REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
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DATE: 01 SEP 2021 | DAY: WED
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CLERK-AT THE-TABLE: S. Kalama

REPORT

OF

THE AUDITOR-GENERAL

ON

SOUTH NYANZA SUGAR COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

SONYSUGAR
Simply The Sweetest

SOUTH NYANZA SUGAR COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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CORPORATE INFORMATION

Background information

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

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

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

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

DIRECTORS

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

Charles Oyugi Owino	Chairman
James Oluoch	Managing Director (Ag)
James Wanjohi	Alternate – Principal Secretary, Ministry of Agriculture, Livestock Irrigation and Fisheries.
Cheryl Majiwa	Alternate – Cabinet Secretary, the National Treasury.
Hon. Winnie K. Njuguna	Director (Appointed on 20.09.2018)
Hon. Jared O. K'Opiyo	Director (Appointed on 20.09.2018)
Hon. Daniel L. Ole Seitai	Director (Appointed on 20.09.2018)
Mr. Thomas M. Nyangi	Director (Reappointed on 20.09.2018)
Ms. Agnes C. Busienei	Director (Appointed on 20.09.2018)
Ms. Dorice Donya Aburi	Director (Appointed on 20.09.2018)
Ms. Helen Amina	Director (Appointed on 14.12.2018)
Mr.James Maganda	Director (Appointed on 20.09.2018)

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

SENIOR MANAGEMENT

James Oluoch	Managing Director (Ag)
CPA Edward Odhiambo Mosi	Head of Finance (Ag) - ICPAK Reg. No.14613
Gabriel Otiende	Company Secretary-ICPSK Reg. No. 1386
Stephen Ligawa	Head of Manufacturing (Ag)
Ken Nyangwara	Head of Marketing & Business Development (Ag)
Zakayo Gombe Oindo	Head of Agriculture (Ag)
Judith O. Kagia	Head of Human Resources
Daniel Ooro	Head of ICT (Ag)
Caroline Ochele	Head of Procurement (Ag)
Kennedy O. Onyango	Audit Manager

CORPORATE INFORMATION (CONTINUED)

REGISTERED OFFICE

PO Box 107 - 40405
Sare-Awendo, Migori County,
KENYA

Tel:+254-20 8029201-3
+254 722 205 345/6/7
+254 733 333 348/9

Email:administration@sonysugar.co.ke

Website:www.sonysugar.co.ke

BANKERS

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

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

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

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

INDEPENDENT AUDITOR

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

COMPANY LAWYERS

1. Okongo,Wandago & Co Advocates
SUNA MIGORI

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

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

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

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

BOARD OF DIRECTORS

Hon. Charles Owino Onyango
Board Chairman

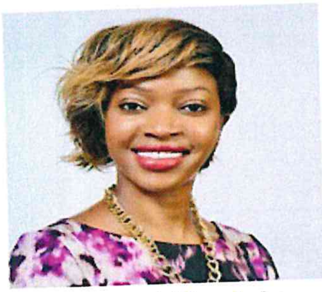
Mr. James Oluoch
Managing Director (Ag)
From May 2019

Mr. Thomas Nyangi Mwita
Director

Mr. Bernard Otieno
Managing Director (Ag)
Up to April 2019

Mr. Daniel Seitai
Director

Mr. James Maganda
Director

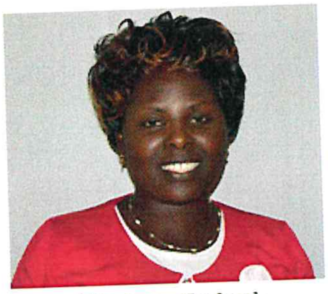


Ms. Helen Achieng Amina
Director

Hon. Jared K'Opiyo
Director

Hon. Winnie Njuguna
Director

Ms. Dorice Donya
Director

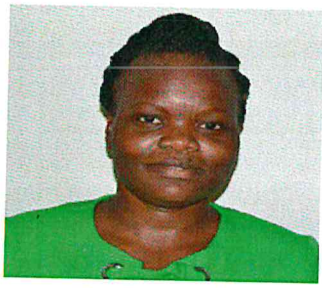


Ms. Agnes Busienei
Director

BOARD OF DIRECTORS (CONTINUED)

Ms. Theodora Gichana
Rep. I.G State Corporations

Mr. James Wanjohi
Rep. P.S. MoA,L,F & I



Ms. Cheryl Majiwa
Rep. C.S National Treasury

Directors qualifications and experience

SN	DIRECTOR	DATE OF APPOINTMENT	COUNTY OF ORIGIN	HIGHEST LEVEL OF EDUCATION
1	HON. CHARLES OYUGI OWINO	6.6.18 (BOARD CHAIRMAN)	MIGORI	MA, FINANCIAL ECONOMICS
2	MS. CHERYL MAJIWA	17.04.15 (ALTERNATE TO PS, NATIONAL TREASURY)	MIGORI	MBA, STRATEGIC MANAGEMENT, CPA (K)
3	MR. JAMES WANJOHI	10.02.17 (ALTERNATE TO PS, PARENT MINISTRY)	NYERI	MSC, AGRICULTURE EXTENSION
4	HON. WINNIE NJUGUNA	20.09.18 (INDEPENDENT DIRECTOR)	KIRINYAGA	BA, LEADERSHIP & MANAGEMENT
5	HON. JARED KOPIYO	20.09.18 (INDEPENDENT DIRECTOR)	MIGORI	MBA, HUMAN RESOURCE MANAGEMENT
6	MR. JAMES MAGANDA	20.09.18 (INDEPENDENT DIRECTOR)	NYAMIRA	MA, HUMAN RESOURCE MANAGEMENT
7	MRS. AGNES CHEPKEMOI BUSIENEI	20.09.18 (INDEPENDENT DIRECTOR)	NAROK	MA, EDUCATION MANAGEMENT
8	HON DANIEL LESHAN OLE SEITAI	20.09.18 (INDEPENDENT DIRECTOR)	NAROK	DIP, POLITICAL SCIENCE
9	MR. THOMAS NYANGI MWITA	20.09.18 (INDEPENDENT DIRECTOR)	MIGORI	MBA
10	MS. DORICE DONYA ABURA	20.09.18 (INDEPENDENT DIRECTOR)	KISII	DIP, MASS COMMUNICATION
11	MS. HELEN AMINA	14.12.18 (INDEPENDENT DIRECTOR)	SIAYA	MASTERS OF ARTS IN GENDER AND DEVELOPMENT

SENIOR MANAGEMENT

James Otieno Oluoch

Managing Director (Ag)
MBA Strat Management
BBA Mgt Info. Sys

Edward M. Odhiambo
Head of Finance(Ag)
MBA Finance, CPA-K
BBM

Stephen Ligawa
Head of Manufacturing(Ag)
Msc. Chemistry
Bsc. Chemistry

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

Judith Oketch- Kagia
Head of Human Resource
MBA Strat. Management
Bcom. Hum. Res.

Daniel Ooro
Head of ICT (Ag)
MBA Strat. Mgt.
BBA (MIS)

Gabriel Otiende
Company Secretary
LLB Honors
Diploma in Law
ICPS-K

Joseph Monanka Chacha
Security Manager
BA Criminology
Dip Security Mgt.

Boniface Odhiambo

Corporate & Quality Assurance
Manager
(Ag.)
Bsc Agric, Dip. Agric. Eng.

Eliud Owuor
Corporate Planning and Strategy Manager
MA (PPM)
Bcom Finance

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

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

CHAIRMAN'S STATEMENT

I am delighted to present to you the results of the company for the year ended 30.06.2019. Performance for the year, though not meeting the projected targets, still points to a better future.

During the year under review, macro-economic uncertainty and the deteriorated state of the plant adversely affected operational circumstances of the business impacting negatively on the projected targets. The performance were majorly affected by disrupted cane supply to the factory due to unfair competition, adverse weather conditions that affected the region and reduced operational efficiency occasioned by plant stoppages. Despite operating in an environment with growing challenges, we have defied tough economic times due to strategic measures we have put in place and now confident that we are placed to manage the shifting economic landscape within the sugar industry.

To survive beyond the current challenges, we have established an effective risk management framework within the Institution and have continued to monitor the risk profile in relation to our activities and focusing on mitigating strategies in order to minimize the risks and to achieve our set targets.

Implementation of the big 4 agenda

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

Macroeconomic Environment

According to the Kenya economic survey, during the first half of 2019, the Kenya GDP growth rate as released by various organizations, was 5.8%, unchanged from average projections released in Q1'2019. The common view is that GDP growth will remain stable towards December 2019, from a growth of 6.3% in 2018. Economic growth is expected to be driven by:

i. Stable growth in the agriculture sector on the back of favorable weather conditions despite delayed onset of the long rains in most parts of the country.
ii. Implementation of the Big 4 Agenda projects by the Kenyan Government, and,
iii. Recovery in the business environment as evidenced as evidenced by steady economic growth.

According to the World Bank economic analysis, Kenyan households that are exclusively engaged in agriculture contributed 31.4% to the reduction of rural poverty, and agriculture remains the largest income source for both poor and non-poor households in rural areas. It is the dominant source of employment and has contributed on average 21.9% of gross domestic product (GDP). As such, the sector is central to the government's Big 4 development agenda, where agriculture aims to attain 100% food and nutritional security for all Kenyans by 2022.

Global growth remains subdued according to IMF economic outlook. Global growth is forecast at 3.2 percent in 2019, picking up to 3.5 percent in 2020. This points to weaker-than-anticipated global activity and may affect the agricultural sector.

Strategic focus

Directors are cognizant of the challenges facing the sugar industry and will continue to implement strategies to sustain growth and stability of the company aimed at realizing the set goals.

Results, Business & Operating Environment

Despite the challenging environment in the sector witnessed during the period, I remain positive and focused about the future of South Nyanza Sugar Company Limited. As a team, we have continued with implementation of our wide-ranging corporate strategy in line with Government agenda.

CHAIRMAN'S STATEMENT (Continued)

As we are focusing on major factory rehabilitation in the coming year to boost performance and grow the business to great heights, the company will continually work and collaborate with the government and stake holders in taking advantage of group synergies and look beyond economic borders as traditional boundaries continue to collapse as a result of global economic order.

During the year, the company gross turnover was Kshs 3,097 million as compared to Shs 2,931 million in the previous year. This reflected an increase of 5.7% over last year. Volume of cane slightly increased by 0.03% to 420,486 metric tons compared to last year's figure of 420,380. Sugar production also reduced to 31,342 metric tons compared to the previous year's figures of 32,038 while the operating loss reduced Shs. 1,194 million compared to the previous year's operating loss Shs 1,982 million.

