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Kenya Sugar Board



Annual Report &
Financial Statements

2011

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By the Leader of the
Majority Party on
Tue 21/5/13
(Hon A. Duale)



Annual Report & Financial Statements of KENYA SUGAR BOARD 2011

VISION

"To be the best Facilitator and Regulator of a World Class multi-product sugar cane industry"

MISSION

"To facilitate a multi –product sugar cane industry that is efficient, diversified and globally competitive".

CORE VALUES

Service excellence
Competitiveness
Teamwork
Integrity
Efficiency.
Accountability
Social Responsibility

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CORPORATE INFORMATION

DIRECTORS

The Directors who served during the year were:

- | | | |
|-----|--------------------------|--------------------------------------|
| 1. | Mr. S. W. Busolo | Chairman- appointed on 12th Nov 2010 |
| 2. | Mr. Z. O. Obado | Chairman- up to 11th Nov 2010 |
| 3. | Mr. S. Odera | Ag. CEO- appointed on 7th Oct 2010 |
| 4. | Ms. R. Mkok | CEO- up to 7th Oct 2010 |
| 5. | Mr. H. Patel | Director (Millers) |
| 6. | Dr. E. Kidero | Director (Millers) |
| 7. | Dr. K. Wamae | Alt. to PS, Min. Agriculture |
| 8. | Mr. H. Muhu | Alt to PS, Treasury |
| 9. | Dr. W. Songa | Director of Agriculture |
| 10. | Mr. P.O. Odola | Director (Millers) |
| 11. | Mr. N .O. Oricho | Director (Growers) |
| 12. | Mr. E .M. Mwombe | Director (Growers) |
| 13. | Mr. D .O. Kadongo | Director (Growers) |
| 14. | Mr. B .W. Mukenya | Director (Growers) |
| 15. | Eng. M. Mukhwana | Director (Growers) |
| 16. | Ms. T. Gichana | Rep. State Corporations |

Finance and Establishment Committee

- | | | |
|----|------------------------------|----------|
| 1. | Mr. B. W. Mukenya | Chairman |
| 2. | Mr. K. Wamae, EBS | |
| 3. | Mr. H. Muhu | |
| 4. | Mr. P. O. Odola | |
| 5. | Eng. M. Mukhwana, HSC | |
| 6. | Mr. N. Oricho | |
| 7. | Ms. T. Gichana | |

Audit Committee

- | | | |
|----|------------------------------|----------|
| 1. | Eng. M. Mukhwana, HSC | Chairman |
| 2. | Dr. W. Songa, MBS | |
| 3. | Mr. H. Muhu | |
| 4. | Mr. P. O. Odola | |
| 5. | Mr. Z. O. Obado | |
| 6. | Ms. T. Gichana | |
| 7. | MS E. Malinda | |

SDF Management Committee

1. Mr. D. Kodongo
2. Mr. K. Wamae, EBS
3. Mr. H. Muhu
4. Dr. E. Kidero
5. Mr. H. Patel
6. Mr. E. W. Mwombe
7. Mr. Z. O. Obado
8. Ms T. Gichana

COMESA Safeguard Committee

1. Hon. S. Busolo
2. Mr. H. Muhu
3. Dr. E. Kidero
4. Mr. H. Patel
5. Dr. W. Songa, MBS
6. Mr. Z. O. Obado
7. Ms T. Gichana
8. Mr. N. Oricho
9. Mr. B. W. Mukenya
10. Mr. F. Waswa
11. Dr. C. Omondi
12. Mr. S. Odera

Cane Pricing Committee

1. Hon. S. Busolo
2. Mr. P. O. Odola, MBS
3. Dr. E. Kidero
4. Mr. E. Mwombe
5. Dr. W. Songa, MBS
6. Mr. Z. O. Obado
7. Mr. D. O. Kodongo
8. Mr. S. Anyango
9. Eng. M. Owiti
10. Mr. F. Waswa
11. Dr. C. Omondi
12. Mr. A. M. Shah

Management Tender Committee

- | | | | | |
|------------------|---|--------------------------|---|-----------|
| 1. Mr. F. Ingara | - | Head of Sugar Technology | - | Chairman |
| 2. Mr. T. Makeni | - | Head of Finance | - | Member |
| 3. Mr. S. Odera | - | Portfolio Manager | - | Member |
| 4. Ms. P. Njeru | - | Head of Planning | - | Member |
| 5. Mr. P. Lukoye | - | Human Resources Manager | - | Member |
| 6. Mr. A. Osodo | - | Company Secretary | - | Member |
| 7. Mrs. A. Ouma | - | Snr. Purchasing Officer | - | Secretary |

Company Secretary

Mr. Andrew Osodo

Registered Office

Sukari Plaza
Off. Waiyaki Way
P. O. Box 51500
0200 City Square, Nairobi.

Auditors

The Auditor General
Kenya National Audit Office
Anniversary Towers
University Way
P. O. Box 30084 – 00100, Nairobi.

Lawyers

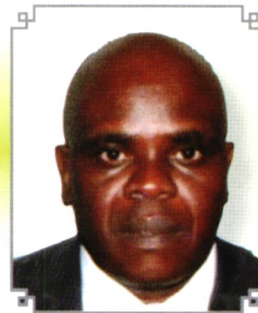
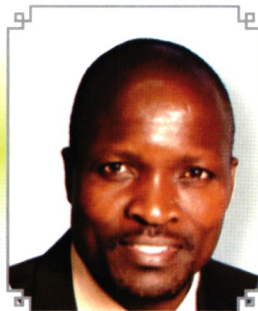
1. Waweru Gatonye & Co. Advocates
P.O. Box 55207 - 00200 Nairobi
2. Kemboy & Co. Advocates
P.O. Box 19500 - 00200 Nairobi

Bankers

- | | |
|--|--|
| 1. National Bank of Kenya,
Hill Branch,
P.O. Box 45219-00100,
Nairobi. | 3. Barclays Bank of Kenya,
Westlands Branch,
P.O. Box 14403-00800, Nairobi. |
| 2. Standard Chartered Bank,
Westlands Branch,
P.O. Box 14438-00800, Nairobi | 4. Co-operative Bank of Kenya,
Co-op Bank House,
P.O. Box 67881-00200, Nairobi. |



BOARD OF DIRECTORS

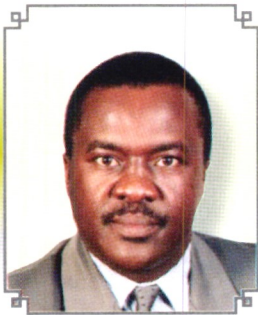
**Hon. Saulo Busolo***Chairman***MR. Paul Odola, MBS***Vice Chairman***Ms. Rosemary Mkok, MBS***Chief Executive Officer***Mr. Humphley Muhu***Alt to PS, Treasury***Ms. Theodore Gichana***Rep. State Corporations***Mr. Kiritu Wamae***Alt. to PS, Min. Agriculture***DR. Wilson Songa, OGW, MBS***Agriculture Secretary***Mr. Nicholas Oricho***Director (Growers)***Mr. Ewing Mwombe***Director (Growers)***Mr. David Kodongo***Director (Growers)***Dr. Evans Kidero***Director (Millers)***Mr. Billy Wanjala***Director (Growers)***Mr. Zacharia O. Obado***Director (Growers)***Mr. Himesh Patel***Director (Growers)***Eng. Mohammed Mukhwana, HSC***Director (Growers)*

SENIOR MANAGEMENT



Ms. Rosemary Mkok, MBS

Chief Executive Officer



Mr. Solomon Odera

Portfolio Manager



Mr. Francis Ingara

Head of Sugar Technology



Mr. Thomas Makeni

Head of Finance



Ms. Patricia Njeru

Head of Planning



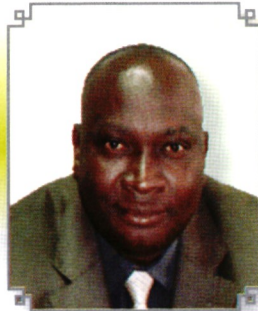
Mr. Andrew Osodo

Company Secretary



Ms. Emmah Malinda

Head of Internal Audit



Mr. Peter Lukoye

Human Resource Manager



Mr. Fredrick Kebeney

Head of agriculture



FROM THE CHIEF EXECUTIVE OFFICER



Ms. Rosemary Mkok, MBS
Chief Executive Officer

I am delighted to present to you the annual report and financial statements for the Kenya Sugar Board and the Sugar Development Fund for the period ended 30th June 2011. The Board performed exceptionally well during the period under review as a consequence of improved economic environment which was characterized by moderate inflation and low interest rates.

