


REPUBLIC OF KENYA



Enhancing Accountability



REPORT

 THE NATIONAL ASSEMBLY PARLIAMENT BUILDING	
DATE: 03 MAR 2022	
DAY: Thursday	
TABLED BY:	LDM
CLERK-AT THE-TABLE:	C. Ndlovu

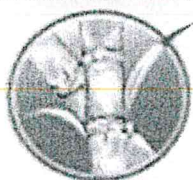
OF

THE AUDITOR-GENERAL

ON

NZOIA SUGAR COMPANY LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2020**



Sweetening Kenya
since 1978

HEAD OFFICE
P.O. BOX 285 - 50200,
BUNGOMA

nzoiia sugar
Company Ltd

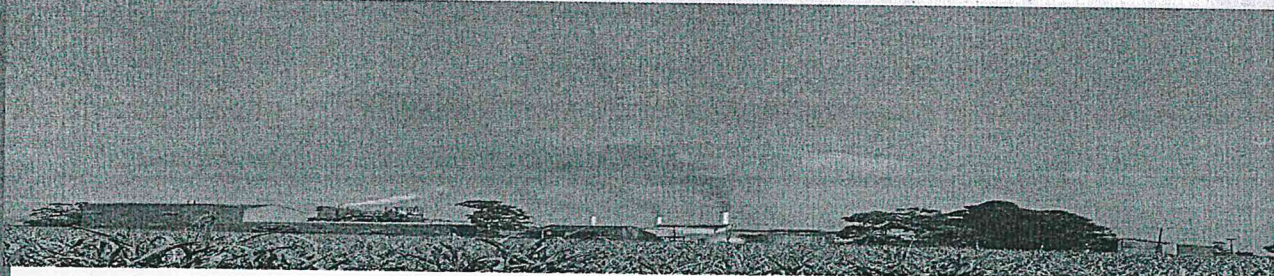


TEL:- 055 - 30500

Fax :- 055 - 30001

E-mail: md@nzoiiasugar.com

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020



Sweetening Kenya Since 1978

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

Table of Contents

Page

I. KEY COMPANY INFORMATION	ii
II. THE BOARD OF DIRECTORS	v
III. MANAGEMENT TEAM	viii
IV. CHAIRMAN'S STATEMENT	xi
V. MANAGING DIRECTOR'S REPORT	xii
VI. CORPORATE GOVERNANCE STATEMENT	xvi
VII. MANAGEMENT DISCUSSION AND ANALYSIS	xix
VIII. CORPORATE SOCIAL RESPONSIBILITY REPORT	xxii
IX. REPORT OF THE DIRECTORS	xxiii
X. STATEMENT OF DIRECTORS' RESPONSIBILITIES	xxiv
XI. REPORT OF INDEPENDENT AUDITORS	xxv
XII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020	1
XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020	2
XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020	3
XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020	4
XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2020	5
XVII. NOTES TO THE FINANCIAL STATEMENTS	6
XVIII. PROGRESS ON FOLLOW UP ON AUDITORS RECOMMENDATIONS 2020	46
XIX. APPENDIX 1: PROJECTS IMPLEMENTED BY THE COMPANY	48
XX. APPENDIX 2: INTER COMPANY TRANSFERS	49
XXI. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES	49

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

I. KEY COMPANY INFORMATION

WHO WE ARE

Nzoia Sugar Company Limited (NSC) was established in 1975 and started operations in 1978. It was formed under the Companies Act Cap 486 of the Laws of Kenya with Memorandum and Articles of Association and issued certificate of incorporation No.C13734 on 1st August, 1975. The mandate of the company at the time of inception was to establish sugar cane plantations, manufacture sugar and create employment. The Shareholding of the Company includes Kenya Government with 97.94 % shares, Fives Cail with 1.13 % shares and Industrial Development Bank (IDB) holding the remaining 0.93 % shares. The company is a major player in the Kenyan Sugar sector. It is located in Bungoma County and serves farmers in Bungoma and Kakamega Counties. The raw material base comprises a Nucleus Estate spanning 3,600ha and an out grower scheme of 26,000 ha made up of 77, 000 small holder farmers.

OUR VISION

To be globally competitive in Production and Marketing of sugar and other products

OUR MISSION

To efficiently, innovatively and sustainably produce and market sugar and other products in a clean and safe environment to the satisfaction of all stakeholders

OUR MANDATE

The Company's core mandate includes the following;

- a) To manufacture and sell sugar and it's co-products from sugarcane.
- b) To facilitate establishment and maintenance of sugarcane plantations in both the nucleus estate and Out growers scheme.

CORE VALUES

The Company core values are:

- (a) **Customer Care-** The Company shall remain committed to processes and procedures that emphasize the assessment of needs, the design and delivery of programmes, monitoring and evaluation to the satisfaction of Customers.
- (b) **Integrity-** The Company, Staff and its agencies will uphold integrity, honesty, transparency, accountability and commit to processes that facilitate regular and timely feedback on progress and performance.
- (c) **Professionalism-** The Company and its Staff will exhibit the highest standards of professionalism in their engagement with clients and Customers. Company staff will at all-times exercise commitment and dedication to their work, remain respective and timely in delivery of services.
- (d) **Productive and Results-oriented-** Company staff shall at all times be productive and be focused on achieving the set targets and results. Teamwork shall be the driving force for collective implementation of plans and programmes across departments.
- (e) **Creativity and Innovation-** The Company will endeavour to harness the creative talents of its staff and promote R & D while developing and providing innovative solutions to challenges faced in the Sugar Industry.
- (f) **Corporate Social Responsibility-** The Company will be a responsible corporate entity that addresses relevant needs of the community in which it operates.

Principal Activities

The principal activities of the company are:

- (i) the production and sale of sugar and its co-products.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

KEY COMPANY INFORMATION continued

- (ii) facilitate establishment and maintenance of sugarcane plantations in both the nucleus estate and Out growers scheme.

Key Management

Nzoia Sugar Company Limited day to day management is under the following key organs:

- Board of Directors
- CEO; and
- Senior Management Team

The day to day operations are overseen by a CEO who is supported by 12 senior managers. The company has a board of directors that provide policy and oversight of its operations on behalf of the shareholders.