The Sugar Industry

The sugar Industry in Kenya is presently faced with a raw material supply deficit affecting all milling companies, which problem is widespread in the COMESA and the global sugar sector. As an institution, we have greatly been affected by great impact of huge influx of unregulated importation of sugar, unfair competition by our competitors and product counterfeiting in the year under review. This has led to depressed sugar prices and impacted negatively on performance.

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

Corporate Governance

There were changes in the composition of the Board during the year. The following Directors were appointed on 20.09.2018: Hon Winnie Njuguna, Hon Jared Kopiyo, Hon Daniel Leshan Ole Seitai, James Maganda, Agnes Chepkemoi Busienei, Dorice Donya Aburi. Director Thomas Nyangi Mwita was reappointed on 20.09.2018 and Director Hellen Achieng Amina on 21.02.2019. Directors are satisfied that the company has to the best of their knowledge, complied with all applicable laws and conducted its business affairs in accordance with the law. I wish to sincerely thank all the Board members for their contributions during the year,

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

Conclusion

The future of the sector appears to be vibrant as some of the structures proposed by the government are aimed at resuscitating and revamping the sugar sub-sector. The company looks forward to improved performance in the following year as per the strategic plan despite operating in an environment characterized by continuous changes and cut throat competition.

On behalf of the Board of Directors and Management of SonySugar, we are extremely grateful to our stakeholders for their continued support, patience and understanding as the Board of Directors continues to steer the company back to profitability.

We will continue to rely on your support to achieve our objectives in the year 2019/2020

--- **2019**
Hon. Charles Oyugi Owino
Chairman, Board of Directors

REPORT OF THE MANAGING DIRECTOR

South Nyanza Sugar Co. Ltd. (SonySugar) is located in the South Western Region of Kenya and was established by an Act of Parliament in 1976 as a Public Limited Company. Its area of operation spans four counties namely, Migori, Homa Bay, Kisii and Narok (Trans Mara Region). It serves approximately 25,000 farmers and households within these counties.

The Sugar Industry in Kenya is undergoing a traumatic period for both the private and public mills. The Financial Year 2018/19 has been an extremely difficult year for the Company and the sector in general. The Company has not undertaken the Annual Plant Maintenance for close to four and half years. This has negatively impacted on its revenues, grossly affected the plant's reliability, predictability and efficiency. The impact of the delayed Annual Plant Maintenance (abbreviated as APM) coupled with the drop in market prices of sugar in the later part of the financial year, industrial unrest by employees agitating for their delayed salaries, farmers' reluctance to release contracted cane to the Company due to delayed payments, cane theft by neighboring firms and jaggeries has worsened the financial woes of the Company.

Is it all gloom in the Company? The response would be an emphatic "No". The Company needs to carry out its delayed APM which shall increase its revenue ten-fold from the current ungenerous monthly figures. Outline in the Strategic Plan are specific actions that will be undertaken to spearhead the Company's growth trajectory. The much anticipated Presidential Taskforce on Sugar Implementation is also eagerly awaited by the industry. These detailed actions if religiously charted shall revamp the Company's fortunes and the sugar sub-sector in general.

Financial Performance

A total of 420,486 tons of cane was milled during this financial year against a budget of 505,272 tons producing 31,342 and 15,037 tons of sugar and molasses respectively. This generated gross sales revenue to the tune of Ksh.3,097 Million against a budgeted revenue of Ksh.4,652 million, a drop of 33%. The Company's total operating costs aggregated to 3,883 million resulting in Ksh.1,193 Million operating loss. This compares favorably to the previous year 2017/18, where the operating loss was Kes. 1,982 Million realized from gross sales of Kes. 2,931 and operating cost of Kes. 4,281 million.

Revenue

The price of sugar per ton was highly elastic during the year under review. It oscillated between the highest range averaging Kes. 116,012 per ton in the month of August 2018 and falling by 35% to the lowest average of Kes. 76,164 per ton in the month of April 2019. This was attributed to high volumes of sugar imports in the market. The period that the sugar prices skyrocketed coincided with the Government crack down on illegal and illicit sugar imports. This good prices were felt for approximately three months, August through to October 2018, before slumping to an all-time low in the month of April 2019. These three months contributed about 42% of the annual revenue realized in the year. This is an indicator that if all is well in the industry, then the Company's viability cannot be doubted.

Production Costs

The cost of production per ton of sugar in the Financial Year averaged Ksh. 137,542 (2018: Kes. 129,283). The significantly high cost per unit is attributable to high fixed costs occasioned by low capacity utilization, frequent breakdowns and low factory efficiency. The Company expects to shut down for the much awaited Annual Plant Maintenance expected as from mid-October into November 2019.

The APM is expected to considerably address the fundamental setbacks and get the Company back to profitability.

Operating Volumes

The Company milled 420,486 tons of cane during the financial year 2018/19 (2018: 420,973 tons). This was milled to realize 31,342 tons (2018: 32,038) of sugar. This low sugar extraction ratio realized in the year is attributable to low cane volume to the factory, inefficiencies and low factory availability due to frequent breakdowns.

Sugar and molasses sold in the period under review were 31,351 tons and 15,037 tons (2018: 32,491 tons and 15,710 tons) respectively.

REPORT OF THE MANAGING DIRECTOR (continued)

Agriculture

The current cane area cannot support the capacity of the factory after the annual plant maintenance is undertaken. The Company currently has a total cane area of 10,725 hectares made up of 8,466 hectares under contracted farmers and 2,259 hectares in the Nucleus Estate. This is against a requirement of 17,600 hectares annually with a yield of 75 tons per ha and a sucrose percent cane of 13.45 needed to attain 2,700 tons of cane daily raw material supply to the factory.

At the close of the financial year, milling cane delivered to the factory was 420,486. Of these, 93,625 tons (22%) was delivered from the Nucleus Estate, 256,591 tons (61%) from the contracted Out grower farmers and 70,270 tons (17%) was delivered from the Non-contracted sources. The Company is on course for a vigorous cane development drive with an aim to bringing 6,000 Ha under cane over the next four years, at a projected cost of Kes. 2.25 Billion. This will involve developing 5,400 Ha of cane every year while fallowing 3,500 Ha for regeneration, thereby bringing the net annual incremental area under cane to 1,500 Ha annually. This will not only secure the Company's primary source of raw material but also empower the Out grower farmers in the region.

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

Factory Performance

In the period under review, investment in factory infrastructure was inadequate due to weak cash-flows. The APM that was scheduled for April/May 2017 was re-scheduled to October 2017 due GoK intervention to stem sugar shortage in the country on request of AFA and the parent ministry. This was further rescheduled to April 2018 due to inadequate funds post-election impacts and poor cash flows from duty free sugar affecting market prices. As at the close of the financial year 2018/19, the APM was yet to be undertaken as Company pursued negotiation with both the National and County Governments on possibilities of the latter advancing a loan facility to undertake the Annual Plant Maintenance. This negotiation was at advanced level as at the time of closing the Financial Year.

The low sucrose content in the cane harvested before normal age negatively impacted on sugar yield. The average sucrose percentage in cane for the period under review was 9.5% on cane compared to 11.24% on cane for financial year 2017/18. The targeted sucrose percentage was 12.6% on cane.

Key unit processes contributing to the limitations and requiring intervention included cane yard/handling machinery- EOT crane & wheeled loaders affecting feeding /rotation of cane in the receiving yard thus interrupting milling and low mill throughput. In the Steam generation area, frequent boiler tube leaks adversely affected production. The delayed APM resulted in a number of machine/equipment failures e.g. breakage of bagasse elevator head shaft, mill 4 bottom scrapper, fibrisor resistor banks failure, boiler no 1 ID fan imbalance due to wear and tear and VFD failure thus affecting throughput.

Market

The sugar market was largely depressed in the year under review due to uncontrolled importation of duty free and alleged contraband sugar into the market. The situation was worsened by the 2017/18 importation of over one million tons of sugar in the country against an annual shortfall of slightly over 300,000 metric tons. This resulted into depressed sugar prices. The price per ton of sugar increased by 19% from an average net of Kes. 73,188 (Gross: Kes. 84,898) in 2018 to an average net of Kes. 81,480 (Gross: Kes. 97,000) in the year under review.

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

Human Capital
The Public Sugar Mills have been facing serious cash flow challenges and consequently not being able to meet its key obligations including salaries and wages. The Company however has been paying part salaries to mitigate the impact of delayed wages. This has led to the realization of relative calm among the workforce thus raising the confidence levels among the stakeholders. This exercise shall continue until the situation improves after the much awaited Annual Plant Maintenance. SonySugar employees are among the highest qualified in the sector with various professional accolades attained on behalf of the Company.

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

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

Management has put in place new initiatives to combat litigation amongst them being criminal prosecution for fraud, outreach programs to farmers for amicable resolution of disputes and new framework of managing cane contracts amongst others. Significant progress has been made in the retrieval and availability of information and records, scaling up of witness presentation in court plus production of relevant documents and the co-operation with the local administration for amicable resolution of potential legal disputes has been secured.

Management has also reached out to several complaints, who having lodged claims against the Company, have upon discussions, agreed and have
withdrawn such cases filed against the Company. Measures put in place are expected to reduce the numbers to the limits that were manageable and bring into control litigation against the Company. Management expects that the unscrupulous lawyers who have been pursuing outright fraudulent shall be prosecuted after the ongoing investigations by Directorate of Criminal Investigation are concluded and shall reduce cases to only genuine ones. It would be prudent to mention here that since the investigations on this matter was commenced, the number of new cases have dropped considerably from hundreds per week to less than ten in a month.

The Big 4 Agenda
The main focus of the government of Kenya in the coming year is the Big Four agenda. The four pillars of the agenda are manufacturing, universal healthcare, affordable housing and food security. South Nyanza Sugar Company Ltd is involved mainly in three of the Big Four agenda namely, Manufacturing, universal healthcare and food security

Under the Food Security Pillar, the Company's contribution targeted increase in sugar cane output, grower incomes and sugar production through increase in investment in sugar cane development and planted cane area.

The Company investments to contracted small holder growers/ farmers included farm inputs i.e. land development services, fertilizer and seed cane. The Company undertook training of the small holder farmers on good crop husbandry and agribusiness. The Company provided improved market access infrastructure and reduced post-harvest losses/wastage for the growers. The Company promotes intercropping of cane with food crops and provides extension support to all small holder farmers in four counties of Migori, Homa Bay, Kisii and Narok. One third of crop area is assigned for food production. The recurrent expenditure for operations and administration in extension support and related infrastructure for sugarcane for small holder growers was Kes. 515 million.