FINANCIAL PERFORMANCE

Sugar Development Fund

The Fund realized a net surplus of Kshs. 54 million compared to Kshs. 237 million reported in previous year. The massive drop is attributed to Kshs. 137 million expenditure provided in the accounts for cane testing unit for the industry and Kshs. 17 million granted to fund operations of Sugar Arbitration Tribunal. Further, interest income from fixed deposits was lower by kshs. 74 million (34%) as a results of low interest rate in the market.

The total comprehensive income recorded by the Fund grew by 9% to Kshs. 2 billion from Kshs.1.88 billion reported in 2009/10. The Levy income was Kshs. 1.7 billion (82%) while other incomes comprising of loans and fixed deposit interests were Kshs. 368 million (18%) as compared to Kshs. 1.4 billion (78%) and Kshs. 413 million (22%) in 2009/10. The 9% growth in comprehensive income resulted from increased sugar production and sales during the year.

Levy income was appropriated to the benefiting components as follows: Kenya Sugar Board Kshs. 505 million, Kenya Sugar Research Foundation Kshs. 339 million, Cane Development Kshs. 238 million, Factory Rehabilitation Kshs. 256 million,

Infrastructure Development Kshs.105 million, and prescribed reserve Kshs. 255 million.

Operating expenses of the fund went up by a minimal 1% attributed to increase in provisions for bad and doubtful debts.

The Funds balance sheet improved moderately with the total asset growing by 6% to Kshs. 14.7 billion compared to Kshs.13.9 billion reported in 2009/10. The growth was mainly attributed to the accrued loan interest and increase in short term deposits.

Kenya Sugar Board

The Board reported a surplus of Kshs. 107 million compared to Kshs.136 million reported in 2009/10.

The total comprehensive income for the year under review was Kshs. 539 million compared to Kshs. 614 million generated in 2009/10. The 12 % drop is attributed to fact that the Board did not auction sugar import rights an activity that generated Kshs. 129 million in 2009/10. Levy income from the Sugar Development Fund grew by 15% to Kshs. 505 million against Kshs. 439 received in 2009. The growth was as a direct result of improved levy collection following high sugar production and sales.

Operating and administration costs were 17% lower to Kshs. 433 million compared to Kshs. 521 incurred previously. The high costs reported in 2010 were as a result of Kshs. 104 million deficits realized in valuation of some assets categories mainly the buildings and furniture.

The Board's balance sheet improved considerably with the total assets moving up 26% to Kshs. 750 Million from Kshs. 593

Million. The growth is mainly attributed to Kshs. 144.6 Million designated funds from European Union meant to support reforms in the industry (Sugar Reforms Support Programme).

SUGAR PRODUCTION AND DEMAND

The local Sugar industry produced a total of 584,844 metric tonnes of sugar compared to 507,525 tonnes in 2009/10 which was 15% higher than the previous year. The improvement was attributed to increase in milling capacity as a result of Butali Sugar mills entering the market in January 2011. Weather conditions were favorable for the sugarcane crop and sugar mills had enough cane to mill.

Average ex-factory sugar price in 2010/11 was down 2% to Ksh. 3,947 from Ksh. 4,026 that prevailed in 2009/10. Sugar demand in the country was estimated at about 800,000 metric tones with the deficit between production and demand being bridged by imports. Sugar imports in 2010/11 amounted to 217,897 metric tonnes compared to 199,114 metric tonnes imported in 2009/10.

Partnerships

Kenya Sugar Board has partnered with the European Union in supporting the Kenya Sugar Industry to adjust to the reforms currently being undertaken in the European Sugar Regime. This is part of the wider reforms within the Sugar Protocol member states intended to infuse competitiveness into the sugar industry. The general objective of this support for the Kenyan sugar industry is to help increase the competitiveness of the industry through improvement of efficiencies and reduction of production costs. The amounts earmarked for Kenya

under the Annual Action Programme (AAP) 2009 was € 5,974,000 (Kshs. 657 million) with a three (3) year implementation period. The first disbursement of Kshs. 144.6 Million for Programme Estimate One (PE1) covering period 1st December 2010 to November 2011 was released to the Board in February 2011.

The funds will be utilized to improve road infrastructure, build capacity within industry institutions, improve cane yields and husbandry practices, introduce new cane payment system based on quality, and enhance research, environment protection and strengthening social programmes.

The existing partnership with Agriculture Finance Corporation (AFC) where the Board has engaged AFC to on lend to cane farmers has disbursed Ksh 500 million over the last three years. The Board has finalizing plans for a release of an additional Ksh. 500 million to AFC for onward direct lending to cane farmers.

The Board will continue engaging and building partnerships with institutions for the benefit of stakeholders.

Outlook for 2011/12

The long rains (March –May 2011) especially in the Western and Nyando Zones were below expectation. This will inevitably affect sugarcane availability. Mumias in the Western Sugar Belt is expected to suffer a cane deficit to the tune of 300,000 MT, while Muhoroni and Kibos expect a combined cane deficit of 100,000 MT. This deficit will negatively impact factory capacity utilization with projected lower sugar production. Assuming a Tonnes of Cane to Tonnes of Sugar (TC/TS) Ratio of 10, projected

sugar production is expected to be lower by 40,000 MT compared to 2010/11.

The shortfall in domestic sugar supply is expected to be met through importation especially from the COMESA Region, which is also currently net deficit area.

In the South Nyanza Sugar Belt, despite surplus cane production, challenges are expected as two new sugar companies are expected to come on stream in the 2nd Quarter of 2011/12. These new sugar companies are - the Transmara Sugar Company Ltd and the Sukari Sugar Mills, both without Nucleus Estates and expected to rely 100% on outgrowers for cane supply.

The year 2011/12 is therefore generally expected to see a spike in sugar and sugarcane prices due to the envisaged supply crunch, a situation which will normalize if good rains are received in the 2nd Quarter 2011/12.

The prevailing high inflation, high interest rates, high fuel prices and depreciation of local currency will impact negatively to business and the economy in general.

Conclusion

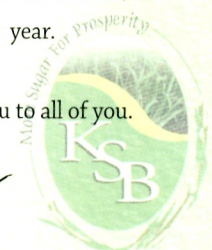
On behalf of the entire Management team, I would like to extend my sincere gratitude to the Board of Directors for their invaluable guidance, to all our stakeholders, and business partners for their continuing support and lastly the KSB family who invested their talent with great commitment to make 2010/11 another outstanding year.

Once again thank you to all of you.



Ms. R. Mkok

CHIEF EXECUTIVE OFFICER



REPORT OF THE DIRECTORS

The Directors submit their Report together with the audited Financial Statements for the year ended 30th June 2011, which disclose the state of affairs of the Board.

Incorporation

The Board is incorporated in Kenya under the Sugar Act 2001 and is domiciled in Kenya. The address of the registered office is as set out on page 5.

Principal activities

The principal activities of the Board are to regulate develop and promote the Sugar Industry.

Results

	2011	2010
	Kshs '000	Kshs '000
Total Comprehensive Surplus	107,155	136,140

Directors

The directors who held office during the year to the date of this report are listed on pages 4.

Auditor

The Auditor General will continue in office in accordance with Public Audit Act 2003.

By order of the Board.



ANDREW OSODO
COMPANY SECRETARY

STATEMENTS OF THE DIRECTORS RESPONSIBILITIES

The State Corporation Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Board as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Board keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

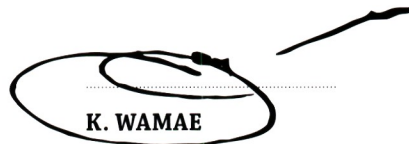
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the State Corporations 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 company and of its operating results. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the management on behalf of board of directors and signed on its behalf by:



R. MKOK
CHIEF EXECUTIVE OFFICER



K. WAMAE
ALTERNATE DIRECTOR



STATEMENT ON CORPORATE GOVERNANCE

Kenya Sugar Board is fully committed to principles of good corporate governance. The directors are ultimately accountable to all stakeholders for ensuring the Board discharges its mandate with the highest standards of corporate governance. Of particular importance to the Board is observance of stakeholders' interest, efficient practices, integrity and transparency within the Board.

1. Board of Directors

The names of the directors who held the office during the period under review are set out on page 4.

The Board is responsible for formulating policies and strategies and ensuring Board mandates of promoting, developing and regulating the Industry is done in the best interest of stakeholders.