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2020 and who had a direct fiduciary responsibility were:

NO	DESIGNATION	NAME
1	Chief Executive Officer	CPA Cde. Wanjala Makokha
2	Ag. Company Secretary	Ms. Ritah Mukhongo
3	Agriculture Services Manager	Mr. Ignatius Wafula
4	Factory Manager	Mr. David Mulungwa
5	Ag. Production Manager	Mr. Benjamin Mbaya
6	Internal Audit Manager	CPA Lucas Otene
7	Finance Manager	CPA Ezron Kotut
8	Marketing & Sales Manager	Ms. Edwina Omollo
9	Ag. Human Resource Manager	Mr. Shadrack Masinde
10	Ag. ICT Manager	Mr. Suleiman S Wanekeya
11	Ag. Agriculture Manager	Mr. Francis Oringe
12	Ag. Public Relations Officer	Ms. Florence Mutinda

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

KEY COMPANY INFORMATION continued

CORPORATE INFORMATION

DIRECTORS	Hon. Joash Wamang'oli	- Chairman - Appointed on 19 th July 2018
	CPA Cde Wanjala MAKOKHA	- Managing Director - Appointed on 15 th July 2019
	Karen Kandie	- IDB Capital-Appointed by virtue of office
	Richard Njoba	- FCB - Appointed by virtue of office
	Kasembeli Nasiuma	- Alt to PS The National Treasury & Planning
	Peter Owoko	- Alt to PS Ministry of Agriculture Livestock & Fisheries
	Hillary Changwony	- Appointed on 20 th September 2018
	Tom Ipomai	- Appointed on 20 th September 2018
	Stephen Kisaka	- Appointed on 20 th September 2018
	Mary Makokha	- Appointed on 20 th September 2018
	Patrick Musumba	- Appointed on 20 th September 2018
	Anne Omodho	- Appointed on 20 th September 2018

COMPANY SECRETARY	- Ritah Mukhongo Certified Public Secretary (Kenya) P. O Box 285-00100 Bungoma
--------------------------	---

REGISTERED OFFICE	Off Webuye – Malaba Road 5 kms from Bukembe Junction P O Box 285-50200 Bungoma, Kenya
--------------------------	--

CONTACTS	Telephone +254727477777 / +254727483483 Email: md@nzoiasugar.com Website: www.nzoiasugar.com
-----------------	--

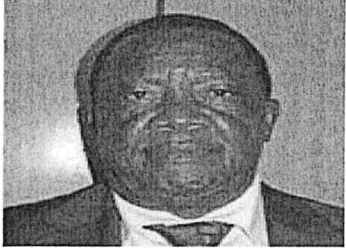




PRINCIPAL AUDITORS	The Auditor General P O Box 30084 - 00100 Nairobi
---------------------------	---

BANKERS	Diamond Trust Bank Bungoma Branch P O Box 726-50200 Bungoma	The Co-operative Bank of Kenya Limited Bungoma Branch P O Box 1964 – 50200 Bungoma	Standard Chartered Bank (K) Ltd Eldoret Branch P O Box 30100 Eldoret
	Kenya Commercial Bank Limited Bungoma Branch P O Box 380 – 50200 Bungoma	National Bank of Kenya Limited Bungoma Branch P O Box 25 – 50200 Bungoma	






ADVOCATES	Olotch & Company Advocates P O Box 7146 – 00100 Nairobi	Buluma & Company Advocates P O Box 6152 – 30100 Eldoret
	Wekesa & Simiyu Advocates P O Box 10299 – 00100 Nairobi	J.O Makali & Co. Advocates P.O Box 427 Bungoma

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

II. THE BOARD OF DIRECTORS

<p>1. Hon. Joash Wamang'oli-Chairman</p> 	<p>Hon. Joash Wamang'oli is 70 years old, a diploma holder with over 30 years experience in leadership and management and was a former Member of Parliament for Webuye. He is a seasoned businessman. Hon. Wamang'oli has served on the board since 2015.</p>
<p>2. CPA Cde Wanjala MAKOKHA</p> 	<p>CPA Cde Wanjala MAKOKHA is 40 years old and holds a Masters in Business Administration and Bachelors of Commerce both from University of Nairobi, Certified Public Accountant (K), member of ICPAK and an ISO Certified Auditor. He has over 15 years' experience in Professional training, Accountancy, Risk, Strategy, Management and Finance. He was appointed to the board on 15th July 2019.</p>
<p>3. Mrs. Mary Makokha</p> 	<p>Mrs. Mary Makokha is 56 years old and holds Bachelors degree in Counseling Psychology from Mount Kenya University, member of Parenting in Africa Network(PAN), a member of Busia County Security Committee, Busia County Health committee, Busia Sub County Education and board member of Lugulu AC High school. She is the Executive Director of REEP and has over 22 years experience in management.</p>
<p>4. Mrs. Karen Kandie</p> 	<p>Mrs. Karen Kandie is the Managing Director of IDB Capital Limited from May 2017. She serves as an Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT) and is a past member of the Capital Markets Tribunal. Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance & Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PricewaterhouseCoopers Limited.</p> <p>She holds a Master of Business Administration from Murdoch University, Western Australia. She is a B.Com holder from the University of Nairobi and is a Certified Public Accountant (CPA-K) and Certified Financial & Investment Analyst (CIFA). Karen is currently pursuing a Doctorate in Business Administration.</p>
<p>5. Ms. Anne Omodho</p> 	<p>Ms. Anne Omodho is 55 years old, a marketing professional and business executive. She holds an MBA from University of Derby, BSC in Business administration (Marketing) from Western International University and CAM diploma in advertising and LCCI diploma in public relations strategies.</p>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

<p>6. Mr. Hillary Changwony</p> 	<p>Mr. Hillary Changwony is 51 years old , a teacher by profession and served as Deputy Governor of Bungoma County. He has a Masters of education (Administration), Bachelor of Education from Egerton University and Diploma in Education science from Moi Teachers College Eldoret. He is currently pursuing PHD in Disaste Management from Masinde Muliro University.</p>
<p>7. Mr. Tom Ipomai</p> 	<p>Mr. Tom Ipomai is 46 years old, a Professional and Chartered Accountant, banker, ICT expert, consultant and business leader. He holds a first-class degree in computer science from UON and master of philosophy (Mphil) degree in management studies from Cambridge (Form College). He is also a financial modelling and valuation analyst. He currently serves in board of KCB Group PLC.</p>
<p>8. Mr. Stephen Kisaka</p> 	<p>Mr. Stephen Kisaka is 47years old, a management consultant in strategy, planning and revenue management with over 20 years' experience in private sector. He has great understanding and usage of business information systems. He has Bachelor's Degree in Education from Kenyatta University and Masters of Science in Mathematics and Computing from Kenyatta University.</p>
<p>9. Mr. Patrick Musumba</p> 	<p>Mr. Patrick Musumba is 61 years old, a seasonal educationist and businessman with over 30 years experience. He has a Bachelor of Education Degree and a Diploma in Business Education (Accounting option).</p>
<p>10. Mr. Richard Njoba</p> 	<p>Mr. Richard Njoba is 62 years old with over 30 years experience in the private sector. He sits on the board as alternate director of Fives Cail (FCB).</p>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

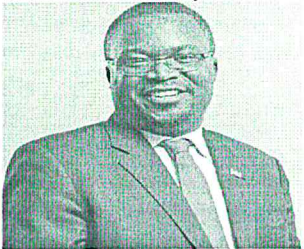
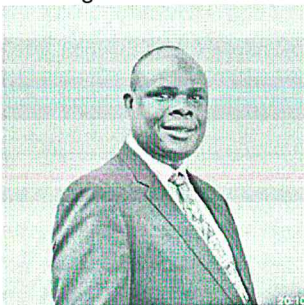