On the Manufacturing Agenda, as a Company we could not undertake development expenditure to enhance our processing capacity, but used a patched-up approach to resolving the factory challenges. In the year under review, manufacturing expenditure stood at Kes. 506 million, producing 31,342 tons of sugar valued at Kes. 2.65 billion at the average net price for the year.

REPORT OF THE MANAGING DIRECTOR (continued)

On the Universal Healthcare Agenda, the Company provides health care to over 1800 households within its operating area. The services include quality and affordable clinical services, ante-natal and post-natal services, comprehensive care services for HIV/AIDS patients. The Company engages in health care outreach programs in collaboration with various partners including County Health Services in areas of Public health, HIV/AIDS, lifestyle disease, Maternal and Child health management within the grower and trading community it serves. In the year under review, Health care expenditure stood at Kes. 63.6 million.

Future Outlook

The Strategic focus in the financial year 2019/20 shall target the following broad areas which shall be key drivers in the realization of initiatives under the Big 4 Agenda:

1. **Agriculture Operations**
   Cane yields and productivities are expected to decline into the new financial year 2019/20 if the mean poaching menace by our neighbouring competing firms recently being witnessed is not curtailed. In addition, the continued lack of fertilizer shall have drastic impact on future cane yields. To mitigate this, the Company shall embark on an aggressive cane development targeting 6,000 Ha progressively over the next 4 years. Management will also intensify acquisition of non-contracted cane (NCC) from farmers to bridge the mill-cane demand shortfall as a way of meeting the set targets for the forward period. To compliment cane production activities and farmer incomes, we shall establish tree nurseries and distribute seedlings for fruit trees mainly macadamia and avocado, to diversify grower revenues.

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

2. **Information Communication Technology**
   ICT is essential in supporting improvements in operational efficiency and creation of value. SonySugar ICT investment in two key ERP systems i.e. the Agricultural Management System (AMS) and the SAP ERP system support the core business and drive efficiency and productivity enhancement in the organization. These systems are supported by investments in the Data Centre and network resources infrastructure to assure data accuracy and infrastructure availability and reliability. In the last three years, implementation of ICT projects has scaled down due to cash flow challenges. This therefore necessitated a review of the implementation strategy to adapt to the dynamics in the business. The new approach is a phased and negotiated implementation with allowances for roll-overs has been adopted.

3. **Business Environment**
   The retail price of sugar has fallen to a low of Ksh. 76,164, driven by an opportunity by traders and the private millers to import sugar at lower prices. The Company shall increase the production of pre-packed branded sugar, the product for which prices are projected to be stable in the ensuing competitive market.

4. **Manufacturing**
   The APM is planned for October/November 2019 during the short rains. This will give the plant much needed renewal, that will help sustain its functionality for the next 12 to 24 months. Procurement process of the major parts to be installed during the APM is complete and most of these parts are already within the Company's premises. The APM will address general plant fatigue and the frequent downtime. Dismantling the Boilers, replacing the Boiler tubes and rebuilding the Furnace walls will ensure steady supply of steam and power necessary for the smooth operation of the plant. The Demineralization Plant will ensure that Boiler water meets quality specification thus playing a critical role in preservation of the Boiler tubes. The additional new crane is already on site and is earmarked for installation during the APM stoppage. Other interventions to address obsolescence and enhance recovery include installation of a chopper leveler for cane preparation, mill 4 drive, sugar grader, shaft mounted compact drives, single entry condensers, feed table chain and drive upgrade, Gantry rehabilitation and reinforcement, Single entry condensers and key water and vapor piping replacements through material upgrades among others.

Conclusion

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

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

....2019
James O. Oluoch
Managing Director (Ag)

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The year 2018/2019 was a very difficult year for the company from the input output perspective. The Annual Planned Maintenance that was programmed during the year did not take place due to delay in securing funding from the National and Governments as earlier projected. As a result, the Company did not achieve a 15% Return on Capital Employed (ROCE) as per the strategic plan targets/projection, contributing this was unfavourable operating environment characterized by;

1. Aggravated cane shortage due to cane theft by our competitors affecting plant capacity utilization, product availability and revenue generation. Apart from intense cane theft, yields were also on a downward trend, largely due to inadequate/erratic supply of fertilizer.
2. Poor cash flow and plant fatigue as a result of prolonged running without comprehensive maintenance,
3. shelved or delayed development plans,
4. Unstable and low sugar prices from dumping and counterfeiting in the major part of the period occasioning significant price depression and reduced revenue.

As a result of the above challenges, the company did not achieve the following strategic objectives during the year ended 30.06.2019:

1. increase market share of sugar market from 12% to 15%
2. Developing new products aimed at satisfying existing and emerging consumer needs that would the revenue streams.
3. Due to constrained cash flows, operationalisation of efficiency in business processes covering cane production, soil management, propagation of improved cane varieties, improved extension services, reorganization of extension services among others were not properly funded as a result of operational circumstances. These activities are important in enhancing milling and sugar recovery efficiencies

4. Planned diversification investments were never realized due to lack of funding, this denied the business additional revenue streams that would have cushioned it against fluctuation of sugar prices.
5. Sugar production was below the target throughout the period. This adversely impacted sales volumes, revenue generation and profitability, a situation that put the company in an adverse financial position.

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

No.		Description	Kshs "000"
1.	Payroll	Salaries, payroll remittables and statutory payments in arrears	579,324
2.	Cane related payment	Harvesters, weeders, land development contractors cane cess	78,284
3.	Farmers arrears	On account of cane delivered to factory	528,469

In order to mitigate the above, Management has put in place a plan to carried out factory repairs to ensure that the factory performs at an optimal level in terms of throughput and sugar recovery. Effective cost containment measures have also been put in place.

To achieve optimal utilization of human capital, the Company plans to implement appropriate capacity building and up skilling, re-structure, consider deployment and focus on results management. This will help to mitigate the high level of staff turnover that was occasioned by reduced levels of operations during the year under review.

In addition to addressing variables that determine the quality of cane such as delay in transportation, overstay in the yard amongst others, efforts are being made to revamp targeted unit processes in the front end of the sugar plant and process area to cover lost grounds in the year ending 30.06.2020

STATEMENT ON CORPORATE GOVERNANCE

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

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

Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined. The Board comprises of eleven (11) Directors nine (9) of whom are non-executive directors including the Chairman. Alternate Directors from the parent ministry and National Treasury also sit in the Board. The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues.

The Directors come from various parts of the country and are professionals in various fields. They have thus brought a wealth of experience, expertise and knowledge in the various disciplines that they come from. Details of the Directors are as follows:-

SN	**DIRECTOR**	**DATE OF APPOINTMENT**	**COUNTY OF ORIGIN**	**HIGHEST LEVEL OF EDUCATION**
1	HON. CHARLES OYUGI OWINO	6.6.18 (BOARD CHAIRMAN)	MIGORI	MA, FINANCIAL ECONOMICS
2	MS. CHERYL MAJIWA	17.04.15 (ALTERNATE TO PS, NATIONAL TREASURY)	MIGORI	MBA, STRATEGIC MANAGMENT
3	MR. JAMES WANJOHI	10.02.17 (ALTERNATE TO PS, PARENT MINISTRY)	NYERI	MSC, AGRICULTURE EXTENSION
4	HON. WINNIE NJUGUNA	20.09.18 (INDEPENDENT DIRECTOR)	KIRINYAGA	BA, LEADERSHIP & MANAGEMENT
5	HON. JARED KOPIYO	20.09.18 (INDEPENDENT DIRECTOR)	MIGORI	MBA, HUMAN RESOURCE MANAGEMENT
6	MR. JAMES MAGANDA	20.09.18 (INDEPENDENT DIRECTOR)	NYAMIRA	MA, HUMAN RESOURCE MANAGEMENT
7	MRS. AGNES CHEPKEMOI BUSIENEI	20.09.18 (INDEPENDENT DIRECTOR)	NAROK	MA, EDUCATION MANAGEMENT
8	HON DANIEL LESHAN OLE SEITAI	20.09.18 (INDEPENDENT DIRECTOR)	NAROK	DIP, POLITICAL SCIENCE
9	MR. THOMAS NYANGI MWITA	20.09.18 (INDEPENDENT DIRECTOR)	MIGORI	MBA
10	MS. DORICE DONYA ABURA	20.09.18 (INDEPENDENT DIRECTOR)	KISII	DIP, MASS COMMUNICATION
11	MS. HELEN ACHIENG AMINA	14.12.18 (INDEPENDENT DIRECTOR)	SIAYA	MASTERS OF ARTS IN GENDER AND DEVELOPMENT

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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

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

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

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

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

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

Board Meetings

The Board holds meetings on a regular basis as per approved Board calendar. Special meetings are called when it is deemed necessary to do so in order to handle an urgent matter that cannot otherwise await a normal Board meeting. In the period, three special Board meetings were held purposely to conduct the shortlisting exercise and interviews for the holder of the position of the Managing Director.
During the period under review, meetings held were as follows:-

Committee	Type	Mandated	Actual
Main Board	Regular	4	4
	Special	2	3
BAC	Regular	4	2
	Special	2	4
BFC	Regular	4	4
	Special	2	1
OPC	Regular	4	2
	Special	2	0
GPC	Regular	4	2
	Special	2	0

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Committees of the Board

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

Board Audit & Risk Committee

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

1) Hon. Winnie Njuguna - Director, Chairlady
2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury
3) Mr. James Maganda - Director, Member
4) Ms. Dorice Donya - Director, Member
5) Ms. Helen Amina - Director, Member
6) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation and Fisheries
7) Ms. Theodora Gichana - In attendance-by invitation (Representative to Inspectorate, State Corporations)

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

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

General Purpose Committee

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

1) Mrs. Agnes Busienei - Director, Chairlady
2) Ms. Cheryl Majiwa - Alternate to CS, National Treasury and planning
3) Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation and Fisheries
4) Mr. Thomas Nyangi - Director, member
5) Hon. Jared K'Opiyo - Director, member
6) Ms. Dorice Donya - Director, member
7) Mr. James Maganda - Director, member
8) Hon. Winnie Njuguna - Director, member
9) Mr. Daniel Seitai - Director, member
10) Ms. Theodora Gichana - In attendance-by invitation-(Representative to Inspectorate, State Corporations)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

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

Board Finance Committee

The composition of the Finance Committee comprised the following:

1. Mr. Thomas Nyangi - Director, member
2. Mrs. Agnes Busienei - Director, member
3. Ms. Cheryl Majiwa - Alternate to CS, National Treasury and planning
4. Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation and Fisheries
5. Hon. Jared K'Opiyo - Director, member
6. Mr. Daniel Seitai - Director, member
7. Ms. Theodora Gichana - In attendance-by invitation-(Representative to Inspectorate, State Corporations)

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

Operations Committee

The composition of the Operations Committee comprised the following:

1. Hon. Jared K'Opiyo - Director, Chairman
2. Ms. Cheryl Majiwa - Alternate to CS, National Treasury and planning
3. Mr. James Wanjohi - Alternate to PS, Ministry Agriculture, Livestock, irrigation and Fisheries
4. Mr. Thomas Nyangi - Director, member
5. Mrs. Agnes Busienei - Director, member
6. Ms. Dorice Donya - Director, member
7. Mr. James Maganda - Director, member
8. Hon. Winnie Njuguna - Director, member
9. Mr. Daniel Seitai - Director, member
10. Ms. Theodora Gichana - In attendance-by invitation-(Representative to Inspectorate, State Corporations)

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

Risk Management and Internal Controls

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

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

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

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

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

Creating Shareholders' Value

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors during the financial year 2018/2019 is disclosed in the notes to the financial statements. Non-executive directors were paid sitting allowances for every meeting attended, in compliance with the relevant laws and guidelines as issued by the Government.