The Board comprises fourteen directors, seven elected by cane farmers, three elected by millers and four ex-officio government representatives. The Chief Executive Officer as the head of the institution seats on the Board as one of the ex-officio.

The directors have diverse skills drawn from various sectors of the economy.

a) Directors Emoluments

The aggregate amount of emoluments to directors for the service rendered and other costs in particular Directors election expenses are disclosed in Note. 5 to the financial statement for year ended 30th June 2011.

b) Related party transactions

There have been no materially significant related party transactions or relationship between the board and its directors or management except those disclosed in note. 5 to KSB financial statement for the year ended 30th June 2011. Transactions between the Fund and the Board are disclosed under notes 14 of KSB and 19 of SDF financial statements.

2. Board Committees

The Board has in place five main committee namely; the Finance and Establishment, Audit, Sugar Development Fund, Cane pricing and COMESA committees. To discharge its mandate effectively, the Board delegates its authority to the various sub-committees whose chairpersons report to the Board. These committees assist the Board in ensuring that proper strategies, internal controls and organization structure are in place to achieve the objectives of the Board. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority of running of the Board management affairs on day to day is delegated to the Chief Executive officer.

a. Finance and Establishment Committee

The Committee is made up of five directors including the chair and the Chief Executive Officer. The Company Secretary serves as the secretary for the committee. The primary responsibility of the committee is to assist the Board in developing and managing an effective and sustainable institutional capacity (Physical, human and financial) that will enable achievement of core mandate of the Board and providing an avenue of communication among relevant stakeholders, management and the board.

b. Audit Committee

The Committee is made up of two elected directors, two Government directors and the head of Internal Audit who serves as the secretary to the committee. The responsibilities of the Committee are the review of financial information and monitoring of the effectiveness of the management information and internal control systems. The Committee receives reports from both internal and external auditors and also monitors implementation of audit recommendations on behalf of the Board.

c. Sugar Development Fund (SDF) Committee

The Committee is made up of a Fund Manager, eight Board members including the chairperson and the Chief Executive Officer.

The primary responsibility of the Committee is the administration and management of Sugar Development Fund including policy formulation. The Committee receives and approves all loan and grant applications by the sugar industry.

d. Cane Pricing Committee

The CPC is established under Part 3, clause 8 (1) of the Sugar Act 2001.

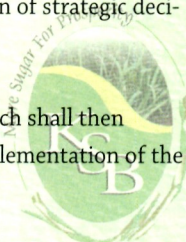
The Committee comprises four KSB representatives, two KESGA representatives and two KESMA representatives. The main objective of the Committee is to review sugar cane prices which shall be determined on the basis of sucrose content.

f. Comesa Safeguards Committee

The Comesa Safeguards Committee comprises 12 members with representatives from KSB, KESGA and KESMA.

The main objectives of the Committee include:

- a) Administering and monitoring the implementation of the sugar safeguard within the provisions of the Sugar (Imports, Exports and By-Product) Regulations;
- b) Following up with the National Sugar Safeguard Committee on all the undertakings on which the extension of the safeguard is premised;
- c) Ensuring implementation of appropriate and priority Government policies and legislation relating to the sugar industry;
- d) Monitoring the implementation of the Industry Strategic Plan and facilitating implementation of strategic decisions that will lead to competitiveness;
- e) Facilitating submission of quarterly reports to the National Sugar Safeguards Committee, which shall then consolidate the country position for the COMESA Secretariat on progress achieved in the implementation of the sugar safeguard;



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

3. *Management Committees*

The top management of the board is made up of eight Heads of Departments (HOD) and the Chief Executive Officer.

a. *Executive committee*

The Executive Committee is chaired by the Chief Executive Officer and comprises of all the eight heads of the department. This Committee has overall responsibility for day to day running of the Board, strategy implementation and monitoring and evaluation of performance. The Committee advises and assists the CEO in making decisions that define the direction of the Board.

b. *Management Tender Committee*

The Committee is made up of all Heads of department except the head of internal audit with the Senior Procurement Officer serving as the Secretary to the Committee. The primary role of the Committee is to adjudicate and award tenders whose value is above the Kshs. 500,000 ceiling in line with Public Procurement Guidelines.

4. *Risk management and internal control*

Management in consultation with the Board Committee is responsible for the Board's day to day overall risk management and maintenance of an effective system of internal controls that minimizes potential adverse effects on its financial performance. In doing this the Board has developed a risk management policy and strengthened the internal audit department to enable it review the process. The Board has put in place a chain of controls such as budgeting process, quarterly strategic planning review, clearly laid down authority levels, and a review of financial and operating information by management and the Board.

5. *Responsibility for staff welfare training*

As part of its policy, the Board recognizes its staff as the most important assets and the need for diversity, equal opportunities, gender sensitivity, and provision of a safe and conducive work environment. The Board assists its staff to undertake continuous professional and development training programmes to fulfill their potential. The process is appropriately managed to align staff development with Board's strategic goals and objectives.

6. *Compliance*

The Board operates within the requirements of the Sugar Act, State Corporations Act, Exchequer and Audit Act among other Acts and adopts certain universally accepted principals within the area of labour standards environment in its commitment to best practice. The Board prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).



Distillery at Agro-Chemical and Food Company

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

Date:.....
.....

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA SUGAR BOARD FOR THE YEAR ENDED 30 JUNE 2011

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Sugar Board set out on pages 18 to 30 which comprise the statement of financial position as at 30 June 2011, and the statement of compressive 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 the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal controls as management determines are 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 statement to the Auditor-General in accordance with the provision 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 of the Public Audit Act 2003. The Audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirement 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 judgement, 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 controls relevant to the entity's preparation and fair presentation of the financial statement 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 Board's internal controls. An Audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Non - Current Assets

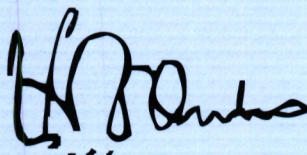
As reported in the year 2009/2010, the property, plant and equipment balance of Kshs. 177,204,000 excludes an undetermined value of land in Athi River, which was allocated to the Board on 18 April 1995. The management has explained that in spite of concerted efforts to repossess and value the land, it has not been possible due to delay by the Ministry of Lands to issue a title deed. It is however not clear if and when the land will be valued for inclusion in the financial statement, In the circumstances, it has not been possible to ascertain the accuracy of the carrying value of property, plant and equipment balance of Kshs. 177,204,000 as at 30 June 2011.

2. Trade and Other Receivables

As also reported in the year 2009/2010, the trade and other receivables balance of Kshs.23,843,000 as at 30 June 2011 includes staff imprest and outstanding car loans of Kshs.2,026,000 and Kshs.3,882,102 respectively owed by former employees of the Board. Although according to information available a provision for bad and doubtful debts of Kshs.11,410,000 is provided for in the financial statements, and efforts made to recover the debts through other means including legal interventions, it is not possible to confirm when and if the debts will be recovered.

Quality Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statement present fairly, in all material respects the financial position of the Board as at 30 June, 2011, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Sugar Act, 2001.



Edward R. O. Ouko
AUDITOR-GENERAL
Nairobi

24 January 2012

STATEMENT OF COMPREHENSIVE INCOME

	Note	2011 Kshs'000	2010 K shs'000
Revenue			
Revenue (grant)	2	505,651	439,138
Other operating income	3	34,280	174,960
Total revenue		539,931	614,098
Expenses			
Administrative expenses	4	94,680	89,717
Other operating expenses	5	337,856	431,112
Total expenses		432,536	520,829
Operating surplus		107,395	93,269
Finance costs	6	240	243
Net surplus		107,155	93,026
Other comprehensive income			
Surplus on property revaluation	7	-	43,114
Other comprehensive surplus for the year		-	43,114
Total Comprehensive surplus for the year		107,155	136,140



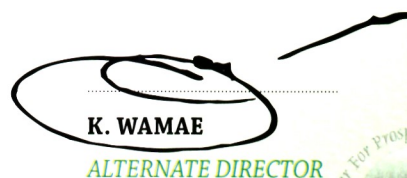
STATEMENT OF FINANCIAL POSITION

	Note	2011 Kshs'000	2010 Kshs'000
Assets			
Non-current assets			
Property, plant and equipment	7	177,204	182,161
Current assets			
Inventories	8	3,119	2,206
Trade and other receivables	9	23,843	27,187
Fixed Deposits	10	129,069	128,052
Cash and cash equivalents	11	416,819	253,877
Total current assets		572,850	411,322
Total Assets		750,054	593,453
Equity and liabilities			
Capital Reserves	15	6,900	6,900
Revaluation Reserves	16	43,114	43,114
Accumulated Revenue Reserves	17	208,686	101,531
SRSP Fund	20	144,635	-
Shareholders' funds		403,335	151,545
Non-current liabilities			
Long term borrowings	13	75,583	89,934
Inter-company borrowings -SDF loan	14	206,920	316,420
Total non-current liabilities		282,503	406,354
Trade and other payables	12	64,217	35,554
Total Equity and Liabilities		750,054	593,453