11. Ms. Ritah Mukhongo





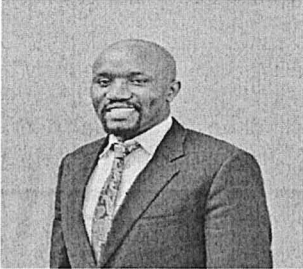


Ms. Ritah Mukhongo is 39 years old, the Ag. Company Secretary. She holds Bachelor of Law Degree LLB; post graduate Diploma in Law and currently undertaking master's programme MBA in Strategic Management. She is an advocate of the High Court of Kenya, a certified professional mediator, a commissioner for oaths and notary public. She has over 15 years' experience in Legal matters. She took over on 15th January 2018.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020



III. MANAGEMENT TEAM

<p>1. CPA.Cde Wanjala MAKOKHA</p> 	<p>CPA Cde Wanjala MAKOKHA holds a Masters in Business Administration and Bachelors of Commerce both from University of Nairobi, Certified Public Accountant (K), member of ICPAK and a ISO Certified Auditor. He has over 15 years' experience in professional training, Accountancy, Risk, strategy, management and finance. He is currently Managing Director having been appointed on 15th July 2019</p>
<p>2. Mr. Ignatius B Wafula</p> 	<p>Mr. Ignatius Wafula is in charge of Agriculture Services Department. He holds masters in Project Planning in Production Engineering. He is a registered member of graduate engineers. He has 16 years experience.</p>
<p>3. Ms.Ritah Mukhongo</p> 	<p>Ms. Ritah Mukhongo is the Acting Company Secretary. She holds Bachelor of Law Degree LLB, post graduate Diploma in Law and currently undertaking master's programme MBA in Strategic Management. She is an advocate of the High Court of Kenya, a certified professional mediator, a commissioner for oaths and notary public. She has over 15 years' experience in Legal matters. She took over on 15th January, 2018.</p>
<p>4. Mr. David S Mulungwa</p> 	<p>Mr. David Mulungwa is the Factory Manager. He holds Bachelor of Science Mechanical Engineering. He is a registered member of Engineering Board. He has over 28 years of experience in the Sugar Industry.</p>
<p>5. Mr. Benjamin M Mbaya</p> 	<p>Mr. Benjamin Mbaya is the head of production. He has Bachelors in Chemistry from University of Nairobi and Masters in Business Administration from Masinde Muliro University. He is also a member of Chemical Society of Kenya and has 30 years of experience in Sugar Industry.</p>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

<p>6. CPA. Ezron K Kotut</p> 	<p>CPA Ezron Kotut is the Finance manager. He holds Masters of Business Administration. He is a Certified Public Accountant (K) and a member of ICPAK. He has over 15 years experience in the private sector and 9 years' experience in sugar industry. He is currently pursuing Degree in Management and Leadership from Management University of Africa.</p>
<p>7. Ms. Edwina A Omollo</p> 	<p>Ms. Edwina Omollo is the head of Sales and Marketing. She holds a Bachelor Degree in Business Administration. She holds various certificates in sales and marketing. She has over 13 years experience in sales and marketing.</p>
<p>8. Mr. Suleiman S Wanekeya</p> 	<p>Mr. Suleiman Wanekeya is currently Acting. Information Communication & Technology Manager. He is pursuing Masters degree in strategic Management, Holds Bsc- Information Technology, Diploma Project management, Microsoft certified professional. He has 10 years working experience in Information Technology.</p>
<p>9. Mr. Francis Oringe</p> 	<p>Mr. Francis Oringe is the Acting Agriculture Manager. He holds a master degree in Agriculture from the University of Nairobi. He is a member of the Weed Science Society for Eastern Africa and the Kenya Society of Sugarcane Technologists. He has many years experience in the field of agriculture. He is also a certified ISO auditor in Quality management.</p>
<p>10. Ms. Florence Mutinda</p> 	<p>Ms. Florence Mutinda is the Acting Public Relations Manager. She holds a Bachelor of Arts Degree in mass media and communications. She is a member of the Public Relations Society of Kenya (PRSK) and has been serving in the Partnership and fundraising committee of the society since 2017. She has over 11 years experience.</p>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

<p>11. Mr.Shadrack N Masinde</p> 	<p>Mr. Shadrack Masinde is currently Acting. Human Resource Manager. He is a holder of Bachelor of Arts degree in Government and Public Administration, Member of CHRM. He has over 18 years experience.</p>
<p>12. CPA Lucas A Otene</p> 	<p>CPA Lucas Alwala Otene is the head of Internal Audit, He holds a master of Business Administration and Bachelors degree in Business Administrations. He is a Certified Public Accountant (K) and a member of ICPAK. He has over 15 years experience.</p>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

IV. CHAIRMAN'S STATEMENT

On behalf of the board of directors and management of the company allow me to present to you the annual report on the business and operations of the company and financial results for the year ended 30th June 2020. The company has once again recorded a negative result owing to the following industrial challenges; inadequate mature cane for milling, un-serviced machinery, high production cost and massive importation of sugar that affected the prices in the period under review. In spite of all these, the Board and Management are tirelessly working on measures and strategies meant to reverse the trend.

INTERNATIONAL SUGAR MARKETS

For marketing year (MY) 2019/20 global production went down 7.9 million tons to 166.2 million. Global imports were unchanged at 50.7 million tons while global exports were down 1.0 million tons to 54.1 million. Global ending stocks stood at 44.5 million tons.

Global production for Marketing Year (MY) 2020/21 is forecast up 22 million tons to 188 million (raw value) due to higher production in Brazil, India, and Thailand. Consumption is expected to rise to a new record due to growth in markets such as India and is projected to continue to draw stocks lower despite a rebound in output. Exports are forecast up sharply with rising supplies.

Source: United States Department of Agriculture, Foreign Agricultural Service May 2020 Report

Dividends

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

Future Outlook

The board has continued to implement short term measures and is currently pursuing a number of medium and long-term strategic measures to restore the company's solvency and return it to profitability. The board is making every effort to address issues of inadequate mature cane, cane poaching and improving factory efficiencies.

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

Hon. Joash Wamang'oli
Chairman, Board of Directors

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

V. MANAGING DIRECTOR'S REPORT

On behalf of management I present to you the Management Report on the business and operations of the Company and financial results for the year ended 30th June, 2020. The factory was shut down for rehabilitation in July 2019 and resumed operations mid-February 2020. TC: TS in the year under review was 16.99 (15.36-last financial year). The factory milled total of 193,288 tons (362,999 last financial year). Turnover volumes dropped from 23,535 tons' previous financial year to 9,266 tons. Prices of sugar averaged Kes. 73,558 per ton against a price of Kes. 72,745 per ton in previous financial year. Prices still remained a serious challenge during the year due to presence of cheap imports in the market.