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

STATEMENT OF MANAGEMENT DISCUSSION AND ANALYSIS

Performance of the company during the year is summarised below and discussed in the subsequent notes.

OPERATIONS DATA	ACTUAL 2018-2019	BUDGET 2018-2019	ACTUAL LAST YEAR 2017-2018
Tons of Cane Milled	420,486	505,272	420,973
Tons of Sugar Bagged	31,342	47,130	32,038
Tons of Sugar Sold	31,351	47,130	32,491
Tons of Molasses Sold	15,037	13,939	15,710
FINANCIAL DATA	**ACTUAL**	**BUDGET**	**ACTUAL**
Sales Revenue (Sugar)	2,674,078	4,010,271	2,514,125
Other Revenue	63,508	155,264	86,882
Stock Movement	(48,233)	(11,828)	39,595
Total Revenue	2,689,353	4,153,707	2,640,602
Total Direct Costs	1,999,794	2,903,573	2,540,444
Total In-Direct Costs	1,896,136	1,167,982	2,082,134
Total Operating Costs	3,883,152	4,071,555	4,622,578
Operating Profit/(Loss)	(1,206,577)	82,152	(1,981,976)
Finance Costs	151,765	61,320	(127,788)
Pre Tax Profit	(1,358,342)	20,832	(2,109,764)
Corporation Tax	-	(6,249.71)	-
Profit After Tax	(1,358,342)	14,583	(2,109,764)

Statement of management discussion and analysis (Continued)

The Company operated under very difficult conditions in the period under review. The year was characterized by high cost of production and high number of plant stoppages occasioned by breakdowns and cane outages, these resulted in lower production volumes.

A total of 420,486 tons of cane was milled during the year under review, which indicates a decrease against a budget of 505,282 by 84,786 tons and less than last year volume of 420,973 tons by 487 tons.

Actual sugar bagged during the year was 31,342 tons which is a shortfall against the budget of 47,130 tons by 15,788 tons, and also below last year by 696 tons. The low volumes of sugar bagged was occasioned by lower sugar recovery/yield per ton of cane processed arising largely from stale cane that was occasioned by yard staleness during cane accumulation; factory downtime due to problems with boiler tubes and other plant breakdowns.

Revenue

Net sales revenue realized in the year was Kes.2.7 Billion and Kes.63.5 million from sugar and other revenue respectively. This falls far below the budgeted revenue of Kes.4.01 Billion and Kes.155.2million for sugar and other revenue respectively.

Operating Volumes

The Company milled 420,486 tons of cane in the year under review against a budget of 505,272 tons. This performance was 83% achievement of budget. Same period last year the Company milled 420,973 tons of cane.

Sugar produced in the year was 31,342 tons against 47,130 tons budget. This was 66.5% below achievement on budget, and is 696 tons less than 32,038 tons produced last year. This shortfall is due to lower conversion efficiency, cane outage and milling of stale cane.

Sugar sold in the year was 31,351 tons against a budget of 47,130 tons which is 66.5% under achievement of budget and less than last year sales of 32,491 tons by 1,140 tons.

Financial Performance

The total net turnover realized in the year was Kes. 2.7 Billion against a budget of Kes. 4.1 Billion which is 63.4% under achievement on budget. The lower production and sales volumes in the year coupled with delayed investment in alternative/additional revenue streams budgeted for contributed to this under achievement

During the year, the Company incurred a total operating cost of Kes. 3.88 Billion (Fixed cost component-Kes. 1.88 Billion) against a budgeted operating cost of Kes. 4.07 Billion (Fixed cost component-Kes. 1.2 Billion). This resulted in an operating loss of Kes. 1.19 Billion against a budgeted Operating profit of Kes. 82.2 million.

Corporate Social Responsibility Statement and sustainability

During the year, the company executed a number of corporate social responsibility initiatives aimed at maintaining the cordial relation and coexistence among the employees, the local community and other stakeholders. This was in the continuing recognition of our noble position as a reputed entity within the community. The Company thus upheld ethical conducts and best professional practices with the welfare of the employees, the community and all stakeholders in mind.

Ethically, the company upheld our regulatory obligations and complied with the letter and spirit of our business policies such as availing tender opportunities to the youth, the women and persons with disability in addition to maintaining good business practices by treating all supplies responsibly. On diversity, the company upheld Access and Opportunities Act, and ensured the workforce consisted of people from all cultures, religion, ethnicities and irrespective of age, gender, marital status, sexual orientation or physical or mental disability.

On education, the Company conducted trainings on behavior change to children of employees and also offered chances for industrial training for college and university students. The Company also continued to support the SonySugar Nursery and SonySugar Complex schools by maintaining their physical environment, ensuring their security and meeting the welfare requirement of teachers and all employees of the schools. The Company funded the SonySugar Complex scouts team on an international jamboree in Burundi for three weeks.

On environmental protection and disaster management, the Company intervened in fires within its nucleus estates, out-grower zones and other areas within Migori County, using its own firefighting engine. During the World Environment Day, the company planted one thousand tree seedlings to increase national forest cover.

In terms of health, SonySugar Medical Centre and SonySugar Comprehensive Care Unit has been open to the staff and members of the public at subsidized costs. The company's ambulance has been on standby and responded to emergencies within the company and the community. SonySugar also has a vibrant St. Johns Ambulance team which has offered free first aid services during football matches, events and large gatherings within the company and in the community.

On talent nurturing, the company maintained the SonySugar Football Club throughout the year, sharpening talent and providing ground for sustained training for excellence. We also donated prizes to several sports tournaments in the locality.

Despite operating under very difficult conditions, the company has tried its best to uphold responsible competition aimed at competing fairly with the competitors within the industry and the market.

In order to ensure business continuity by supporting industrialization and promoting business within the community, the company has put elaborate plan factory rehabilitation aimed at boosting efficiency to over 80% in the following year.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of South Nyanza Sugar Company Limited (the 'Company') for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

Production and sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2019.

Cane Deliveries (tons)	**2019**	**2018**
Nucleus estate	92,792	92,284
Outgrowers	327,694	328,096
Total	420,486	420,380
Sugar Produced (tons)	31,342	32,038
Rendement	7.42%	7.56%

DIVIDEND

The net loss for the year of Shs 1,358,342,000 (2018: net loss of Shs 2,074,754,000) has been added to accumulated losses. The decision on dividend will be made at AGM.

DIRECTORS

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

DIRECTORS' REPORT (CONTINUED)

TERMS OF APPOINTMENT OF AUDITORS

The Auditor General is mandated by law to audit South Nyanza Sugar Company Limited. This mandate was initially delegated to Deloitte & Touche for the audit of financial year ended 30 June 2019 in accordance to section 23 of the public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on its behalf, but on request of the Deloitte & Touche, Office of the Auditor General continue as the company's external auditors in accordance with section 29(1) Exchequer and Audit (Amendment Act 1985).

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

EMPLOYEES

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

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 30/9/ 2019.

BY ORDER OF THE BOARD

______ 2019

Gabriel Otiende
Company Secretary

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the entity for financial year ended June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act 2015, PFM Act, 2012 and the State Corporations Act section 14. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2019, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

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

Approval of the financial statements

The financial statements were approved by the Board on 30/9/ 2019 and signed on its behalf by:

Hon. Charles Oyugi Owino
Chairman, Board of Directors

James Oluoch
Managing Director (Ag)

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REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 27 to 71, which comprise of the statement of financial position as at 30 June, 2019, statement of profit or loss and other comprehensive income, statement of changes in net assets and the 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the South Nyanza Sugar Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracy in Cash and Bank Balances

As disclosed in Note 20 to the financial statements, the statement of financial position as at 30 June, 2019 reflects cash and bank balances of Kshs.6,228,000. However, the balance excludes stale cheques amounting to Kshs.7,514,512 which had not been reversed in the cash book.

Consequently, the accuracy and completeness of the cash and cash equivalent balance of Kshs.6,228,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

2.0 Unsupported Receivables from Outgrowers

As disclosed in Note 19 to the financial statements, the statement of financial position reflects receivables from outgrowers balance of Kshs.299,555,000. The balance arose from the Company's provision of agricultural inputs and services to outgrowers and the related accrued interest. However, validation of the individual outgrowers' balances revealed several unsupported transactions in the outgrowers' ledger, inconsistent transactions between the underlying outgrowers files and ledger, and transactions in outgrowers files not recorded in the ledger. A provision for impairment of receivables from outgrowers totalling to Kshs.865,540,000 was made, an indication of the Management's inability to collect the debts.

Consequently, the accuracy, completeness and validity and recoverability of receivables from out growers of Kshs.299,555,000 reflected in the statement of financial position as at 30 June, 2019 could be confirmed.

3.0 Unsupported Deferred Income Tax

As disclosed in Note 25 to the financial statements, the statement of financial position reflects deferred income tax amounting to Kshs.26,944,000. However, the Management did not provide supporting analysis for the computation and justification for reporting the deferred income tax.

Consequently, the accuracy, completeness and validity of deferred income tax balance of Kshs.26,944,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the South Nyanza Sugar Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Material Uncertainty in Relation to Going Concern

As disclosure in Note 4 to the financial statements, the statement of profit or loss and other comprehensive income reflects a net loss of Kshs.1,358,342,000. The Company incurred a net loss after tax of Kshs.1,345,564,000 (2018:Kshs.2,074,754,000) and had accumulated losses of Kshs.4,666,502,000 as at 30 June, 2019 (2018: Kshs.3,308,160,000).