The financial statements on pages 18 to 30 were approved for issue by the Management and signed on its behalf by:



R. MKOK
CHIEF EXECUTIVE OFFICER



K. WAMAE
ALTERNATE DIRECTOR



STATEMENT OF CHANGES IN EQUITY

	Capital Reserve Kshs'000	Revaluation Reserve Kshs'000	Revenue Reserve Kshs'000	SRSP Fund Kshs'000	Total Reserves Kshs'000
Balances as at 1st July 2009	6,900	-	6,334	-	13,234
Prior year adjustment					
Overdepreciation on motor vehicle and fixtures & Fittings	-	-	2,171	-	2,171
Total Comprehensive Income	-	43,114	93,026	-	136,140
As At 30th June 2010	6,900	43,114	101,531	-	151,545
At 1st July 2010	6,900	43,114	101,531	-	151,545
Total Comprehensive Income	-	-	107,155	-	107,155
SRSP Fund Net Balance	-	-	-	144,635	144,635
As at 30th June 2011	6,900	43,114	208,686	144,635	403,335



Cogeneration plant in Mumias Sugar Company

STATEMENT OF CASH FLOWS

	Note	2011 Kshs'000	2010 Kshs'000
Cash flows from operating activities			
Cash generated/used from operations	18	41,968	169,605
Interest received		9,899	15,034
Net cash generated from operating activities		51,867	184,639
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(20,604)	(9,376)
Proceeds from disposal of property, plant and Equipment		2,412	39
Cash placed as collateral with a bank		(1,017)	(112,996)
Net cash generated from/(used in) investing Activities		(19,209)	(122,333)
Cash flows from financing activities			
Funds under SRSP	20	144,635	-
Repayments of long-term borrowings	13	(14,351)	(10,764)
Net cash generated/(used in) in financing Activities		130,284	(10,764)
Increase in cash and cash equivalents		162,941	51,542
Movement in cash and cash equivalents			
At the start of the year		253,877	202,335
Increase		162,941	51,542
At the end of the year	11	416,819	253,877



NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis for preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in functional currency, Kenya shilling (Kshs), which is the prevailing currency within the primary economic environment, rounded to the nearest thousand and prepared in accordance with the measurement bases prescribed by IFRS.

The preparation of financial statement in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the company's policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note (j) below.

(b) Revenue recognition

Grant from SDL revenue is recognized on the basis of sales by millers.

Interest income is recognized on a time proportion basis using the effective interest rate method.

(c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. And thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

All assets are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Board and the cost can be reliably measured. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income and expenditure account. Each year the difference between depreciation charged based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluations surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using either straight line or reducing method to write down their cost or revalued amounts to their residual values over their estimated useful lives. The rates and method depreciation method applied is as follows:

	Rates - %	Method
Buildings	2.5 %	Reducing
Kabete Access Road	33.3 %	Straight line
Office equipment	12.5 %	Reducing
Motor vehicles	25.0 %	Straight line
Computers	33.3 %	Straight line
Office furniture	12.5 %	Reducing
Maintenance equipment	12.5 %	Reducing
Fixtures and Fittings	12.5 %	Reducing

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to accumulated revenue reserve.

(d) Intangible assets

Software license costs are stated at historical cost less estimated accumulated amortization and accumulated impairment losses. Amortization is calculated using straight line method to write down the cost of the software to its residue value over the estimated useful life using an annual rate of 33%.

(e) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on first in first out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

(f) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate. A provision for impairment is recognized in the profit and loss account in the year when the recovery of the amount due as per the original terms is doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account in the year of recovery.

(g) Employee benefits

Retirements benefit obligations

The Board operates a defined contribution retirement benefits scheme for its employees. A defined benefit plan is a pension plan that defines an amount of pension that an employee will receive on retirement. A defined contribution



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

plan is a pension plan under which the company pays fixed contributions into a separate entity. The Board 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 assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Board and employees. The Board and all its employees also contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme. Contributions are determined by local statute as legislated.

The Board's contributions to the defined contribution schemes are charged to the income and expenditure account in the year to which they relate.

The liability recognized in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gain or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience judgments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employee's expected average remaining working lives.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, Cash and cash equivalents includes Bank balances and short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(i) Financial risk management objectives and policies

The Board's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the Board's products and services. The Board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effects of such risks on its performance by setting acceptable level of risks. The Board does not hedge any risks and has in place policies to ensure that credit is extended to customers with appropriate credit history.

(j) Critical accounting estimates and judgments

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

(K) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative have been adjusted to comply with the requirements of International Accounting Standard 16.39 on revaluation of 'property, plant and Equipment'

2. Revenue (Grants)

	2011	2010
	Kshs '000	Kshs '000
Total SDL for the year	1,699,668	1,476,095
SDL available for sharing (85%)	1,444,718	1,254,681
Grant received	505,651	439,138

Grants received by the Board from SDF were based on 1.4/4 of the revenue available for sharing.

3. Other Operating Income

	2011	2010
	Kshs '000	Kshs '000
Molasses levy	960	1,427
Interest income on deposits	9,899	15,034
Auction of sugar import rights	-	129,532
Miscellaneous income	23,421	28,967
	34,280	174,960

The weighted average effective interest rate on short term bank deposits at the year-end was 4.5% (2010- 6.5 %).

4 Administrative Expenses

	2011	2010
	Kshs '000	Kshs '000
Establishment costs	36,773	33,127
Entertainment	4,163	3,886
Premises expenses	13,535	13,118
Professional fees	15,025	19,143
Insurance	368	275
Depreciation	24,816	20,168
	94,680	89,717

5. Operating expenses

	2011	2010
	Kshs '000	Kshs '000
Staff costs	186,514	163,884
Directors' expenses	59,614	30,090
Motor vehicle expense	10,699	9,486
Communication expense	5,846	6,373
Travel	39,837	42,792
Marketing & Publicity	35,347	35,592
Tax arrears	-	38,258
Revaluation deficit	-	104,637
	337,856	431,112

6. Finance Costs

	2011	2010
	Kshs '000	Kshs '000
Bank charges	240	243



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. Property, plant and Equipment

Cost/Valuation	Buildings & Freehold Land Kshs '000	Motor Vehicles Kshs '000	Office Equip. Kshs '000	Office Furn. Kshs '000	Fixture & Fittings Kshs '000	Land & improvements Kshs '000	Kabete Access Kshs '000	Computer Equipment Kshs '000	Maintenance Equip. Kshs '000	Total Kshs '000
As at 01/07/2010	90,000	41,704	3,011	9,839	15,208	47,000	31,475	5,907	1,347	245,491
Additions	-	13,437	3,094	1,061	499	-	-	2,513	-	20,604
Disposals	-	(5,506)	(507)	(234)	-	-	-	(178)	-	(6,425)
As at 30/06/2011	90,000	49,635	5,599	10,666	15,707	47,000	31,475	8,242	1,347	259,670
Depreciation										
As at 01/07/2010	1,125	30,376	158	620	9,094	-	20,983	779	224	63,670
Charge for the year	2,222	6,932	438	1,182	799	-	10,492	2,301	449	24,816
Disposals -	-	(5,506)	(82)	(38)	-	-	-	(84)	-	(5,710)
As at 30/06/2011	3,347	31,802	515	1,765	9,893	-	31,475	2,996	673	82,466
Net book value										
AS at 30/06/2011	86,653	17,832	5,084	8,901	5,814	47,000	-	5,247	673	177,204
As at 30/06/2010	88,875	11,328	2,853	9,219	6,114	47,000	10,492	5,128	1,123	182,132

Not included in the property, plant and equipment under "Land and Improvement" is one Hectare plot in Athi River which the board was allocated in 1995. The Board is pursuing its title deed after which its value will be included in the books.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8. Inventory	2011	2010
	Kshs '000	Kshs '000
Stationery	3,119	2,206

The stationery stocks were held at Boards' offices in Nairobi, Kisumu, Kakamega and Mombasa

9. Trade and other receivables	2011	2010
	Kshs '000	Kshs '000
Imprests	13,004	786
Staff advances	12,174	22,856
Prepayments and deposits	2,065	1,839
Loans owed by former staff	6,218	2,278
Other receivables	1,792	10,838
	<u>35,253</u>	<u>38,598</u>
Less: Bad debt provisions	(11,410)	(11,410)
	23,843	27,188

Included in the imprest is ksh12,804,924 held by KESREF under Sugar Reforms Support Programme funded by European Union.