However, Management remains focused on putting in place stringent measures to ensure that the Company turns around to profitability. The Company implemented a rapid response initiative (RRI) for planting 335 acres of cane to address the perennial cane shortage and repaired several cane haulage units that had stalled.

LOCAL SUGAR MARKET

Sugar production in January - May 2020 was 248,945 MT compared to 216,281 MT achieved in the same period last year, an increase of 15% which was majorly realised in private millers. On the same note, all government owned mills, with exception of Chemelil reported decreased sugar production due to limited cane supply and inefficiencies at the factories. The production in West Kenya and Sukari Industries was boosted by inclusion of bulk sugar imports. Mumias Sugar Company remained closed during the period under review.

Sugar sales in January – May 2020 were in tandem with sugar production. A total of 243,083 tons were sold in January – May 2020 compared to 210,015 tons sold in the same period last year, an increment of 16%. Total sugar closing stock held by all the sugar factories at the end of May 2020 was 16,819 tons against 10,462 tons observed in May 2019.

a) Ex-Factory Sugar Prices

The ex-factory sugar price in January 2020 averaged Kes. 4,235. In February, the average price went up slightly by Kes. 59. The trend reversed in March recording an average of Kes. 4,215 per 50kg bag. However, the downward trend was short-lived, April 2020 recording an upward trend with an average price of Kes. 4,417 per 50kg bag. The period closing in May experienced a price drop, to a monthly average of Kes. 4,263 per 50kg bag. It is observed that the mean price in May 2020 was 8% lower than the same period the year 2019 (Kes. 4,632 per 50kg bag), an indication that the market is flooded by cheap sugar imports shipped in earlier. Overall, in January - May 2020, average ex-factory sugar price was Kes. 4,285 per 50kg bag compared to Kes. 4,097 per 50kg bag witnessed in the same period last year, thus an increase of 5%.

b) Wholesale Sugar Prices

The wholesale sugar prices the first month of the year stood at an average of Kes. 4,419 per 50kg bag. February recorded an increase in average price that hid the peak in March with an average of Kes. 4,644. In April 2020, the average price dropped to Kes. 4,477 per 50kg bag. The close of period under review ended in May with a low price of Kes. 4,433 per 50kg bag. During the month of May 2020, prices for both local and imported sugar trade at a range of Kes. 4,250 - 4,600 per 50kg bag. However, imported sugar was cheaper than local sugar by Kes. 99 per bag; thus, selling at an average price of Kes. 4,374 against Kes. 4,473 per 50kg bag, respectively.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

MANAGING DIRECTOR'S REPORT Continued

Wholesale stocking prices for local sugar in May 2020 ranged between Kes. 4,200 and 4,500 with a mean price of Kes. 4,356 per 50-kg bag. Imported sugar was stocked at a price range of Kes. 4,200 – 4,450, giving an average of Kes. 4,288 per 50-kg bag. Overall, wholesale sugar stocking price in May 2020 averaged at Kes. 4,332. It is therefore observed that a trader was making a gross profit of Kes. 101 per 50kg bag.

Source: Kenya Sugar Board Sugar Newsletter May 2020

Kenya Economic Outlook

Following the introduction of COVID-19 containment measures across the world, real gross domestic product (GDP) in most economies registered a decline. The GDP of G-20 area fell by 3.4% in the first quarter of 2020, the largest contraction since 1998.

Economic performance in most sectors slowed in the first quarter of 2020 compared to the corresponding quarter in 2019. Real GDP grew by 4.9% in Q1 2020 compared to a 5.5% growth in the first quarter of 2019. The year on year Consumer Price Index (CPI) inflation dropped to 4.59% in June 2020 from 5.33% in May 2020. This was mainly attributed to an increase in the Food and Non-Alcoholic Drinks Index (1.27%) and Housing, Water, Electricity, Gas and Other Fuels' Index (0.81%).

The Monetary Policy Committee (MPC) met on 25th June 2020 and retained the Central Bank Rate (CBR) at 7 percent. Private sector credit grew by 8.1% in the 12 months to May 2020. This growth was observed mainly in the following sectors: manufacturing (18.6%), trade (8.2%), finance and insurance (7.2%), building and construction (5.7%), and consumer durables (16.7%). The Kenyan Shilling slightly appreciated against the dollar to trade at an average of 106.4 in the month of June, 2020 compared to an average of 106.68 in May, 2020.

Source: Kenya Association of Manufacturers Economic Update Newsletter May-June 2020

FINANCIAL PERFORMANCE

Total turnover for the period under review was Kes.723 Million net of taxes (2018/19-Kes. 1.8 Billion). The sales were much far below budget of Kes.5.1 Billion due to low production volumes caused by factory shut down for maintenance that took close to 7 months. This long closure was occasioned by frequent factory breakdowns due to non-maintenance of its several areas worse of being boilers and shortage of raw materials. Prices of sugar in the period depressed due to presence of cheap Sugar on the market. Average price of Kes.73,558 net of taxes per ton was recorded though slightly above the same period in 2019 (Kes. 72,745). The company made negative earning before tax and interest of Kes.2.1Billion (2018/19-negative 2.3Billion) against budgeted profit before tax and interest of Kes. 692 Million.

Achievements for the year ended 30th June, 2020 are as follows:

- Management initiated Rapid Response initiative (RRI) by planting cane in the Nucleus Estate. A total of 335 acres has so far been planted in the Nucleus Estate. Management also initiated a rapid response initiative that saw 12 units of flatbed trailers and 6 units of double basket trailers revived.
- Rehabilitation of the Boilers was successfully done and this has so far improved steam generation.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

MANAGING DIRECTOR'S REPORT Continued

- Through Rapid Response Initiative our company clinic has registered 341 clients as their preferred medical facility.
- The government gazetted the sugar regulations that will help improve sugar sector
- The ban on importation of brown sugar by the government will help in price stability

Challenges experienced in the period under review were as follows:

- The Company milled 193,288 tons of cane (2018/19–362,999 tons) against a budget of 629,968 tons and bagged 11,624 tons of sugar (2018/19-23,537tons) against a budget of 56,089 tons. The poor performance was due to inadequate cane for milling and long closure of the factory for maintenance.
- The TC: TS ratio went down from 15.36 in same period in 2018/19 to 16.99 in the year under review way far below target of 11.23. This was attributed by milling immature cane.
- Flooding of cheap sugar on the market caused decline in prices of sugar thus resulting in poor cash flows overtime which affected procurement of essential needs like fertilizers for our Nucleus estate and others.
- Despite of the deteriorating sugar prices in the year, the costs of raw materials remained high thus resulting to an upsurge in the overall cost of production.
- Pol % cane below target was realised due to milling young cane and various company related stops which led to stale cane.
- Cane arson though management harvested the burnt cane and disposed the cane at some consideration, the fires also affected the young cane that could not be harvested.
- Having mostly concentrated in boilers during factory stoppage due to financial resource, other areas whose maintenance was overdue caused frequent factory stoppages that affected the overall time efficiency.