Further, the statement of financial position reflects total current liabilities of Kshs.5,614,922,000 which exceeds the total current assets balance of Kshs.1,141,169,000 resulting to a negative working capital of Kshs.4,473,753,000 an indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due. Management has however, stated that the Company's future existence as a going concern depends on implementation of various strategies, whose success is yet to be realized.

The financial statements have therefore been prepared on the going-concern basis on the assumption that the Company will continue to get financial support from the Government, shareholders and other creditors.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the Company's information, corporate governance and the report of Board of Directors as required by the Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.

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

In connection with my audit of the Company's financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Presentation of the Annual Report and Financial Statements

Management did not incorporate the statement for comparative budget and actuals amounts in the financial statements. This is contrary to the Public Sector Accounting Standards Board's revised financial reporting templates for National and County Entities where section 2.2.5 states that other amendments include elaborate details under corporate governance and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

Consequently, the Management is in breach of the law.

2.0 Irregular Payment of Sitting Allowances

The Company paid an officer from Inspectorate of State Corporations Kshs.317,600 as allowance for attending board meetings in a supervisory capacity. This was part of the officer's regular duties. The allowance was contrary to the Attorney General Circular AG/CONF/6/D/73 dated 22 August, 2013 that advised that sitting allowances or other remuneration is only payable to duly appointed chairperson and members of board attending a board meeting.

Consequently, the Management is in breach of the law.

3.0 Long Outstanding Trade and Other Payables

As disclosed in Note 26 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.4,007,753,000. The balance includes other payables and accrued expenses amounting to Kshs.3,584,476,000 which includes outstanding Value Added Tax (VAT) and PAYE payables totalling Kshs.1,102,608,624 resulting from non-payment of principal amount, interest and penalties. Management has continued to indicate that some of the outstanding obligations had been paid and that it intends to approach the Kenya Revenue Authority for waiver of resultant interest and penalties.

Further, the balance includes other payables and accrued expenses totaling to Kshs.373,046,883. The balance constitutes statutory deductions which had not been remitted to the relevant bodies. Non-remittance of the statutory deductions is a breach of the law which will attract heavy penalties and interests for non-compliance which have not been disclosed in the financial statements.

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

4.0 Unpaid Borrowings

As disclosed in Note 27 to the financial statements, the statement of financial position reflects borrowing balance of Kshs.1,945,573,000 which includes Government of Kenya

Loan (GOK/ODA) loans of Kshs.794,628,000 and Commodity Fund loan of Kshs.454,834,000 which were due as at 30 June, 2019 but were not paid. The applicable penalties and interest have not been provided for in these financial statements.

Non-payments of loans is a breach of contract agreement which may attract heavy penalties and interests for non-compliance.

Consequently, the Management is in breach of the law.

5.0 Non-Compliance with Law on Ethnic Composition

During the year under review, the Company had 86% of employees from members of the dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

Consequently, Management is in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, except for the matters under the Basis for Qualified Opinion, Emphasis of Matter, Other Matter and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I report based on my audit, that:

(i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;

(ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears those records; and

(iii) The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Companymonitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Companyto cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 August, 2021

Statement of profit or loss and other comprehensive income for the year ended 30 June 2019

	Notes	2019	2018
		Shs'000	Shs'000
Gross sales		3,097,313	2,931,238
Indirect taxes:			
- Value Added Tax (VAT)		(423,235)	(417,113)
Revenue	6	2,674,078	2,514,125
Loss/gains arising from changes in fair value less costs to sell of biological assets	16	(24,940)	(5,586)
		2,649,138	2,508,539
Cost of sales	7	(2,901,186)	(3,044,299)
Gross loss/profit		(252,048)	(535,760)
Other income	8	63,508	86,882
Distribution costs	9	(31,598)	(35,893)
Administrative expenses	10	(973,661)	(1,497,205)
Operating loss		(1,193,799)	(1,981,976)
Finance costs	11	(151,765)	(127,788)
Loss before income tax		(1,345,564)	(2,109,764)
Income tax expense	13	(12,778)	-
Loss for the year		(1,358,342)	(2,109,764)
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Remeasurement of post-employment benefits obligation	29	-	50,014
Deferred income tax thereon	25	-	(15,004)
		-	35,010
Total comprehensive loss for the year		(1,358,342)	(2,074,754)

Statement of financial position as at 30 June 2019

	Notes	30 June 2019 Shs'000	30 June 2018 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	4,847,930	4,948,546
Intangible assets	15	3,709	55,041
		4,851,639	5,003,587
Current assets			
Biological assets	16	341,606	462,832
Inventories	17	406,216	473,272
Trade and other receivables	18	87,564	65,131
Receivables from out growers	19	299,555	267,289
Current income tax	13	0	5,650
Cash and bank balances	20	6,228	21,989
		1,141,169	1,296,163
TOTAL ASSETS		5,992,808	6,299,750
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	21	353,970	353,970
Revaluation reserve	22	3,413,405	3,413,405
Other reserve	23	48,131	48,131
Accumulated losses		(4,666,502)	(3,308,160)
Total equity		(850,996)	507,346
Liabilities			
Non-current liabilities			
Grants	24	469,973	76,721
Borrowings	27	345,532	383,983
Deferred income tax	25	26,944	26,944
Retirement benefits obligation	29	386,433	401,718
		1,228,882	889,366
Current liabilities			
Trade and other payables	26	4,007,753	3,409,454
Borrowings	27	1,291,320	1,201,246
Bank overdraft	27	308,721	292,338
Current income tax	13	7,128	-
		5,614,922	4,903,038
TOTAL EQUITY AND LIABILITIES		5,992,808	6,299,750

The financial statements on pages 27 to 72 were approved for issue by the Board of Directors on 30/9 2019 and signed on its behalf by:

Hon. Charles Oyugi Owino
Chairman

James Oluoch
Managing Director (Ag)

Statement of changes in equity as at 30 June 2019

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Other reserve Shs'000	Accumulated losses Shs'000	Total equity Shs'000
Year ended 30 June 2018						
At the start of year		353,970	1,270,938	13,121	(1,198,394)	439,635
Revaluation during the year		-	2,142,467	-	-	2,142,467
Loss for the year		-	-	-	(2,109,764)	(2,109,764)
Other comprehensive income		-	-	35,010	-	35,010
Total comprehensive loss		-	-	35,010	(2,109,764)	(2,074,754)
At end of year		353,970	3,413,405	48,131	(3,308,160)	507,346
Year ended 30 June 2019						
At start of year		353,970	3,413,405	48,131	(3,308,160)	507,346
Revaluation during the year		-	-	-	-	-
Loss for the year		-	-	-	(1,345,564)	(1,345,564)
Other comprehensive income		-	-	-	(12,778)	(12,778)
Total comprehensive loss		-	-	-	(1,358,342)	(1,358,342)
At end of year		353,970	3,413,405	48,131	(4,666,502)	(850,996)

Statement of cash flows as at 30 June 2019

	Notes	Year ended 30 June 2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Cash generated from operations	28	204,001	24,830
Interest received	8	38,259	43,100
Interest paid and other finance charges	11	(151,765)	(64,322)
Net cash generated from/ (used in) operating activities.		90,495	3,608
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(126,172)	(217,346)
Purchase of intangible assets	15	-	(1,184)
Additions due to development of cane	16	-	(68,188)
Proceeds from sale of fixed assets		13,017	5,951
Net cash used in investing activities		(113,155)	(280,767)
Cash flows from financing activities			
Borrowings		466,974	97,696
Repayment of borrowings	27	(476,458)	(136,720)
Net cash (used in)/generated from financing activities		(9,484)	(39,024)
Net (decrease)/ increase in cash and cash equivalents		(32,144)	(316,183)
At start of year		(270,349)	45,834
At end of year	20	(302,493)	(270,349)

Notes

1 General information

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

PO Box 107 - 40405
Sare-Awendo

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

2 Accounting policies

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

(a) Statement of compliance

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

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	The amendments to IAS 12 Income Taxes clarify the following aspects: • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of the future taxable profits in a way that is consistent with these amendments.

Notes (continued)

2 Accounting policies (continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

Annual Improvements to 2010-2012

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

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

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

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The amendments to the standard has had no impact on the financial statements.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2019, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

IFRS 9 Financial Instruments ("IFRS 9")

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

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

Key requirements of IFRS 9:

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

Notes (continued)

2 Accounting policies (continued)

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

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

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

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

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

Classification and measurement

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

Impairment

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

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

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

Hedge accounting

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

The Directors are assessing the potential impact on the financial statements resulting from the application of these changes. The new standard is expected to be applied for the year beginning 1 July 2019.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

The Company recognises revenue mainly from sale of sugar. Based on preliminary assessment, the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance. The new standard is expected to be applied for the year beginning 1 July 2019.

IFRS 16 Leases

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

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)

IFRS 16 Leases (Continued)

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

IFRS 17 Insurance Contracts

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)

IFRS 17 Insurance Contracts (Continued)

The entity:

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

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

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

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

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

The amendments clarify the following:

(i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.

(ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
(iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- The original liability is derecognised;
- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

Notes (Continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)

Annual Improvements to IFRS Standards 2015-2017 Cycle

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

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

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

(iii) Early adoption of standards)

The Company did not early adopt new or amended standards in the period ended 30 June 2019.

(b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

Notes (continued)

2 Accounting policies (continued)

(c) Revenue recognition

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

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

Revenue is recognized as follows:

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

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

Interest income is recognized using the effective interest method.

(d) Property, plant and equipment

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

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

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

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

Buildings	25 - 40 years
Plant and machinery	10 - 60 years
Equipment and motor vehicles	3 - 8 years
Bearer plants	6 years

Notes (continued)

2 Accounting policies (continued)

(d) Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2 (e)).Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in other reserves relating to that asset are transferred to retained earnings.

(e) Biological assets

Biological assets comprise of agricultural produce on sugar cane.

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

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

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

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

(f) Impairment of non-financial assets

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

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

(g) Inventories

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

Notes (continued)

2 Accounting policies (continued)

(h) Trade receivables

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. As consistently applied, provision is made for receivables in excess of 120 days.

(i) Trade payables

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

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

(j) Share capital

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

(k) Cash and cash equivalents

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

(l) Employee benefits

(i) Retirement benefit obligations

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

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

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

Notes (continued)

2 Accounting policies (Continued)

(l) Employee benefits (Continued)

(i) Retirement benefit obligations (Continued)

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

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

(ii) Other entitlements

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

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

(m) Current and deferred income tax

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

Current and deferred income tax for the year ended 30.06.2019 has been calculated at arm's length and incorporated in the financial statements.