10. Fixed deposits	2011	2010
	Kshs '000	Kshs '000
National Bank of Kenya	15,408	15,266
Kenya Commercial Bank	113,661	112,786
	129,069	128,052

These fixed deposits have been placed as collateral for staff car loans and mortgage scheme operated by the two institutions respectively.

11. Cash and cash equivalents	2011	2010
	Kshs '000	Kshs '000
NBK Hill branch-Nairobi	58,816	36,239
Standard Chartered – Kisumu	39	228
Standard chartered – Kakamega	66	73
National Bank – Mombasa	2	187
NBK- SRSP Accounts	131,795	-
Cash in hand –Kisumu	68	-
Short term bank deposits	226,032	217,150
	416,819	253,877

Cash and cash equivalents comprise of bank balances and short term deposits held with banks.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12. Trade and other payables

	2011 Kshs '000	2010 Kshs '000
Trade payables	24,124	13,019
Payroll clearances	6,692	855
Staff dues	224	39
Advance fee	6,150	5,600
Audit fee	1,100	1,000
Former staff Loans owed to NBK	2,289	2,289
Other accruals	23,637	12,752
	64,217	35,554

Former staff loans owned to National bank relates to loans that were guaranteed by the Board to Mr. A. Otieno, Mr. M. Selebwa, and Mr. E. Mutongi

13. Long term borrowings

	2011 Kshs '000	2010 Kshs '000
Balance B/F July 2009	89,934	100,698
Repayments	(14,351)	(10,764)
Balance carried forward	75,583	89,934

14. Inter-company borrowings – SDF loan

	2011 Kshs '000	2010 Kshs '000
Balance B/F July 2009	316,420	352,272
Change during the period	(109,500)	(35,852)
Balance carried forward	206,920	316,420

Related party balances

The short term borrowing relates to transactions between Kenya Sugar Board and the Sugar Development Fund.

The additions are in respect of:

- i) KSB operational expenses paid through SDF bank accounts.
- ii) Levy revenue (grant) received from SDF

The deductions are in respect of:

- i) Levy revenue (grant) earned but not received from SDF
- ii) Reimbursements made by KSB to SDF for operational expenses.
- iii) KSB funds banked in the SDF accounts

The long term loan relates to the Interest free loan granted in 1999 by SDF for putting up Headquarters at Kabete for Kenya Sugar Board.

15. Capital Reserves

This comprises of the value of the Board's Kabete plot L.R. No. 21705 in which its headquarters are situated.

16. Revaluation

Building and land improvements, furniture, office equipments, computers and maintenance equipment were professionally valued on 31st December 2009 by Crystal Valuers Limited on the basis of open market value. The book value of those assets was adjusted to the fair values. The deficit on assets revaluation has been recognized as an operating expense, while the revaluation surplus has been credited to other Comprehensive Income and accumulated in equity under the heading 'Revaluation Surplus'.

Land and improvement consists of land, tarmacked parking, roads and borehole.
The revaluation reserves realized are as follows:

17. Revenue Reserves

This is a build up of retained earnings/deficits over the past years.
The movement during the period is as in the statement of changes in reserves.

18. Cash generated from operations

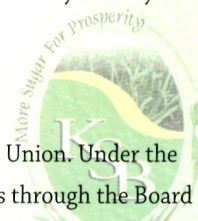
	2011	2010
	Kshs '000	Kshs '000
Operating surplus	107,155	93,026
Add back depreciation	24,816	20,168
Add back revaluation deficit	-	104,637
Less interest income	(9,899)	(15,034)
Gain realized on disposal of assets	(1,697)	(39)
Changes in working capital		
(Increase)/Decrease in Inventory	(914)	355
(Increase)/Decrease in Trade & other receivables	3,345	(9,278)
Increase in Trade & other payables	28,662	12,332
Decrease in short-term borrowings	(109,500)	(35,852)
	41,968	169,605

19. Contingent Liability

Two sugar importers who participated in the auction of sugar import rights in September 2009 have filed a case in court demanding a refund of Ksh 87.8million bid monies paid to the Board. The two importers claim that the auction rules were flawed to their disadvantage. The Board is of opinion that the case will be ruled in its favour and there is no likely liability.

20. Sugar Reforms Support Project Fund

During the period under review, the Board entered into financing agreement with delegation of European Union. Under the Agreement, Delegation of European Union will support reforms in the sugar industry by disbursing funds through the Board to a tune of EUR 1,922,350 over a period of three years. Funds for Programme Estimate 1 (PE1) running from 1st November, 2010 to 30th November 2011 EUR 1,140,210 (Ksh.126,873,903 were received in February 2011.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

SRSP Fund Position as at 30th June 2011

	Ksh '000'
Total Grant Received	126,874
Expenditures	2,739
Grant net of Expenditure	124,135
Add back: Exchange gains	20,500

Total Fund **144,635**

Represented by:

Bank balances	131,795
Imprest held by KESREF and KSB	12,840

Total Asset **144,635**

The excess funds under (PE1) EUR 1,005,644 (Ksh.140,287,338) were returned to European Union on 29th September, 2011 pending release of (PE2) funds.



SUGAR DEVELOPMENT FUND

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REPORT OF THE DIRECTORS

The Directors submit their Report together with the audited Financial Statements for the year ended 30th June 2011, which disclose the state of affairs of the Fund.

Principal activities

The principal activity of the Fund which was established in 1992 is to create a revolving fund of financing the activities of the Sugar Industry in Kenya.

Results

	2011	2010
	Kshs '000	Kshs '000
Surplus before income tax	54,072	237,308
Taxation charge	-	-
Net Surplus for the year carried to retained earnings	54,072	237,308

Directors

The directors who held office during the year and to the date of this report are listed on page 4.

Auditor

The Auditor General will continue in office in accordance with Public Audit Act 2003.

By order of the board



ANDREW OSODO
COMPANY SECRETARY

STATEMENTS OF THE DIRECTORS RESPONSIBILITIES

The State Corporation Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Fund as at the end of the financial year and of its surplus or deficit. It also requires the directors to ensure that the Fund keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Board. They are also responsible for safeguarding the assets of the Fund.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the State Corporations 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 company and of its surplus or deficit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

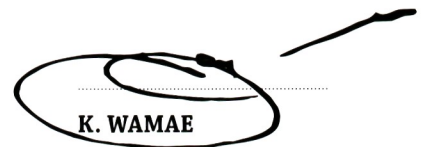
Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the management on behalf of the board of directors and signed on its behalf by:



R. MKOK
CHIEF EXECUTIVE OFFICER

DATE.....



K. WAMAE
ALTERNATE DIRECTOR

DATE.....



REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

Date:.....
.....

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON SUGAR DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE 2011

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Sugar Development Fund set out on pages 36 to 50 which comprise the statement of financial position as at June 30, 2011 and the statement of compressive 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 the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal controls as management determines are 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 statement to the Auditor-General in accordance with the provision 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 of the Public Audit Act 2003. The Audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirement 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 judgement, 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 controls relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing and opinion on the effectiveness of the Board's internal controls. An Audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the

management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Non-performing Loans

Include in note 12 to the financial statement are non-performing loans totalling Kshs.3,823,754,000 granted to various Sugar companies, and with accrued interest of Kshs.910,922,000 as at 30 June 2011. Although the management has made in the financial statements a provision of Kshs.1,451,172,000 for such loans and a further amount of Kshs.503,562,000 for the accrued interest, the provision appears to be inadequate considering the low rate of recovery of the loans. While in a further initiative the management has indicated that it has communicated with the parent Ministry over possible inclusion of the fund's loans repayment as a specific performance contract target, no meaningful progress has nevertheless been recorded in the recovery of the loans.