WAY FORWARD

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

a) Short term measures

- i) The company is set to pursue refunds from the Government (Kes.201 Million) and mop up funds through operations to be able to carry out on run maintenance to most of the areas that were not addressed during the stoppage to improve efficiency. This has already been launched through factory RRI.
- ii) The company has resolved to rationalize and multitask staff to curb down on hiring to bring down cost attributable to human capital.
- iii) The area under cane is set to be expanded both in Nucleus Estate and Outgrowers regions to alleviate perennial cane shortage. This will be ensured through prioritizing allocation of internally generated funds to cane development and farmers payment.
- iv) Step up surveillance to the Nucleus estate by engaging police patrols to get at bay the arsonists, poachers and villagers who graze in cane plantations.

b) Long term Measures

- i) The company is set to improve on brand visibility of our products and distribution channels that is envisioned to bring more revenues to the organization.
- ii) The company plans to procure additional machinery for cane husbandry and cane haulage to improve on both factory cane supply and cane development.
- iii) Factory Modernization to improve on overall efficiency.

**Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020**

MANAGING DIRECTOR'S REPORT *Continued*

- iv) The company plans to carry out diversification to ethanol, co-generation and intercropping in the nucleus estate to improve soil texture and revenue streams.



CPA Cde Wanjala MAKOKHA

CEO/MANAGING DIRECTOR

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

VI. CORPORATE GOVERNANCE STATEMENT

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 Nzoia Sugar Company Limited (hereinafter Nzoia Sugar Company Limited) is responsible for the governance of the company and is accountable to shareholders and stakeholders in ensuring that the Company complies with the laws and 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 Charter

This Board Charter was reviewed by the 157th Special Board of Directors meeting held on 5th June 2020. The Directors resolved to subscribe to this Charter.

Appointment of Board Members

The relevant appointing authority shall select and appoint Board members by name and by notice in the Kenya Gazette and which maybe renewable after three years or for such shorter period as may be specified in the notice.

Cessation from membership of the Board

- I. Membership of the Board ceases if a member:
 - a. Serves the appointing authority with a written notice of resignation; or
 - b. Is absent, without permission of the Chairperson, from three consecutive meetings; or
 - c. Is convicted of an offence and sentenced to imprisonment for a term exceeding six months or to a fine exceeding twenty thousand shillings; or
 - d. Is incapacitated by prolonged physical or mental illness from performing his duties as a member of the Board; or
 - e. Conducts himself in a manner deemed by the appointing authority to be inconsistent with membership of the Board.
- II. Any removal of a Board member under (I) above shall be through formal revocation.
- III. A director whose membership has ceased in accordance with para. I. (c) and (e) is not eligible for appointment to any Board thereafter.
- IV. The Company Secretary will ensure that a record of the appointment letter, gazette notice and written acceptance by the Board member is kept in the personal file of the Board member.

Board of Directors

The role 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 for 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.

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.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

CORPORATE GOVERNANCE STATEMENT.....Continued

In further compliance with 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. Her role is to advise the Board on all corporate governance matters as well as prevailing statutory requirements coupled with taking minutes at Board meetings/functions.

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

The Board of Directors, duly cognizant of its role in safeguarding shareholders' assets and ensuring a suitable return on investment, reaffirms its commitment to upholding policies and strategies that enhance transparency and accountability. The Board has a board charter that outlines the structure, duties, procedure and the standard of service delivery. The company is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations. The company has a code of ethics which gives senior management the responsibility of ensuring legal and statutory compliance. In addition, the Code deals with situations relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of business.

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.

Committees of the Board

The Board setup 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.

Business & Development Committee

Mr. Stephen Kisaka	-	Director – Chair
CPA cde Wanjala MAKOKHA	-	Managing Director
Mr. Hillary Changwony	-	Director
Ms. Mary Makokha	-	Director
Ms. Anne Omodho	-	Director
Mr. Patrick Musumba	-	Director
Mr. Peter Owoko	-	Alt. to PS (Min. of Agric. Livestock, Irrigation & Fisheries)
Ms. Theodorah Gichana	-	Rep. Inspector of State Corporations

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

CORPORATE GOVERNANCE STATEMENT.....Continued

Finance & Establishment Committee

Mr. Tom Ipomai	-	Director Chairman
CPA cde Wanjala MAKOKHA	-	Managing Director
Mr. Richard Njoba	-	Alt. Director (Fives Cail)
Mr. Patrick Musumba	-	Director
Mr. Hillary Changwony	-	Director
Ms. Mary Makokha	-	Director
Mr. Peter Owoko	-	Alt. to PS (Min. of Agric. Livestock Irrigation & Fisheries)
Mr. Kasembeli Nasiuma	-	Alt. to PS (The National Treasury & Planning)
Ms. Theodorah Gichana	-	Rep. Inspector of State Corporations

Audit Committee

Mrs Karen Kandie	-	IDB Capital (Chair)
CPA cde Wanjala MAKOKHA	-	Managing Director
Ms. Anne A. Omodho	-	Director
Mr. Patrick Musumba	-	Director
Ms. Theodorah Gichana	-	Rep. Inspector of State Corporation

Schedule of meetings held during the period

Main Board	Ordinary	4
	Special	3
BDC	Ordinary	3
	Special	1
F & E	Ordinary	4
	Special	2
Audit	Ordinary	2

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

VII. MANAGEMENT DISCUSSION AND ANALYSIS

AGRICULTURE DEPARTMENT

A summary of the achievements for the 12 months ending 30th June, 2020 were as follows:

Table 1: Agriculture Department key operational indicators

PERFORMANCE PARAMETERS	ACTUAL 12 MONTHS (2019/20)			TARGET 12 MONTHS (2019/20)			VARIANCE TOTAL
	OG	N/E	TOTAL	OG	N/E	TOTAL	
Area under cane (ha)	15,822	2,824	18,645	21,600	3,400	25,000.00	(6,354)
Cane Development (ha)	105	242	348	3,000	1,200	4,200.00	(3,852)
Fertilizer DAP (bags)	0	1,481	1,481	20,830	12,780	33,610.00	(32,129)
UREA (bags)	0	992	992	19,668	12,070	31,738.00	(30,746)
Mean cane Yield (TCH)	60	47	58	45	50.00	48.00	10

1. Area Under Cane

The total area under cane of 18,645 ha was below target due to reduced cane planting arising from inadequate funds for cane development both in the Nucleus Estate and out growers.

2. Cane Development

The negative variance in cane development was due to financial constraints that limited land preparation and seed cane transport.

3. Fertilizers

Cash flow challenges impacted negatively on fertilizer supply both in Nucleus Estate and out growers.

4. Cane yield

The overall cane target yield of 48 TCH was surpassed due to harvesting of mature cane averaging from 16 months and above.