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

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

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

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

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

Notes (continued)

2 Accounting policies (Continued)

(n) Borrowings

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

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

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

(o) Provisions

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

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

(p) Grants

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

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

(q) Leases

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

Notes (continued)

3 Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

(i) Biological assets

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

(ii) Recoverability of receivable from Outgrowers

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

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

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

(iii) Income taxes

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

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

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

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

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

4 Going Concern

The Company made a loss after tax of Shs 1,358,342,000 (2018: Shs 2,074,754,000) during the year which was added to accumulated losses totaling Shs 4,666,502,000 (2018: Shs 3,308,160,000). In addition, the Company was in a net current liability position of Shs 4,473,753,000 (2018: Shs 3,606,875,000). The amounts that had become due for repayment on the Commodities fund (SDF) Loan as at year-end were not settled. Management has put in place the following to address the situation:

- The company has a 12 months renewable overdraft facility of Shs 300 million from Co-op Bank to finance working capital due for renewal in November 2019 and is in the process of expanding the facility to include letters of credit with same bank.
- The Company is planning a major factory rehabilitation in November 2019 to boost factory performance from current 40% to about 90%.

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

5 Financial risk management

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

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

(i) Foreign exchange risk

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

At 30 June 2019, if the Kenyan Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 107,601 (2018: Shs 127,654) higher/lower.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

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

At 30 June 2019 and 30 June 2018, the Company did not have any borrowings at variable rates.

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk

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

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

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

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2019 is made up as follows:

	2019 Shs'000	2018 Shs'000
Cash at bank (Note 20)	6,228	21,989
Trade receivables (Note 18)	6,956	5,536
Receivable from out-growers (Note 19)	299,555	267,289
Other receivables	80,608	59,595
	393,347	354,409

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

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

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

	2019 Shs'000	2018 Shs'000
Past due but not impaired:		
- by up to 30 days	6,050	6,292
- by 31 to 60 days	778	1,255
Total past due but not impaired	6,828	7,547

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk (Continued)

	2019 Shs'000	2018 Shs'000
Total receivables:		
Carrying amount before provision for impairment loss	1,490,161	1,437,473
Provision for impairment loss	(1,103,042)	(1,105,053)
Net carrying amount	387,119	332,420

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

(v) Liquidity risk

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

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

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

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

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

	Less than 1 year Shs'000	Over 1 year	Total
At 30 June 2019:			
Liabilities			
- borrowings	1,600,041	345,532	1,945,573
- trade and other payables	4,007,753	-	4,007,753
Total financial liabilities (contractual maturity dates)	5,607,794	345,532	5,953,326
At 30 June 2018:			
Liabilities			
- borrowings	1,493,583	383,983	1,877,566
- trade and other payables	3,409,454	-	3,409,454
Total financial liabilities (contractual maturity dates)	4,903037	383,983	5,287,020

Notes (continued)

5 Financial risk management (continued)

(vi) Capital management

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

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

	2019 Shs'000	2018 Shs'000
Total borrowings	1,945,573	1,877,566
Less: cash and cash equivalents	(6,228)	(21,989)
Net debt	1,939,345	1,855,577
Total equity	(850,996)	507,346
Total capital	1,088,349	2,362,923
Gearing ratio	178%	79%

Notes (continued)

6 Revenue

	2019 Shs'000	2018 Shs'000
Analysis of revenue by category:		
Sugar Sales	2,559,576	2,377,944
Molasses Sales	114,502	136,181
	2,674,078	2,514,125

7 Cost of Sales

Cost of cane	1,560,693	1,563,523
Agriculture: Overheads	534,896	512,143
Agriculture: Depreciation	112,480	116,413
Manufacturing: Costs	620,922	585,248
Manufacturing: Depreciation	72,195	266,972
	2,901,186	3,044,299

8 Other income

Interest on receivables from Outgrowers	38,259	43,100
Gain on disposal of fixed assets	13,017	5,951
Miscellaneous income	12,232	7,531
Commission income on sugar import	-	30,300
	63,508	86,882

9 Distribution expenses

Marketing and advertising	394	4,966
Production distribution	31,204	30,927
	31,598	35,893

Notes (continued)

10 Administrative expenses

	2019 Shs'000	2018 Shs'000
Staff costs(Administrative departments)	501,549	505,846
Provisions	(2,011)	495,013
Rates, Levies and insurance	149,272	183,716
Depreciation(Administrative)	93,444	112,019
Travel and accommodation	41,325	38,703
Ground maintenance & waste management	53,138	66,676
Mobile Equipment usage expenses	7,624	13,903
Board & Directors costs	28,187	17,865
Spares & Consumables	28,737	29,490
Audit & Consultancies	11,401	11,513
Staff Acquisition & Development costs	4,712	10,680
Utilities	8,849	3,885
Other administrative costs (Net of recoveries)	47,434	7,896
	973,661	1,497,205

11 Finance costs

Interest expense-CF(SDF) and GoK loans	59,085	63,466
Interest expense-bank charges	92,680	64,322
	151,765	127,788

12 Employee benefits expense

Salaries and wages	1,224,502	1,184,485
Retirement benefits costs:		
- Defined contribution scheme	75,348	121,149
- Gratuity current service cost	-	70,709
- National Social Security Funds	2,229	2,255
	1,302,079	1,378,598

13 Income tax credit

Deferred income tax (Note 25)	435,145	640,885
Deferred tax asset not recognised	(435,145)	(640,885)
Income tax credit	-	-

Notes (continued)

13 Income tax expense (continued)

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

	2019 Shs'000	2018 Shs'000
Loss before income tax	(1,345,564)	(2,109,764)
Tax calculated at the statutory income tax rate of 30% (2018 - 30%)	(403,669)	(593,172)
Tax effect of:		
Items not deductible for tax purposes	(6,539)	(8,829)
Under provision of deferred income tax in prior year	343,043	(69,733)
Deferred income tax asset not recognised	67,165	671,734
Income tax expense	-	-

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

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

	2019 Shs'000	2018 Shs'000
Opening income tax on other come	5,650	5,650
Income tax liability/asset (movement)	(12,778)	-
Income tax liability/asset	(7,128)	5,650

Notes (continued)

14 Property, plant and equipment

	Leasehold Land Shs'000	Building Shs'000	Plant and machinery Shs'000	Trailers, tractors and motor vehicles Shs'000	Office and other equipment Shs'000	Roads and fencing Shs'000	Work in progress Shs'000	Bearer plants Shs'000	Total Shs'000
Year ended 30 June 2018									
Opening net book amount	591,912	536,263	1,354,350	247,498	69,314	100,913	103,387	29,161	3,032,798
Additions	-	587	28,603	18,550	2,321	3,411	163,874	-	217,346
Transfers	-	32,488	-	-	-	12,434	(125,527)	80,605	-
Depreciation charge	(6,414)	(32,488)	(251,649)	(104,808)	(33,706)	(5,293)	-	(11,605)	(444,065)
Assets revaluation	365,502	121,571	1,219,569	443,215	(1,915)	(5,475)	-	-	2,142,467
Closing net book amount	951,000	660,319	2.350,873	604,455	36,014	105,990	141,734	98,161	4,948,546
At 30 June 2018									
Cost or valuation	1,043,177	1,271,533	5,664,185	2,163,752	403,412	204,833	141,734	150,238	11,042,864
Accumulated depreciation	(92,177)	(611,214)	(3,313,312)	(1,559,297)	(367,398)	(98,843)	-	(52,077)	(6,094,318)
Net book amount	951,000	660,319	2,350,873	604,455	36,014	105,990	141,734	98,161	4,948,546

Notes (continued)

14 Property, plant and equipment (continued)

	Leasehold Land Shs'000	Building Shs'000	Plant and machinery Shs'000	Trailers, tractors and motor vehicles Shs'000	Office and other equipment Shs'000	Roads and fencing Shs'000	Work in progress Shs'000	Bearer plants Shs'000	Total Shs'000
Year ended 30 June 2019									
Opening net book amount	951,000	660,319	2,354,490	604,455	29,936	105,990	144,195	98,161	4,948,546
Additions	-	156	4,861	-	2,128	-	30,865	88,030	126,040
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	(3,660)					(3,660)
Depreciation charge	(9,606)	(26,413)	(67,955)	(96,120)	(5,962)	(4,240)	-	(16,360)	(226,656)
Depreciation adjust	-	-	-	3,660	-	-	-	-	3,660
Closing net book amount	941,394	634,062	2,291,396	508,335	26,102	101,750	175,060	169,831	4,847,930
At 30 June 2019									
Cost or valuation	1,000,502	891,746	4,390,153	1,556,614	304,394	137,402	175,060	238,268	8,694,139
Accumulated depreciation	(59,108)	(257,683)	(2,098,758)	(1,048,279)	(278,292)	(35,652)	-	(68,437)	(3,846,209)
Net book amount	941,394	634,063	2,291,395	508,335	26,102	101,750	175,060	169,831	4,847,930

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

Notes (continued)

14 Property, plant and equipment (continued)

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

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

	2019	2018
	Shs'000	Shs'000
Cost	4,478,302	4,473,441
Accumulated depreciation	(3,707,469)	(3,639,517)
Net book amount	770,833	833,924

Bank borrowings are secured on properties to the value of Shs 2,895,808,000 (2018: Shs 2,895,808,000).

15 Intangible assets

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

15 Intangible assets (Continued)

	Software Shs'000	WIP Shs'000	Totals Shs'000
Year ended 30 June 2019			
Opening net book value	52,246	2,795	55,041
Additions	132	-	132
Amortisation charge	(51,464)	-	(51,464)
Items expenses from WIP	-	-	-
Closing net book amount	914	2,795	3,709
At 30 June 2019			
Cost	257,317	5,195	262,512
Accumulated amortisation	(256,403)	(2,400)	(258,803)
Net book amount	914	2,795	3,709

16 Biological assets

Year ended 30 June 2018	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
- At start of the year	552,253	1,802	554,055
- Additions due to development of cane	68,188	-	68,188
- Decrease due to harvest	(153,825)	-	(153,825)
- Loss arising from changes in fair value less cost to sell of biological assets	(5,354)	(232)	(5,586)
At end of year	461,262	1,570	462,832

Year ended 30 June 2019			
At start of year	461,262	1,570	462,832
Additions due to development of cane	149,154	-	149,154
Transfer to bearer plant	(88,030)		(88,030)
Decrease due to harvest	(157,409)	-	(157,409)
Losses arising from changes in fair value less costs to sell of biological assets	(24,852)	(88)	(24,940
At end of year	340,124	1,482	341,606

Notes (continued)

16 Biological assets (continued)

The key assumptions made concerning the future are as follows:

- The valuation is based on a market price of Shs 92,854 per ton of sugar (2018: Shs 97,417).
- Estimated average cane yield 90tch for plant crop & 80tch for Ratoon (2018: 88tch for plant & 65 for ratoon).
- Estimated average tonnage for cane above 6 months 114,712 tons (2018: 126,719 tons)
- Cane at the age of six months and below has no reliably determinable market value and has been stated at cost.
- Mature cane has been stated at fair value less costs to sell.