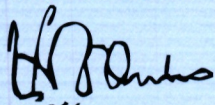
2. Trade and Other Receivables

- (i) As similarly reported in the previous year, the trade and other receivables balance of Kshs.1,705,077,00 as at 30 June 2011 includes an amount of Kshs.1,391,815,000 representing as at 30 June 2011 includes an amount of various institutions. Although according to records available the arrears have been outstanding for a considerably long period of time, no concrete measures appear to have taken by the management to address the problem.
- (ii) Further, included in the trade and other receivables figure of Kshs.1,705,077,000 are sundry debts of Kshs.429,809,000 which include an amount of Kshs.145,314,000 relating to expenses include by the fund on behalf of various institutions, some of which are under receivership. The debts also include imprests amounting to Kshs.1,339,055 outstanding from ex-employees. Although a provision for bad and doubtful debts of Kshs.116,547,000 has been made in the financial statements, the recovery of the entire debt of Kshs. 145,314,000 from the institutions and Kshs.1,339,055 from the ex-employees appears doubtful.

In the circumstances, it has not been possible to confirm the full recoverability of the trade and other receivables balance of Kshs.1,7705,077,000 as at 30 June 2011.

Quality Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statement present fairly, in all material respects the financial position of the Fund as at 30 June, 2011, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Sugar Act, 2001.

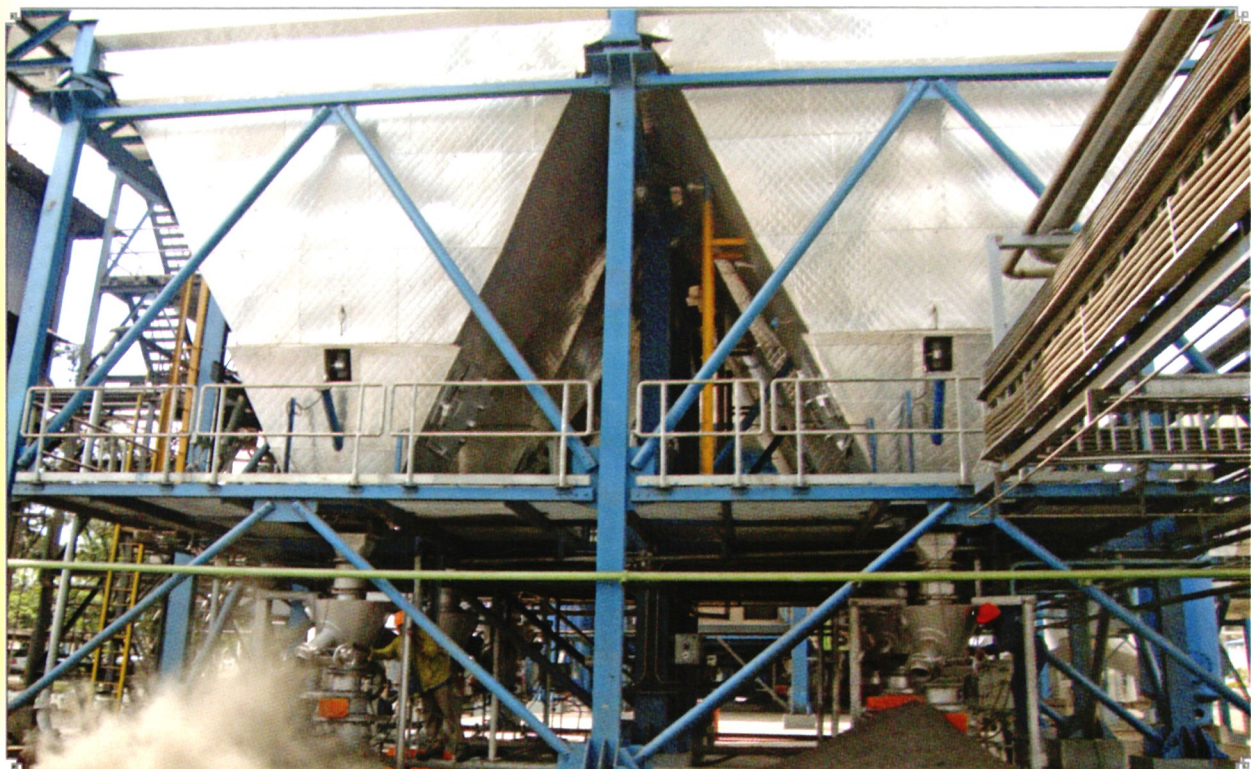


Edward R. O. Ouko
AUDITOR-GENERAL

24 January 2012
Nairobi

STATEMENT OF COMPREHENSIVE INCOME

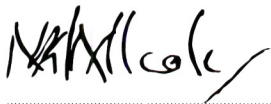
	Note	2011 Kshs'000	2010 K shs'000
Revenue (Levy)			
Revenue (grant)	4	1,699,668	1,476,095
Other operating income	5	368,778	413,499
Total revenue		2,068,446	1,889,594
Less:			
Direct Appropriations	6	845,160	733,988
Administrative expenses	7	54,265	53,285
Operating surplus		1,169,021	1,102,321
Less: other expenses			
Finance costs/income	8	199	561
Indirect appropriations	9	1,008,575	759,632
Provisions for bad & doubtful debts	10	106,175	104,820
Total other expenses		1,114,949	865,013
Surplus before Tax expense/income		54,072	237,308
Tax expense/income		-	-
Net surplus after tax		54,072	237,308



STATEMENT OF FINANCIAL POSITION

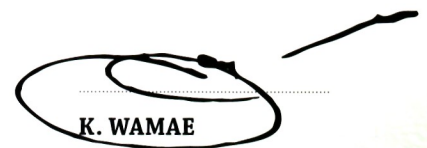
	Note	2011 Kshs'000	2010 Kshs'000
Assets			
Non-current assets			
Property, plant and equipment	11	4,823	5,061
Loans to Companies	12	7,404,156	7,485,108
		7,408,979	7,490,169
Current assets			
Trade and other receivables	13	1,705,077	1,782,505
Interest on loans to Companies	12	1,152,428	1,042,108
Cash and cash equivalents	14	4,492,500	3,620,348
Total Current Assets		7,350,005	6,444,961
Total assets		14,758,984	13,935,130
Equity and liabilities			
Equity			
Accumulated reserves	16	11,561,123	11,040,961
Prescribed reserves	17	2,284,028	2,029,078
Retained surplus		653,629	758,001
Total Equity		14,498,780	13,828,040
Current liabilities			
Trade and other payables	15	260,204	107,090
Total Equity & Liabilities		14,758,984	13,935,130

The financial statements on pages 36 to 50 were approved for issue by the Management on behalf of the Board of Directors and signed by:



R. MKOK
CHIEF EXECUTIVE OFFICER

DATE.....



K. WAMAE
ALTERNATE DIRECTOR

DATE.....



STATEMENT OF CHANGES IN RESERVES

	Accumulated Reserve Kshs'000	Prescribed Reserve Kshs'000	Retained surplus Kshs'000	Total Kshs'000
Year ended 30th June 2010				
At 1st July 2009	10,625,051	1,807,664	606,413	13,039,128
Inter reserve transfer	606,413	-	(606,413)	-
Additions	(190,503)	221,414	758,001	788,912
At 30th June 2010	11,040,961	2,029,078	758,001	13,828,040
Year ended 30th June 2011				
At 1st July 2010	11,040,961	2,029,078	758,001	13,828,040
Inter reserve transfer	758,001	-	(758,001)	-
Additions	(237,839)	254,950	653,629	670,740
At 30th June 2011	11,561,123	2,284,028	653,629	14,498,780

NOTE:

Retained surplus is composed of the net operating results per the P & L and adjustments for appropriations that do not involve direct outflow from the Fund.

	2011 Kshs'000	2010 Kshs'000
Net surplus/ deficit per the P & L	54,072	237,308
Add Back Appropriations not involving direct outflows		
Factory rehabilitation	256,437	222,706
Cane development	238,378	207,022
Roads grants	104,742	90,965
	653,629	758,001
Additions to Accumulated Reserves is comprised of:		
Write-off of Infrastructure Grants	(237,839)	(190,603)
Reconciliation on Levy balances	-	100
	(237,839)	(190,503)

STATEMENT OF CASH FLOWS

	2011 Kshs'000	2010 Kshs'000
Cash flows from operating activities		
Surplus/ (deficit) before taxation	54,072	237,308
Adjustments for:		
Add: Depreciation	239	262
Less: Interest income	(366,394)	(411,802)
	(312,083)	(174,232)
(Increase)Decrease in trade & other receivables	77,429	1,762
Increase (Decrease) in trade & other payables	153,111	25,856
(Increase) Decrease in loan interest	(110,320)	(93,938)
Cash generated from operations	(191,863)	(240,552)
Interest received	366,394	411,802
Net cash generated from operating activities	174,531	171,250
Cash flows from investing activities		
Loans to Companies	80,953	(239,095)
Grants to Companies	(237,839)	(190,603)
Net cash generated from/ (used in) investing Activities	(156,886)	(429,698)
Cash flows from financing activities		
Factory Rehabilitation:	256,437	222,706
Cane Development	238,378	207,022
Roads Grants	104,742	90,965
Prescribed reserves	254,950	221,414
Net cash generated/ (used in) in financing Activities	854,507	742,107
Net (decrease)/increase in cash and cash Equivalents	872,152	483,659
Cash & cash equivalent at start of the year	3,620,348	3,136,689
Cash & cash equivalent at end of the year	4,492,500	3,620,348



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

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income and expenditure account. Each year the difference between depreciation charged based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluations surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line/ reducing balance methods to write down their cost or revalued amounts to their residual values over their estimated useful lives using the following annual rates:

	Rates - %	Method
Buildings	2.5%	Straight line
Plant and machinery	12.5%	Reducing
Office equipment	12.5%	Reducing
Motor vehicles	25%	Straight line
Computers	33.3%	Straight line
Office furniture	12.5%	Reducing

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

(d) Intangible assets

Software licence costs are stated at historical cost less estimated accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight line method to write down the cost of the software to its residue value over the estimated useful life using an annual rate of 33.3%.