5. Way forward

- Timely procurement of fertilizers and herbicides.
- Improved land preparation and inputs supply.
- Prompt payment of farmers, casual, land preparation and cane maintenance contactors to reduce on cane poaching.
- Intensify cane planting
- Allocate adequate resources for cane development and maintenance in the Nucleus Estate

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS.....Continued

FACTORY/PRODUCTION DEPARTMENTS

In the period under review (from July 1st 2019 to June 30, 2020), the company milled 193,288 tons of cane against a target of 629,968 tons resulting to a negative variance of 436,680 tons of cane and produced 11,624 tons of sugar against a target of 56,089 tons giving a negative variance of 44,465 tons. The TC/TS averaged 16.99.

A) PERFORMANCE FOR (JULY 1ST – JUNE 30, 2020)

Parameter	Actual	Target	Variance
Cane Milled (Tons)	193,288.07	629,968.00	-436,679.93
Sugar Bagged (Tons)	11,623.94	56,089.00	-44,465.06
TC/TS	16.99	11.23	-5.76
Capacity Utilization (%)	34.24	61.28	-27.04
Factory Time Efficiency	58.25	86.00	-27.75
Mill Extraction(%)	86.46	89.50	-3.04
Bagasse Pol(%)	3.66	3.30	-0.36
Pol in Cane(%)	9.94	11.30	-1.36
BHR(%)	67.81	88.00	-20.19
Filter Cake(%)	3.83	3.20	-0.63
Undetermined Losses(%)	12.58	2.00	-10.58

KEY CHALLENGES

- Cane carrier elevator chain, baggase carrier chain, drier radiator and molasses pumps are completely worn out.
- Poor performance by mud filters.
- Old pumps in process house.
- Milling stale cane with excessive trash.
- Long cane stoppages leading to (staleness) excessive sucrose inversion at clarifiers/juice tanks.

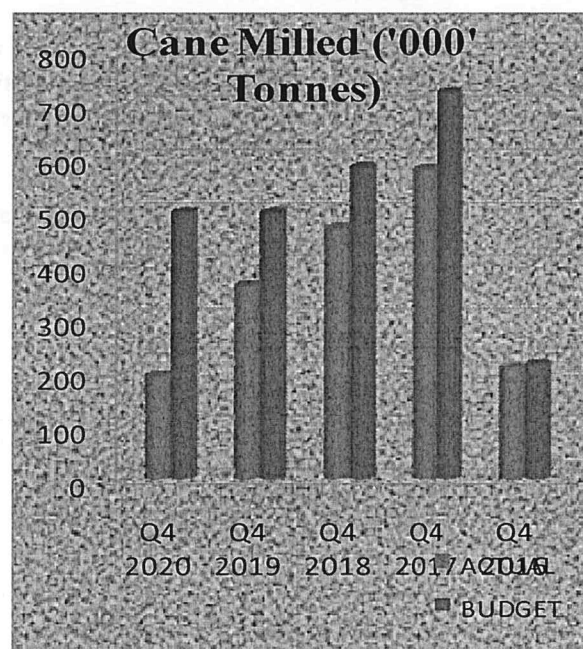
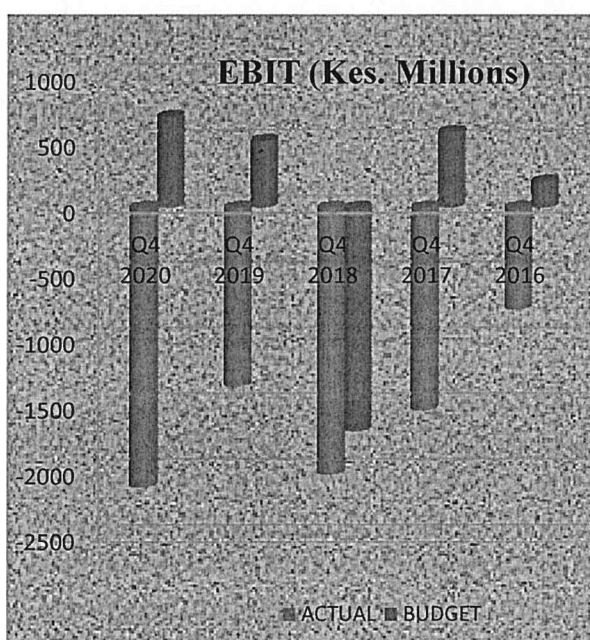
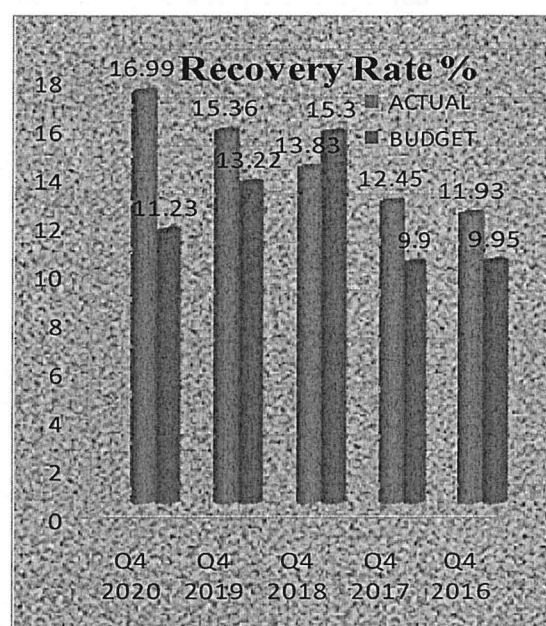
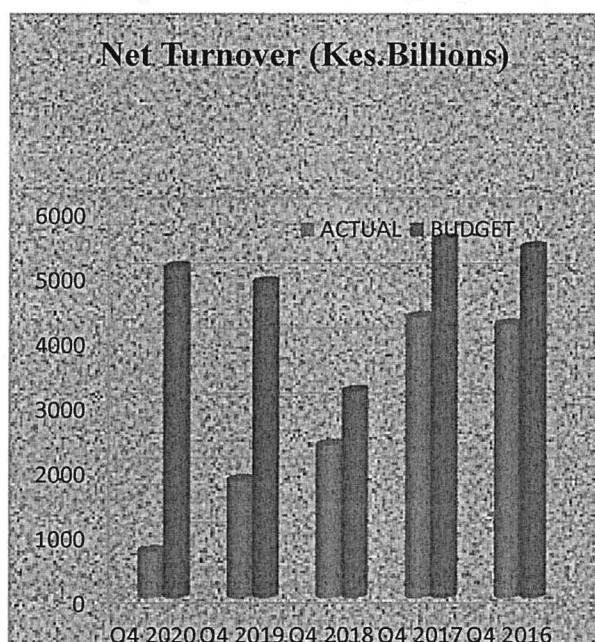
WAY FORWARD

- Procurement of cane carrier chain, baggase carrier chain, drier radiator and molasses pumps in progress.
- The other areas not maintained are currently in bad state and maintenance works is being done on the run as we generate some funds.
- Management has come up with prioritized on the run maintenance with cost estimates to undertake as we generate funds.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS.....Continued

PERFORMANCE HIGHLIGHTS



Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

VIII. CORPORATE SOCIAL RESPONSIBILITY REPORT

Corporate Social Responsibility (CSR) is a global trend, which requires that companies are not only satisfied with the profits they make but that they should give back part of these profits to neighbouring communities to demonstrate their social responsibility.

