended by the company. The credit risk on liquid funds is limited because the counterparties are commercial banks with high credit-ratings assigned by international credit-rating agencies. No collateral is held for advances to farmers.

The credit risk exposures are classified in three categories:

Neither past due nor impaired

The company classifies financial assets under this category for those exposures that are up to date and in line with contractual agreements.

Past due but not impaired

These relate to financial assets that have passed the contractual payment period but are expected to be recovered within reasonable timelines. These assets are not impaired and continue to be recovered with the active involvement of management. The collateral held for sugar debtors in this category includes guarantees from reputable banks recommended by the company.

Impaired

Impaired financial assets are those for which the company determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt, or the collateral doesn't sufficiently cover the exposure.

On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

Analysis of credit risk exposure

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

	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
30 June 2014				
Trade receivables	13,567	4,718	23,846	42,131
Due from outgrowers	-	221,307	349,085	570,392
Short term deposits	32,821	-	-	32,821
Bank balances	3,316	-	-	3,316
	<hr/>	<hr/>	<hr/>	<hr/>
	49,704	226,025	372,931	648,660
	<hr/>	<hr/>	<hr/>	<hr/>
30 June 2013				
Trade receivables	800	55,043	18,526	74,369
Due from outgrowers	-	257,388	248,457	505,845
Short term deposits	248,457	-	-	248,457
Bank balances	6,165	-	-	6,165
	<hr/>	<hr/>	<hr/>	<hr/>
	255,422	312,431	266,983	834,836
	<hr/>	<hr/>	<hr/>	<hr/>

26 RISK MANAGEMENT POLICIES (Continued)

Market risk management

Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the company's management under the supervision of the Board of Directors.

(i) Interest rate risk

Interest rate risk arises primarily from borrowings, fixed and collateral deposits, cash and cash equivalents. The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

At 30 June 2014, an increase/decrease of 3 percentage points on interest rates would have resulted in a decrease/increase in pre-tax profit of Shs 1,061,000 (2013 – Shs 1,015,000).

(ii) Currency risk

The company undertakes certain transactions denominated in foreign currencies, mainly the US dollar and the Euro. This results in exposures to exchange rate fluctuations. The company however did not have balances denominated in foreign currency as at year end.

Liquidity risk management

This is the risk that the company will encounter difficulties in meeting its financial commitments from its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the company's reputation. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In addition, all major capital investments are funded by a mixture of equity and long term debt. The following table analyses the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods.

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company may be required to pay. The tables include both interest and principal cash flows and exclude the impact of netting agreements.

	1 - 6 months Shs'000	6 – 12 months Shs'000	Above 1 year Shs'000	Total Shs'000
At 30 June 2014				
Borrowings	-	34,939,281	419,764	35,359,045
Trade payables	385,234	165,100	-	550,334
Payables to outgrowers	3,081	-	-	3,081
	<u>388,315</u>	<u>35,104,381</u>	<u>419,764</u>	<u>36,912,460</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

	1 - 6 months Shs'000	6 - 12 months Shs'000	Above 1 year Shs'000	Total Shs'000
At 30 June 2013				
Borrowings	-	33,806,728	-	33,806,728
Trade payables	296,092	126,897	-	422,989
Payables to outgrowers	246,233	-	-	246,233
	<u>542,325</u>	<u>33,933,625</u>	<u>-</u>	<u>34,475,950</u>

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 31 December 2013				
Non- financial assets				
Property, plant and equipment	-	7,495,098	-	7,495,098
	<u>-</u>	<u>7,495,098</u>	<u>-</u>	<u>7,495,098</u>
At 31 December 2012				
Non- financial assets				
Property, plant and equipment	-	7,664,848	-	7,664,848
	<u>-</u>	<u>7,664,848</u>	<u>-</u>	<u>7,664,848</u>

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 CAPITAL MANAGEMENT

The company's objectives when managing capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support business growth; and
- To safeguard the company's ability to continue as a going concern so that it can continue to provide adequate returns to its shareholders and value to all other stakeholders.

The capital structure of the company consists of debt, which includes the borrowings less cash and cash equivalents and equity attributable to equity holders, comprising issued capital, revaluation surplus and retained earnings. The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital. Based on the review, the company analyses and assesses the gearing ratio to determine the appropriate levels. This ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings less cash and cash equivalents.

There have been no material changes in the company's management of capital during the year.

	2014	2013
	Shs '000	(restated) Shs '000
The gearing ratio at the year end was as follows:		
Shareholders' deficit	(29,872,237)	(27,823,891)
Borrowings (note 19)	35,359,045	33,806,728
Short term deposits (note 15)	(32,821)	(248,457)
Cash and bank balances	(3,316)	(6,165)
Net debt	35,322,908	33,552,106
Gearing ratio	Over 100%	Over 100%

28 PRIOR YEAR ADJUSTMENTS

In compiling the financial information included herein, the following adjustments were made to the financial statements for the year ended 30 June 2012 and 30 June 2013.

a) Restatement of audited statement of profit or loss and other comprehensive income

	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
For the year ended 30 June 2012			
Defined benefit remeasurement (1)	-	69,270	69,270
Effect on retained deficit (2)	(30,691,392)	69,270	(30,622,122)

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 PRIOR YEAR ADJUSTMENTS (CONTINUED)

a) **Restatement of audited statement of profit or loss and other comprehensive income (Continued)**