(e) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on first in first out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(g) *Receivables*

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate. A provision for impairment is recognized in the profit and loss account in the year when the recovery of the amount due as per the original terms is doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate. Receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account in the year of recovery.

(h) *Employee benefits*

The Fund, which is not a registered entity is managed by Kenya Sugar Board and does not have its own employees.

(i) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(j) *Taxation*

No provision for corporation Tax has been made as the Fund is not engaged in any trade activities.

2. *Financial risk management objectives and policies*

(Note; - this is illustrative-the Board should tailor this to reflect the way in which the board manages financial risks)

The Company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the Board's products and services.

The Company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effects of such risks on its performance by setting acceptable level of risks. The Board does not hedge any risks and has in place policies to ensure that credit is extended to customers with appropriate credit history.

3. *Critical accounting estimates and judgments*

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

4. *Revenue (Levy)*

	2011	2010
	Kshs'000	Kshs'000
Levy from imports	226,236	183,733
Levy from Sugar Companies	1,473,432	1,292,362
	1,699,668	1,476,095

5. Other Operating Income

	2011	2010
	Kshs'000	Kshs'000
Interest income on deposits	141,065	215,307
Interest income on loans	225,329	196,495
Miscellaneous income	2,384	1,697
	368,778	413,499

6. Direct Appropriations

	2011	2010
	Kshs'000	Kshs'000
Levy share – KSB	505,651	439,138
Levy share – Research	339,509	294,850
	845,160	733,988

7. Administrative Expenses

	2011	2010
	Kshs'000	Kshs'000
Agency fees	33,081	28,613
Factory and Outgrowers supervision	20,045	23,510
Audit fees	900	900
Depreciation	239	262
	54,265	53,285



KSB Directors on a factory visit

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8. Finance Costs	2011 Kshs'000	2010 KShs'000
Bank charges	199	561
9. Indirect appropriations (Share of Levy)		
Factory Rehabilitation =	0.71/4*0.85	256,437
Cane Development =	0.66/4*0.85	238,378
Roads grants =	0.29/4*0.85	104,742
Capital grants -disbursed	154,068	17,525
Prescribed reserves 15% of levy	254,950	221,414
	1,008,575	759,632
10. Provision for bad & doubtful debts		
	106,175	104,820

The provision is based on a 1% general provision of the outstanding loan principal and interest.

11. Property, plant and equipment

	Buildings & Freehold land Kshs'000	Motor Vehicles Kshs'000	Office Equipment Kshs'000	Computers Kshs'000	Office Furniture Kshs'000	Total
Cost						
As at 01/07/10	4,731	-	1,663	6,347	3,935	16,675
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
As at 30/06/11	4,731	-	1,663	6,347	3,935	16,675
Depreciation						
As at 01/07/10	992	-	1,382	6,347	2,894	11,614
Charge for the year	73	-	35	0	130	239
Disposals	-	-	-	-	-	-
As at 30/06/11	1,065	-	1,417	6,347	3,024	11,853
Net book value						
As at 30/06/11	3,666	-	246	-	911	4,823
As at 30/06/10	3,739	-	281	-	1,041	5,061

Buildings and freehold land were last revalued during 2005 by independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income tax was credited to the revaluation surplus in the shareholders' equity.

12. Total Loans Analysis as at 30th June 2011

	PRINCIPAL 30.06.11 Kshs'000	INTEREST 30.06.11 Kshs'000	TOTAL 30.06.11 Kshs'000	PRINCIPAL 30.06.10 Kshs'000	INTEREST 30.06.10 Kshs'000	TOTAL 30.06.10 Kshs'000
Chemelil Sugar Company	1,231,035	203,888	1,434,922	1,231,215	152,117	1,383,332
Muhoroni Sugar Company (In Receivership)	1,682,854	388,859	2,071,714	1,685,076	378,131	2,063,207
Muhoroni Outgrowers Company	304,594	47,382	351,976	272,415	45,512	317,927
Mumias Outgrowers	212,793	20,467	233,260	212,793	12,267	225,060
Nzoia Sugar Company	977,567	228,614	1,206,181	1,071,371	226,037	1,297,409
Nzoia Outgrowers Company	380,880	76,249	457,129	373,058	71,518	444,576
South Nyanza Sugar Company	395,156	19,413	414,569	560,280	40,029	600,309
South Nyanza Outgrowers Company (In Receivership)	375,449	102,468	477,916	375,449	101,561	477,009
West Kenya Sugar Company	203,624	16,271	219,895	134,562	10,914	145,475
Busia Sugar Company (In Receivership)	301,605	82,054	383,659	301,605	82,054	383,659
Miwani Sugar Company (In Receivership)	1,199,658	293,523	1,493,181	1,199,658	238,662	1,438,320
Mumias Sugar Company	0	0	0	0	0	0
Government Of Kenya Guaranteed Loans	262,817	65,740	328,557	262,817	65,740	328,557
Chemelil Outgrowers	187,035	44,544	231,579	189,118	38,092	227,210
Soin Outgrowers	116,510	26,655	143,165	116,510	29,955	146,465
Busia Outgrowers	109,845	10,385	120,230	65,896	11,527	77,422
West Kenya Outgrowers	78,867	3,563	82,429	80,793	3,777	84,570
Nandi Escp. Outgrowers	115,183	28,162	143,345	115,183	26,266	141,449
Miwani Outgrowers	11,112	3,057	14,169	11,112	3,057	14,169
Lubao Jaggery	929	0	929	929	0	929
Agricultural Finance Corporation	504,159	0	504,159	428,890	0	428,890
Muhoroni Multipurpose Co-Op Union	36,676	3,803	40,479	20,132	2,713	22,845
Kisumu Sugarbelt Co-Op Union	70,482	7,621	78,103	41,474	5,743	47,217
Receivership Costs - Muhoroni	172,275	0	172,275	172,275	0	172,275
Receivership Costs - Miwani	13,671	0	13,671	13,671	0	13,671
	8,944,775	1,672,718	10,617,493	8,936,280	1,545,670	10,481,951
Less Provision For Bad & Doubtful Debts B/F	1,451,172	503,562	1,954,734	1,361,809	488,106	1,849,915
Provision For The Year-On Loans(1%)	89,448	16,727	106,175	89,363	15,457	104,820
Total Provision C/F	1,540,620	520,289	2,060,909	1,451,172	503,562	1,954,734
	7,404,156	1,152,428	8,556,584	7,485,108	1,042,108	8,527,216

Detailed analysis of the loans by type is as per Note 12 (i)



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12(i) LOANS SCHEDULE AS AT 30TH JUNE 2011

REHABILITATION	PRINCIPAL Kshs'000	INTEREST OUTSTANDING Kshs'000	TOTAL Kshs'000
CHEMELIL SUGAR COMPANY	1,109,545	167,067	1,276,612
MUHORONI SUGAR COMPANY (IN RECEIVERSHIP)	1,472,694	339,898	1,812,592
NZOIA SUGAR COMPANY	562,063	117,050	679,114
SOUTH NYANZA SUGAR COMPANY	289,975	16,524	306,500
WEST KENYA SUGAR COMPANY	0	0	0
BUSIA SUGAR COMPANY (IN RECEIVERSHIP)	5,030	1,460	6,490
MIWANI SUGAR COMPANY (IN RECEIVERSHIP)	414,896	124,914	539,810
MUMIAS SUGAR COMPANY	0	0	0
LUBAO JAGGERY	929	0	929
GOVERNMENT OF KENYA GUARANTEED LOANS	262,817	65,740	328,557
	4,117,950	832,654	4,950,604

The loans are charged interest at 5% for the first 36 months and 6% thereafter.