Through CSR activities, Nzoia Sugar Company has been able to enjoy mutually beneficial relationships with the community around it. The company has a Corporate Social Responsibility policy in place that guides the selection, approval and implementation process of all CSR projects.

During the last twelve months (1st July 2019 to 30th June 2020) the following CSR activities were undertaken under key CSR focus areas: -

Education

The company has continued to invest in the education sector and this has been underpinned by the recognition that a skilled and high impact talent pool is critical for Kenya's long-term economic development. As a demonstration of the commitment to the education sector, the company is the main sponsor to two primary and two secondary schools in Bungoma County.

During this period the company visited Nzoia Industrial Boys Secondary School and identified several areas of concern to be addressed (water, electricity and infrastructure) Kes.184,280 was approved and implementation is on-going.

The company also approved assistance to St. Charles Lwanga Secondary School worth Kes.11,681.62 to control termites that had led to destruction of the school infrastructure.

Healthcare

The company has continued to support the community by offering medical services on an emergency basis to the community including provision of mother to child healthcare services and other medical services from the company clinic. The company also has a VCT centre which offers free counselling and testing for HIV/AIDS victims.

The company donated Kes. 150,000/= towards the support of Beyond Zero Mobile clinic Marathon that was held on 8th March 2020. Ten staff members were also facilitated to attend the event held at Nyayo stadium in Nairobi.

Environmental Sustainability

The company has also conserved the environment by donating tree seedlings to schools to plant during annual tree planting exercises. Furthermore, we sell tree seedlings to our farmers and the surrounding community at subsidized prices.

Youth development and sports

Nzoia Sugar Company is a full sponsor of Nzoia Sugar FC. The team currently plays at the Kenya Premier League. The team employs talented young boys and nurtures them to be great players. This season, the team has played 22 matches out of a total 34 matches and is now at position 15 out of 18 with 13 points.

Through this team, the company continues to get publicity, which in turn enhances the corporate image of the company.

Emergencies

In the week of covid-19 pandemic and flood menace, several poor households were affected with some experiencing hard economic times and others totally displaced from their homes.

The company initiated a project to support the flood victims and Covid-19 vulnerable families to the tune of Kes.55,550. Distribution plans for the sugar are underway.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

IX. REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of Nzoia Sugar Company Limited (the "company") for the year ended 30th June 2020, which shows its state of affairs.

PRINCIPAL ACTIVITIES

The principal activities of the company are the production and sale of sugar and other by products

PRODUCTION

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

	Sugar bagged (Tonnes)	Cane milled (Tonnes)	TC:TS
2019/20	11,624	193,288	16.99
2018/19	23,537	362,999	15.36
2017/18	33,858	469,651	13.83
2016/17	46,724	580,868	12.45
2015/16	59,147	706,173	11.90

RESULTS

The results for the financial year ended 30th June 2020 are set out on pages 1 to 48.

	2020 KES 000'	2019 KES 000''
Turnover	723,284	1,829,643
Profit/Loss before Interest & Tax	<u>(2,599,881)</u>	<u>(2,285,864)</u>
Profit/Loss after tax	<u>(3,483,246)</u>	<u>(3,164,032)</u>

DIVIDENDS

The directors do not recommend a dividend in respect of the year (2019/20– KES Nil).

DIRECTORS

The current directors of the company are listed on page V

AUDITORS

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with article 229 of the Constitution of Kenya and the Public Audit Act 2015, for the year ended June 30, 2020.


Company Secretary
Bungoma

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and State Corporations Act Cap.446 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

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

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

Approval of the financial statements

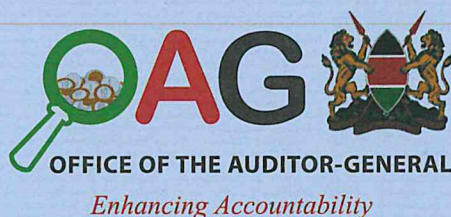
The Nzoia Sugar Company Limited Financial Statements were approved 23RD APRIL 2021
and signed on its behalf by:

.....
Hon. Joash Wamang'oli
Chairman Board of Directors


.....
CPA Cde Wanjala MAKOKHA
Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NZOIA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nzoia Sugar Company Limited set out on pages 1 to 47, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Nzoia Sugar Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Anomalies in the Financial Statements

The report and financial statements of the Company for the year under review did not comply with the International Financial Reporting Standards and the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB), in the following areas.

1.1 The chairman of the Board did not sign the Chairman's statement, the statement of Directors' Responsibility and the statement of Financial position. By the time the financial statements were prepared, the entire Board had been dissolved by the Cabinet Secretary and a new board had not been constituted.

1.2 Further, the corporate governance statement has not disclosed the attendance of board meetings held, the succession plan, board remuneration, and whether any governance audit was undertaken during the year.

Consequently, the financial statements as presented do not comply with the format prescribed by the Public Sector Accounting Standards Board.

2. Understated Revenue from Sales

The statement of profit or loss and other comprehensive income for the year under review reflects revenue of Kshs.723,284,000 as disclosed in Note 4 being sales of sugar and molasses. A review of sales records reflects that the Company had planned to harvest and crush a total of 500,000 tonnes of cane which would have generated 50,000 tonnes of sugar and raise Kshs.5,118,474,879 in revenue. However, analysis of monthly reports revealed that the cane harvested and delivered for processing was 200,371 tonnes which varied with the figure of 196,003.6 tonnes that was used to arrive at the sugar available for sale at the rate of Kshs.3,700 per tonne as shown below: -

Source	Opening Stock	Deliveries	Closing Stock	Total
	Tons	Tons	Tons	Tons
Harvest and Delivery	754	200,371	1,300	199,825
Monthly Reports	754	196,003	1,300	195,457
Variance	-	4,368	-	4,368
	(Kshs.)	(Kshs.)	(Kshs.)	(Kshs.)
Harvest and Delivery	2,789,800	741,371,812	4,810,000	739,353,612
Monthly Reports	2,789,800	725,211,322	4,810,000	723,191,122
Variance	-	16,160,490	-	16,160,490

The molasses and sugar produced from the cane is therefore understated by Kshs.16,160,490.

Consequently, the accuracy of the crushed cane, value and the sugar revenue of Kshs.723,284,000 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Inventory

The statement of financial position reflects inventories balance of Kshs.675,353,000 as at 30 June, 2020 constituting stocks of sugar/molasses of Kshs.201,571,000 and consumables of Kshs.449,575,000 as analysed under Note 19 to the financial statements. However, schedules provided to support the inventory balance of Kshs.675,353,000 totalled Kshs.755,875,000 as analysed below;

Item	Amount (Kshs.)
Goods in-transit	216,578,000
General	10,036,000
Parts	118,109,000
Stationery	2,898,000
Factory	407,642,000
Drugs	612,000
Total	755,875,000

The unexplained and unreconciled difference of Kshs.80,522,000 between the records of the Company and the financial statements has not been explained.