The Company had 30 herds of dairy cattle at 30 June 2019 (2018: 34 herds). Three died during the year while nine were calved.

17 Inventories

	2019 Shs'000	2018 Shs'000
Factory and agriculture spares	265,230	295,911
General consumables	72,592	97,038
	337,822	392,949
Finished goods (sugar & molasses)	11,896	12,692
Sugar in process	42,155	56,783
Raw material cane on yard	4,212	1,078
Goods in transit	10,131	9,770
	406,216	473,272

18 Trade and other receivables

Trade receivables	74,922	51,503
Less: provision for impairment losses	(67,966)	(45,967)
Net trade receivables	6,956	5,536
Other receivables and prepayments	250,144	229,131
Less: provision for impairment losses	(169,536)	(169,536)
Net other receivables and prepayments	80,608	59,595
	87,564	65,131

Notes (continued)

18 Trade and other receivables (Continued)

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

	2019 Shs'000	2018 Shs'000
At start of year	215,504	206,384
Charge to profit or loss	21,999	9,120
At end of year	237,503	215,504

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

19 Receivables from outgrowers

	2019 Shs'000	2018 Shs'000
Billable inputs and services	923,471	917,595
Unbilled services	67,778	67,778
Accrued interest on land development	173,846	171,466
Gross receivables from Outgrowers	1,165,095	1,156,839
Less: provision for impairment losses	(865,540)	(889,550)
	299,555	267,289

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

	2019 Shs'000	2018 Shs'000
At start of year	889,550	829,843
Charge to profit or loss/(write back)	(24,010)	59,707
At end of year	865,540	889,550

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

Notes (continued)

20 Cash and bank balances

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

	2019 Shs'000	2018 Shs'000
Cash and bank balances	6,228	21,989
Bank overdrafts (Note 27)	(308,721)	(292,338)
	(302,493)	(270,349)

Cash and bank balances details:

Petty cash account -Kisumu	-	98
Petty cash account -Nairobi	0	32
Cash in transit	0	800
Lipa na Mpesa Paybill	491	4,494
Barclays Bank of Kenya-Kisii – Acct 0081222509	1,222	114
Co-operative Bank-Migori- Acct 01136204628700	(308,721)	(292,338)
Kenya Commercial Bank-Migori- Acct 1106321308	(2)	2,302
National Bank of Kenya Awendo- Acct 01001045348700	4,353	4,858
Co-operative Bank Capex-Migori-Acct 01136204628701	4	7,289
Co-op Bank –VAT/SDL –Rongo- Acct 01136204628702	1	8
Co-operative Bank-Farmers-Rongo- Acct 01136204628703	1	1,335
NBK project account-Acct 01001045348702	159	659
	(302,493)	(270,349)

21 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2018 and 30 June 2019	17,698,500	353,970

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

Shareholding composition:

	2019 Shs'000	2018 Shs'000
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	353,970	353,970

Notes (continued)

22 Revaluation reserve

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

Year ended 30 June 2018	**Shs'000**
At start of year	1,270,938
Assets revaluation	2,142,467
At end of year	3,413,405
Year ended 30 June 2019	
At start of year	3,413,405
Asset revaluation	-
At end of year	3,413,405

23 Other reserves

	2019 Shs'000	**2018 Shs'000**
At start of the year	48,131	13,121
Comprehensive income	-	35,010
At end of the year	**48,131**	**48,131**

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

24 Grants

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

	2019 Shs'000	**2018 Shs'000**
At start of year	76,721	81,051
Additions	397,582	-
Amortisation charge	(4,330)	(4,330)
At end of year	469,973	76,721

25 Deferred income tax

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

	2019 Shs'000	2018 Shs'000
At start of year	26,944	11,940
Credit to income statement (Note 13)	(435,145)	(640,885
Credit to other comprehensive income	-	26,944
(Over)/under provision of deferred income tax in prior year	262,371	(69,733)
Deferred income tax not recognized	172,774	671,734
At end of year	26,944	26,944

The deferred income tax assets and liabilities, deferred income tax charge/(credit) in the income statements are attributable to the following items:

Year ended 30 June 2019	1 July 2018 Shs'000	Prior year Adj Shs'000'	Charged/ (credited) to P/L Shs'000	(Credited to equity) Shs'000	30 June 2019 Shs'000
Deferred income tax liabilities					
Property, plant and equipment:					
- on historical cost basis	62,305	350,214	55,785	-	468,303
- on revaluation surplus	642,740	(91,375)	(80,891)	-	470,474
Biological assets	138,850	-	(36,368)	-	102,482
	843,895	258,838	(61,474)	-	1,041,259
Deferred income tax assets					
Other temporary differences	(567,958)	(53,764)	37,559	-	(584,163)
Post-employment benefit obligation	(122,151)	1,635	4,586	-	(115,930)
Tax losses	(798,576)	55,661	(415,815)	-	(1,158,730)
	(1,488,685)	3,533	(373,671)	-	(1,858,823)
Net deferred income tax	(644,790)	262,371	(435,145)	-	(817,564)
Deferred income tax not recognised	(671,734)	262,371	(435,145)	-	(844,508)
Final deferred income tax	26,944		-	-	26,944

Notes (continued)

25 Deferred income tax (continued)

Year ended 30 June 2018	1 July 2017 Shs'000	Charged/ (credited) to P/L Shs'000	Charged to equity Shs'000	30 June 2018 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	184,431	(122,126)	-	62,305
- on revaluation surplus	485,076	157,664	-	642,740
Biological assets	185,045	(46,195)	-	138,850
	854,552	(10,657)	-	843,895
Deferred income tax assets				
Other temporary differences	(378,340)	(189,618)	-	(567,958)
Post-employment benefit obligation	(125,554)	(23,541)	26,944	(122,151)
Tax losses	(381,507)	(417,069)	-	(798,576)
	(885,401)	(630,228)	26,944	(1,488,685)
Net deferred income tax asset	(30,849)	(640,885)	26,944	(644,790)
Deferred income tax asset not recognised	(42,879)	640,885	-	(671,734)
Final deferred income tax	11,940	-	26,944	26,944

26 Trade and other payables

	2019 Shs'000	2018 Shs'000
Trade payables	341,038	342,794
Customer payments in advance	82,238	111,099
Other payables and accrued expenses	3,584,476	2,955,561
	4,007,753	3,409,454

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

27 Borrowings

	2019 Shs'000	2018 Shs'000
Commodities fund (SDF) loan	454,834	814,941
Government of Kenya (GOK/ODA)	794,628	770,288
Co op bank	345,532	
KCB	41,858	
Bank overdraft	308,721	292,338
	1,945,573	1,877,567

i) Maturity analysis

	2019 Shs'000	2018 Shs'000
Non-current		
Commodities fund (SDF) loan	-	383,983
Co op bank	345,532	-
Current		
Commodities fund (SDF) loan	454,834	430,958
KCB	41,858	
Government of Kenya (GOK/ODA)	794,628	770,288
	1,291,320	1,201,246
Total GOK/CF loans	1,636,852	1,585,229
Bank overdraft	308,721	292,338
Total borrowings	1,945,573	1,877,567

- The company has an overdraft facility of Shs 300 million from Co-op Bank for a tenure of 12 months renewable at a rate of 14% per annum.
- Commodities Fund loans of Shs 404M and 51M at interest rates of 5% and 0% respectively had fallen due for payment at 30 June 2019.
- GOK loans of Shs 223.4M (interest inclusive) had fallen due for payment at 30 June 2019. Interest payable @ 11% p.a.
- GOK/ODA of Shs 571M (interest inclusive) had fallen due for payment at 30 June 2019. Interest payable @ 12% p.a.
- During the year Commodities Fund recalled a loan for factory rehabilitation of Kshs 355M, this loan was termed by Co-op bank and stood Kshs 346M at year end.
- Loan from KCB for Insurance Premium Financing stood Kshs 41.9M

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

Loans movement	G.o.K Shs '000	CF Shs'000	Co-op Shs '000	KCB Shs '000	Total Shs '000
At start of year	**770,288**	**814,941**	-	-	**1,585,229**
Additions	-	-	355,755	111,219	466,974
Accrued interest	24,341	26,397	4,324	6,046	6,108
Repayment	-	(386,504)	(14,547)	(75,407)	(476,458)
Net movement	24,341	(360,107)	345,532	41,858	51,624
At end of year	**794,629**	**454,834**	**345,532**	**41,858**	**1,636,852**

Notes (continued)

28 Cash generated from operations

	2019 Shs'000	2018 Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Loss before income tax	(1,358,342)	(2,109,764)
Adjustments for:		
Interest income (Note 7)	(38,259)	(43,100)
Interest expense(Note 10)	151,765	127,788
Loss/(gain) on disposals of property plant & equipment	13,017	5,951
Changes in biological assets(Note 15)	(24,940)	5,586
Decrease due to harvest	-	153,825
Depreciation of property, plant and plant (Note 14)	278,119	444,065
Amortisation of intangible assets (note 15)	(51,464)	51,339
Items expensed from WIP (note 15)	-	2400
Grant amortization (Note 24)	(4,330)	(4,330)
Post-employment benefit obligation		21,015
Changes in working capital:		
- Inventories	67,055	(30,326)
- Trade and other receivables	(22,433)	(28,909)
- Outgrowers' balances	595,514	(32,676)
- Trade and other payables	598,299	1,461,966
Cash generated from operations	204,001	24,830

29 Retirement benefit obligations

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

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

	2019 Shs'000	2018 Shs'000
Present value of unfunded obligations	386,433	401,718

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

	2019 Shs'000	2018 Shs'000
At start of year	401,718	418,811
Net periodic cost	0	70,709
Payments made in the year	(15,285)	(37,788)
Remeasurement	0	(50,014)
Liability in the statement of financial position	386,433	401,718

Notes (continued)

29 Retirement benefit obligations (continued)

The post-employment benefits expense is as follows:

	2019 Shs'000	2018 Shs'000
Current service cost	-	17,642
Interest cost	-	53,067
Total, included in employee benefits expense(Note 12)	-	70,709

The principal actuarial assumptions used were as follows:

	2019	2018
-discount rate	13.25%	13.25%
-inflation	7.0%	7.0%
-salary increases	7.5%	7.5%

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

Salary increase sensitivity

	At current salary increase rate Shs'000	1% Increase Shs'000	1% Decrease Shs'000
At 30 June 2018			
Present value of obligation	401,718	454,218	387,092
Percentage changes	-	8.45%	(7.57%)
At 30 June 2019			
Present value of obligation	386,433	454,218	387,092
Percentage changes	-	8.45%	(7.57%)

Assumptions regarding future mortality experience are set based on published statistics and experience in the industry.
Since the bulk of the benefits payable under the scheme are salary related and there are no pensions paid from the scheme, the sensitivity of the liability to a change in the salary escalation assumption is expected to be consistent with the sensitivity to the discount rates

30 Related party transactions

The Company is controlled by the Government of Kenya. IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

i) Key management compensation

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

	2019 Shs'000	2018 Shs'000
Salaries and other short-term employment benefits	32,254	34,016

ii) Directors' remuneration

	2019	2018
Remuneration as management	960	840
Fees and allowances for services as director	24,853	18,125
	25,813	18,965

31 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Company also has some open tax items under discussion with the revenue authority. A number of litigation cases regarding burnt over-mature cane which the Company was unable to harvest and traffic accident cases have been lodged at law courts.