CANE DEVELOPMENT

CHEMELIL SUGAR COMPANY	95,629	36,821	132,449
MUHORONI SUGAR COMPANY (IN RECEIVERSHIP)	200,160	48,961	249,122
MUHORONI OUTGROWERS COMPANY	304,594	47,382	351,976
MUMIAS OUTGROWERS	212,793	20,467	233,260
NZOIA SUGAR COMPANY	405,504	111,564	517,067
NZOIA OUTGROWERS COMPANY	380,880	76,249	457,129
SOUTH NYANZA SUGAR COMPANY	54,181	2,889	57,069
SOUTH NYANZA OUTGROWERS COMPANY (IN RECEIVERSHIP)	375,449	102,468	477,916
WEST KENYA SUGAR COMPANY	203,624	16,271	219,895
BUSIA SUGAR COMPANY (IN RECEIVERSHIP)	296,575	80,595	377,170
MIWANI SUGAR COMPANY (IN RECEIVERSHIP)	93,110	24,877	117,987
MUMIAS SUGAR COMPANY	0	0	0
CHEMELIL OUTGROWERS	187,035	44,544	231,579
SOIN OUTGROWERS	116,510	26,655	143,165
BUSIA OUTGROWERS	109,845	10,385	120,230
WEST KENYA OUTGROWERS	78,867	3,563	82,429
NANDI ESCP. OUTGROWERS	115,183	28,162	143,345
MIWANI OUTGROWERS	11,112	3,057	14,169
AGRICULTURAL FINANCE CORPORATION	504,159	0	504,159
MUHORONI MULTIPURPOSE CO-OP UNION	36,676	3,803	40,479
KISUMU SUGARBELT CO-OP UNION	70,482	7,621	78,103
	3,852,366	696,332	4,548,698

The loans are charged interest at 5% for the first 12 months and 6% thereafter. Included in this analysis are loans for farmers arrears which are at interest rate of 3%.

ROADS LOANS

	PRINCIPAL Kshs'000	INTEREST OUTSTANDING Kshs'000	TOTAL Kshs'000
CHEMELIL SUGAR COMPANY	25,861	0	25,861
MUHORONI SUGAR COMPANY (IN RECEIVERSHIP)	10,000	0	10,000
NZOIA SUGAR COMPANY	10,000	0	10,000
SOUTH NYANZA SUGAR COMPANY	51,000	0	51,000
MIWANI SUGAR COMPANY (IN RECEIVERSHIP)	11,652	0	11,652
	108,514	0	108,514

The Road and Infrastructure loans were issued before 2003/04 and are repayable.

OTHERS

Settlement of Secured Creditors-Miwani	680,000	143,732	823,732
Receivership Costs - Muhoroni	172,275	0	172,275
Receivership Costs - Miwani	13,671	0	13,671
	865,946	143,732	1,009,678
Grand Total	8,944,775	1,672,718	10,617,493



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. Trade and Other Receivables Schedule as at 30th June 2011

I) Levy Arrears

INSTITUTIONS	30.06.11 KSHS '000'	30.06.10 KSHS '000'
Sundry Importers	21,101	30,098
South Nyanza Sugar Company	276,858	238,862
Miwani Sugar Company (In Receivership)	121,058	121,058
Mumias Sugar Company	94,144	104,409
West Kenya Sugar Company	43,225	33,035
Nzoia Sugar Company	429,650	430,178
Muhoroni Sugar Company (In Receivership)	163,098	171,135
Chemelil Sugar Company	203,453	186,018
Kibos Sugar & Allied Industries	11,024	15,362
Soin Sugar Company	6,313	6,437
Butali Sugar Company	14,724	0
Jaggeries	1,809	2,543
Kenya National Trading Corporation	5,359	5,359
	1,391,815	1,344,492

ii) SUNDRY DEBTORS

Nzoia Sugar Co. 1996 OOC Tech. Committee Exps.	844	844
Nzoia Sugar Co. Inter - Ministerial Committee	1,487	1,487
Kenya Sugar Industry Party		
- Nzoia Sugar Company	157	157
- West Kenya Sugar Company	157	157
Kenya Sugar Marketing	34	34
KSB Inter - Company Account (Hqs. project)	75,583	89,934
KSB Inter - Company Account	206,920	316,421
Miwani Sugar Company (In Receivership)	160	160
Nzoia Outgrowers Company	52	52
Receivership Costs - Muhoroni(Receiver's fees)	6,676	6,676
- Miwani(KPMG)	1,180	1,180
Coveka Outgrowers Company	1,939	1,939
Busia Sugar Co. (Inter - Ministerial)	667	667
South Nyanza Sugar Co.	2,217	2,217
Other Debtors (Sugar Industry Ploughing Contr.)	50	50
Staff Debts & Others	1,692	2,782
Prepayments	100	100
South Nyanza Outgrowers	200	0
Sugar Import(Trumps Freighters)	19,000	19,000
Mumias Sugar Company	392	392
Chemelil Sugar Company	843	843
Muhoroni Sugar Company (In Receivership)	8,897	8,897
Nzoia Sugar Co. (GM Vacancy)	421	421
SDL rebate on 2003/04 sugar exports	28,463	28,463
VAT Refunds on Export sugar (Mumias 2003/4)	66,263	66,263
Nzoia Sugar Co. (Reimbursement)	5,416	5,416
James Meeme- Sale of Peugeot KAL 283U	0	9
	429,809	554,560
Less Provision for Bad Debts	-116,547	-116,547
	1,705,077	1,782,505

14. Cash and Cash Equivalents as at 30th June 2011**(I) Investment Schedule as at 30th June 2011**

INSTITUTIONS	30.06.11 KSHS '000'	30.06.10 KSHS '000'
NBK Hill Branch	1,433,406	1,689,471
Co-operative Bank	2,551,368	1,691,482
Euro Bank	55,237	55,237
Standard Chartered	219,994	0
	<hr/>	<hr/>
	4,260,006	3,436,191
	<hr/>	<hr/>
Less Provision for Bad Debts (Euro Bank)	55,237	55,237
	<hr/>	<hr/>
Net Investments	4,204,768	3,380,954

(II) CASH AND BANK BALANCES AS AT 30TH JUNE 2011

STD CHARTERED Westlands	248,990	162,994
Cooperative Bank, Coop. Hse.	177	519
Barclays Bank Westlands	38,565	75,881
	<hr/>	<hr/>
	287,732	239,394
	<hr/>	<hr/>
TOTAL CASH AND CASH EQUIVALENTS	4,492,500	3,620,347

15. Trade and Other Payables Schedule as at 30th June 2011

Sugar Research Levy	117,291	95,280
Audit Fees	900	900
Cane Unit	137,096	0
Staff Claims	850	0
Consultants	4,067	10,909
	<hr/>	<hr/>
	260,204	107,090



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

16. Accumulated Reserves

This is a build up of retained earnings/deficits over the past years.
The movement during the period is as in the statement of changes in reserves.

17. Prescribed Reserves

The prescribed reserves refer to the share of the Sugar Development Levy as provided for in the sharing ratios meant for building up a reserve for the future benefit of the industry. The movement during the period is as in the statement of changes in reserves.

18. Cash & Cash Equivalent

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings.

19. Related Party Transactions

- i) The Fund finances the operations of both Kenya Sugar Board and Kenya Sugar Research Foundation in the proportions 1.4/4 and 0.94/4 respectively from the net levy collections after 15% reserve retentions.
- ii) Included under note 13 on Trade and Other Receivables are inter-company borrowings of Kshs.75.6 million and Kshs.204.9 million, arising from lending for construction of KSB headquarters and inter-party transactions respectively.
- iii) Included in note 13 on Total Loans Analysis is an amount of Kshs.262.8 million advanced by the Fund to Nzoia Sugar Company with a guarantee by the Government of Kenya.

Kenya Sugar Board



Sukari Plaza, Off Waiyaki Way,
P.O Box 51500-00200, Nairobi

Tel: (254-20) 8010750/1/2/3
Tel: (254-20) 2023316/7/8/9
Mobile: +254-722-203127/8
+254-733-333378/9
Fax: (254-20)2021266/77

Email: info@kenyasugar.co.ke
Website: www.kenyasugar.co.ke