	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
For the year ended 30 June 2013			
Defined benefit remeasurement through profit or loss (1)	-	3,093	3,093
Defined benefit remeasurement through other comprehensive income (1)	-	(8,934)	(8,934)
Effect on retained deficit (2)	-	(5,841)	(5,841)

b) **Restatement of audited statement of financial position**

	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
As at 1 July 2012			
Assets			
Defined benefit asset (3)	-	69,270	69,270
Equity and Liabilities			
Effect on retained deficit (2)	(30,691,392)	69,270	(30,622,122)
As at 30 June 2013			
Assets			
Defined benefit asset (3)	-	63,429	63,429
Equity and Liabilities			
Effect on retained earnings (2)	(31,718,565)	63,429	(31,655,136)

(1) Relates to recognition of defined benefit credit/(charge) in the statement of profit or loss and other comprehensive income, on remeasurement of the defined benefit asset (note 18(b))

(2) Relates to the effect on retained deficit of the recognition of defined benefit credit/(charge) in the statement of profit or loss and other comprehensive income, on remeasurement of the defined benefit asset (note 18(b))

(3) Relates to the recognition of defined benefit asset on remeasurement (note 18(b))

29 INCORPORATION

The company is domiciled and incorporated in Kenya under the Kenyan Companies Act.

30 CURRENCY

These financial statements are prepared in thousands of Kenya Shillings (Shs '000), the company's functional currency.

APPENDIX I

NZOIA SUGAR COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2014

	Appendix	2014 Shs'000	2013 Shs'000
SALES			
Gross sugar sales		3,200,478	4,780,745
Gross molasses sales		114,148	111,215
Total gross sales		3,314,626	4,891,960
Sugar development levy		(123,701)	(183,875)
NET SALES		3,190,925	4,708,085
COST OF SALES			
Cane purchases	II	(2,193,784)	(2,637,905)
Factory production- sugar	II	(924,478)	(1,157,641)
Factory engineering	II	(492,242)	(359,867)
Sugar packaging materials		(34,929)	(42,050)
(Decrease)/increase the value of sugar inventories		18,060	(100,579)
		(3,627,373)	(4,298,042)
GROSS (LOSS)/PROFIT		(436,448)	410,043
OTHER OPERATING INCOME	II	83,942	41,162
MARKETING AND DISTRIBUTION COSTS	II	(21,054)	(26,744)
ADMINISTRATIVE EXPENSES	III	(1,616,788)	(1,562,945)
FINANCE INCOME		13,739	35,895
FINANCE COSTS		(744,789)	(494,987)
LOSS BEFORE TAXATION		(2,721,398)	(1,597,576)
Reconciliation of results at actual cost of biological assets and agricultural produce to results based on fair valuation of biological assets and agricultural produce:			
		2014 Shs'000	2013 Shs'000
LOSS BEFORE TAXATION AS ABOVE		(2,721,398)	(1,597,576)
Fair value adjustment		156,564	163,017
LOSS BEFORE TAXATION AS PER STATEMENT OF PROFIT OR LOSS		(2,564,834)	(1,434,559)

NZOIA SUGAR COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS (Continued)

	2014 Shs'000	2013 Shs'000
CANE PURCHASES		
Registered outgrowers cane	1,628,474	2,341,102
Nucleus estate cane	565,310	296,803
	<u>2,193,784</u>	<u>2,637,905</u>
FACTORY PRODUCTION- SUGAR		
Depreciation of factory plant and buildings	456,757	609,935
Staff costs	371,135	450,713
Other costs	2,802	2,533
Factory chemicals	35,198	34,183
Water and electricity	58,586	60,277
	<u>924,478</u>	<u>1,157,641</u>
FACTORY ENGINEERING		
Mechanical spares	111,784	113,419
Plant and equipment repairs	346,426	199,448
Electrical spares	21,208	33,177
Factory instruments	257	212
Welding materials	12,567	13,611
	<u>492,242</u>	<u>359,867</u>
OTHER OPERATING INCOME		
Sundry income	70,324	19,335
Gain on disposal of fixed assets	-	6,046
Rental income	5,092	5,036
Harvesting charges recovery	8,526	10,745
	<u>83,942</u>	<u>41,162</u>
MARKETING AND DISTRIBUTION COSTS		
Advertising and promotion	10,341	23,691
Other costs	10,713	3,053
	<u>21,054</u>	<u>26,744</u>

NZOIA SUGAR COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	2014 Shs'000	2013 Shs'000
ADMINISTRATIVE EXPENSES		
Staff costs	865,434	934,566
Other costs	26,886	13,515
Legal and professional fees	21,818	26,128
Corporate social responsibility	9,554	18,323
Depreciation	31,014	32,162
Medical services	27,668	30,970
Travelling	22,700	17,801
Security	6,102	3,297
Publications and listing	501	892
Directors' emoluments	6,263	120
Directors expenses	-	21,544
Amortisation of intangible assets	1,172	3,050
Repairs and maintenance	11,443	25,655
Rent and rates	17,773	17,957
Insurance	75,056	74,226
Cane safety expense	11,483	15,830
Bank charges	14,312	8,506
Contracted services	55,554	31,050
Telephones and communications	1,037	2,846
Audit fees	6,000	5,400
Stationery	11,928	17,324
Bad and doubtful debts	105,948	141,456
Inventory obsolescence provision/(credit)	91,967	(6,056)
Donations	3,679	792
Fuel and lubricants	79,627	70,671
Motor vehicle running	41,622	54,920
Loss on disposal of fixed assets	3,865	-
Tax penalties	66,382	-
	<u>1,616,788</u>	<u>1,562,945</u>