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

	2019 Shs'000	2018 Shs'000
Farmers' cases	380,000	280,000
Staff cases	100	100
	380,100	280,100

The directors have made a provision in the financial statements amounting to Shs 228 million based on legal advice. The Directors do not believe that any significant additional liability will arise from the resolution of these matters.

Notes (continued)

32 Commitments

Capital commitments

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

	2019 Shs'000	2018 Shs'000
Authorized but not contracted	371,780	397,770
Authorized and contracted	92,612	163,912
	463,392	561,682

Five year financial performance summary

	30-Jun-19 Shs'000	30-Jun-18 Shs'000	30-Jun-17 Shs'000	30-Jun-16 Shs'000	30-Jun-15 Shs'000
Statement of comprehensive income					
Revenue	2,674,078	2,514,125	4,996,667	4,755,640	3,697,375
Operating loss	(1,193,799)	(1,981,976)	(187,573)	(774,243))	(1,052,477)
Loss before income tax	(1,345,564)	(2,109,764)	(296,782)	(878,639)	(1,154,275)
Statement of financial position					
Total assets	5,992,808	6,299,750	6,299,750	4,761,753	4,933,000
Total liabilities	6,843,804	5,792,403	5,792,403	4,322,118	4,224,443
Total equity	(850,996)	507,346	507,346	439,635	708,557
Net working capital	(4,473,753)	(3,606,875)	(3,606,875)	(1,822,397)	(2,299,796)

Five year operational performance summary

	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
Milled cane (tons)	420,486	420,973	602,711	757,143	560,385
Sugar sold (tons)	31,351	32,491	53,472	67,733	53,733
Rendement (%)	7.42	7.56	8.91	8.88	9.06

STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019

FINANCIAL DATA	ACTUAL	BUDGET	VARIANCE	EXPLANATION OF MATERIAL VARIANCES
Sales Revenue	2,674,078	4,010,271	(1,336,193)	Lower sales volumes due to less stocks occasioned by lower production.
Other Revenue	63,508	155,264	(91,756)	The variance is occasioned by non-realization of extra revenue streams budgeted for.
Stock Movement	(48,233)	(11,828)	(36,405)	Timing difference - Value of Production vs Cost of Sales
Total Revenue	**2,689,353**	**4,153,707**	**(1,464,354)**	
DIRECT COSTS				
Cost of Cane	1,560,693	1,512,387	48,306	The variance is occasioned by milling less cane volumes than budgeted for. This is due to reduced supply as a result of cane theft and reduced levels of mature cane.
Plant & Fleet Depreciation	168,315	376,913	(208,598)	Capitalizations of WIP projects and Capex additions during the year increased depreciation charge.
Packaging & Process Chemicals	85,874	62,747	23,127	Lower chemical consumption due to reduced levels of operations hence less stocks.
Marketing Costs	1,569	11,929	(10,360)	The Company's presence in print and audio-visual media was lower primarily because of limited availability of product stocks and also due to cash flow constraints.
Spares & Consumables	170,185	814,401	(644,216)	The budgeted consumption was projected to be used during the APM process that has since been rescheduled to 2019-2020 financial year.
Plant & Machinery Repairs & Maintenance	13,157	127,196	(114,039)	The budgeted repairs and maintenance were to be undertaken during the APM process that has since been rescheduled to 2019-2020 financial year.
Total Direct Costs	**1,999,793**	**2,905,573**	**(905,780)**	
IN-DIRECT COSTS				
Staff Costs	1,302,079	1,353,919	(51,840)	The variance is occasioned by the delayed implementation of staff remuneration review. The process is currently with the Salaries and Remuneration Commission.
Board and Directors Costs	28,187	41,800	(13,613)	Increased Board activities-fully constituted Board. The Company operated with a fully constituted Board.
Staff Acquisition & Development Costs	4,712	27,053	(22,341)	The variance is due to fewer than budgeted training activities undertaken in the year under review.

STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019

FINANCIAL DATA	ACTUAL	BUDGET	VARIANCE	EXPLANATION OF MATERIAL VARIANCES
Rates, Levies & Insurance	206,751	237,151	(30,400)	The variance resulted from legal fees as a result court rulings in favor of the Company. Increase in litigation against the Company was witnessed due to farming contract breaches.
Utilities	56,493	63,535	(7,042)	The variance resulted from success in management efforts at cost controls.
Travels & Accomodation	51,914	77,860	(25,946)	The variance resulted from success in management efforts at cost controls.
Audits & Consultancies	11,401	35,923	(24,522)	The budgeted consultancies were scheduled to be undertaken during the APM process that has since been rescheduled to 2019-2020 financial year.
Other Admin Costs net of Recoveries	234,223	(669,260)	903,483	Recoveries timing differences. Realization beyond one financial year, especially with the cane development ventures in outgrowers.
Total In-Direct Costs	1,895,760	1,167,981	727,779	
Total Operating Costs	3,895,553	4,073,554	(178,001)	
Operating Profit/(Loss)	**(1,206,201)**	**(80,153)**	**(1,286,354)**	
Financing Overheads	376	-	376	The variance is due to the provisions provided in the final accounts that were not envisioned during the budgeting face.
Finance Costs	151,765	61,320	90,445	The variance is due to increased engagements with the banks. Overdraft interest increased due to full utilization of the facility, occasioned by the cashflow constraints experienced in the year under review.
Total Finance Costs	**152,141**	**61,320**	**90,821**	
Pre Tax Profit	(1,358,342)	20,832	(1,379,174)	
Corporation Tax Expense	-	(6,250)	(6,250)	
Profit After Tax	**(1,358,342)**	**14,582**	**(1,372,924)**	

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS
Year ended 30 June 2019

The following is the summary of issues raised by the external auditor for 2017/2018 accounts, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
1	As reported in the previous year, Receivables from Outgrowers The company's balance sheet at 30 June 2018 comprised various balances arising from transactions with Out-growers. There were several unsupported transactions and the physical verification of farmer's plots revealed some exceptions. We were, therefore, unable to obtain sufficient audit evidence to conclude on the validity of these balances. .	We emphasize that the balance previously not uploaded reduced significantly and in now included in the AMS. Validation of these accounts is a continuous process. The balance of Kshs.351M is now classified as a specific provision because there is an attribution of individual balances. Effectively locking this data now provides room for progress in the final scheme of clearing up earlier/legacy problems. Combining this scenario with excessive prudence evidenced by the hefty provision for outgrower receivable should have led to a favorable opinion in accounting for services to farmers.	Reconciliation closed in in F/Y 2018/2019
2	**Going concern** Financial statements indicate the existence of a material uncertainty, which may cast significant doubt on the company's ability to continue as a going concern and further implies that the Company's existence is dependent upon continued support from the shareholders and creditors.	Management has outlined interventions to mitigate the risks as follows: 1. Part of the less than optimal performance for the period under review was attributed to lower recoveries, plan for maintenance is still in place to tackle the problem and boost efficiency. 2. Increase the Company's capacity for branded sugar given that branded sugar is more profitable. 3. The Company has a 12 months renewable overdraft facility of Shs. 300M from Co-op Bank to finance working capital. 4. The Company is currently operating under austerity budget. This will help in management of payroll cost to contain the wage bill. Organization review program is	APM is now scheduled to November/December 2019. The benefit will be realized upon conclusion of the exercise.

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
		also ongoing with a view to put in place a lean and efficient staff level. It's also important to emphasize that procurement of Capital items is currently based on priority basis.	
2.	**Unpaid Tax:** As previously reported, there are outstanding VAT (principal and interest) payable spanning several months of non-payment during the year under review. management has continued to indicate that it intends to approach the Kenya Revenue Authority for waiver of applicable interest and penalties	Management is in complete agreement with your observation and recommendation and has approached KRA on various dates to discuss settlement plan. Serious effort has been devoted to clearing the balance post maintenance.	Management has come up with the repayment plan following various meetings with KRA aimed at reducing tax burden.

Key projects and investment decisions the entity is planning/implementing

Year ended 30 June 2019

Capital expenditure for major factory rehabilitation planned for the year 2018/2019 is rescheduled to the year 2019/2020 financial year. The budget for capital expenditure projects is to be funded from internally generated funds and loan from Commodities fund.

Below are some of the ongoing major projects.

	Capital projects	Project cost "000"	Actual expenditure "000"	%age completion	Expected completion date
1	EOT Gantry Structure Refurbishment-To improve plant availability and capacity utilisation	10,259	-	50%	Dec 2019
2	Design, manufacture, supply & installation of new EOT Crane-To improve plant availability and capacity utilization and reduce yard losses	22,852	4,570	90%	Dec 2019
3	Installation commissioning of rock removal system	64,956	11,983	50%	Dec 2019
4	Supply installation and installation chopper leveler c/w motor drive	6,320	0	0%	Dec 2019
5	Supply and installation of 630Kw motor mill 4 electric drive.	6,280	0	0%	Dec 2019
6	Upgrade of DM plant to 20 cubic M per hour	12,211	9,474	90%	Dec 2019
7	Supply installation & commissioning of multideck sugar grader	5,330		0%	Dec 2019
8	Replacement of injection water piping manifold	2,780		0%	Dec 2019
9	Installation and commissioning of shaft mounted crystalizer gearboxes	790		0%	Dec 2019
10	Removal & replacement of main bank tubes for boiler services	14,057	5,207	0%	Dec 2019
11	Replace raw water line	15,000	0	25%	Dec 2019