In addition, included in inventories of Kshs.675,353,000 are goods-in-transit valued at Kshs.216,578,134. Review of this amount revealed that it consisted of 33 payments made in advance to some 14 suppliers for various goods and services as summarized below: -

	Description	No. of Payments	Amount (Kshs.)
1.	Supply of Tubes & Boiler Modification	12	135,990,390
2.	Supply of Juice Filtration & Vacuum	3	36,969,448
3.	Servicing of Centrifugal Pump	4	16,225,519
4.	Supply of Evaporator Calandria	5	12,189,652
5.	Supply of Cane Carrier Chains & Sprockets	1	6,721,679
6.	Digital Excitation Control Systems	2	2,868,058
7.	Supply of Boiler Blow Down Valves	2	2,286,389
8.	Servicing of Automation System for Cooler	1	1,766,750
9.	Supply of FCB Mills Spares	3	1,560,251
	Total	33	216,578,134

The items listed above have remained undelivered since the financial year 2014/2015 for reasons analysed below: -

Status	No. of Payments	Amount (Kshs.)
Under Clearance	12	127,396,186
Awaiting Clearance at the Port	9	43,511,781
Under Shipment	10	34,416,809
Delivered awaiting Inspection Report	1	10,275,048
Delivered 50% to be Paid	1	978,310
Total	33	216,578,134

The Company did not therefore obtain any value from the goods and the funds spent are at the risk of getting lost. The Company was also carrying in its records, inventories worth Kshs.216,578,134 that were yet to be received and were possibly obsolete.

Consequently, the inventories balance of Kshs.675,353,000 as at 30 June, 2020 could not be confirmed.

4. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.55,048,000 which comprises of trade receivables of Kshs.3,937,000 and other receivables of Kshs.51,091,000 as at 30 June, 2020, arrived at after deducting net of provision for doubtful debts of Kshs.167,657,000 as disclosed in Note 20 to the financial

statements. Although, the balance had been reduced by Kshs.9,765,245 to stand at Kshs.45,282,894 as at 30 December, 2020, it was noted that these balances are long outstanding and included prepayments and deposits for goods or services not rendered and receivables from former staff amounting to Kshs.8,745,939. The Management did not indicate efforts being made to have the amounts collected or the goods and services for which prepayments and deposits were made delivered instead of providing for their loss. Consequently, the accuracy of the trade and other receivables balance of Kshs.55,048,000 as at 30 June, 2020 could not be confirmed.

5. Unsupported Borrowings

The statement of financial position reflects borrowings balance of Kshs.42,226,859,000 as at 30 June, 2020 which have been disclosed in Note 26 to the financial statements as defaulted and due on demand. According to the loan movement records, this amount is a balance carried forward over the years from a principal loan amount of Kshs.12,544,135,000 which has attracted interest totalling Kshs.29,836,228,000 or approximately 237.85% of the principal.

Although it was explained that the loan balance is as per the National Treasury records, no additional supporting records were availed the details of the terms and conditions of the loans including source, repayment terms, any guarantees provided and recourse rights if any. In addition, the accumulation of interests on the loans beyond 100% of the principal amount from the date of default by the Company is against Section 44A of the Banking Act which states that an institution shall be limited in what it may recover from a debtor with respect to a non-performing loan to the maximum of the principal owing when the loan becomes non-performing and interest, in accordance with the contract between the debtor and the institution, not exceeding the principal owing when the loan becomes non-performing.

Consequently, the continued inclusion of such balances in the Company records and accumulation of interest on the same, not only distorts the financial position of the Company but also reflects that the Company is technically insolvent.

6. Unsupported Taxation Payable

The statement of financial position reflects taxation payable liability balance of Kshs.726,000 as disclosed in Note 14 to the financial statements and which is indicated as brought forward from the previous year 2018/2019. However, Note 14 does not explain the figure and no supporting schedule or explanation was provided to show why the balance remained unchanged while the Company continued to operate.

Consequently, the accuracy of the taxation payable balance of Kshs.726,000 as at 30 June, 2020 could not be confirmed.

7. Material Uncertainty Related to Going Concern

The statement of comprehensive income reflects operating loss of Kshs.3,483,246,000 (2019: loss of Kshs.3,168,791,000). As at 30 June, 2020 the Company had a shareholder funds deficit of Kshs.45,034,633,000,000 (2019: Kshs.41,551,388,000) while the current liabilities of Kshs.53,210,726,000 exceeds current assets of Kshs.1,623,602,000 by Kshs.51,587,123,000, demonstrating that the Company is unable to meet its financial

obligations as and when they fall due. This state of affairs is an indicator of an acute financial challenge facing the Company which raises significant doubts on its ability to operate as a going concern.

The Company is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support from its creditors and the Government. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nzoia Sugar Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Budget Performance

During the year under review, the Company had budgeted revenue of Kshs.5,118,475,000 against cost of sales of Kshs.3,291,015 and operating expenditure of Kshs.1,337,960,000, which should have resulted into a profit after tax of Kshs.34,811,000. However, the actual performance of the Company resulted into a loss after tax of Kshs.3,483,246,000 or a budget under-performance of 10,106% as summarized below.

The reasons given for this state of affairs include low production volumes due to prolonged maintenance; failure to realise other targeted income and cashflow constraints. It was however observed that the operating costs exceeded the budget by 64% despite the targeted results of operation (profit after tax) being missed by 10,106% of the budget. The failure to achieve targeted performance while using more resources than planned puts more strain on the liquidity of the Company and threatens its existence as a going concern.

2. Inefficiencies in Sales and Cost of Sales

The cost of sales as reported in the statement of profit/loss and other comprehensive income and analysed in Note 8 of the financial statements is Kshs.1,488,271,000. However, these costs have been growing compared to the ratio for the prior year figure despite the sales of sugar going down as shown below: -

Description	Prior Year Kshs'000'	Current Year Kshs'000'	Comparative Performance
Sales	1,712,079	681,581	40%
Cost of Sales	2,330,248	1,488,271	64%
Cost per Unit of Sale	1.36	2.18	160%

The cost of sales therefore increased by 60% while the sales reduced by a similar percentage an indication that the Company is operating inefficiently.

Consequently, the efficiency of the ratio of sales against the cost of sales could not be confirmed.

3. Variance in Share Capital

The statement of financial position reflects issued and paid up share capital balance of Kshs.543,000,000 as disclosed in Note 23 to the financial statements. However, according to the registered capital of the Company as per the memorandum of association, the share capital stands at Kshs.30,000,000 divided into 1,500,000 shares of Kshs.20 each, with 1,499,900 shares taken by Treasury, 1 share taken by Ministry of Agriculture and 1 share taken by Industrial Development Bank, all totalling 1,499,902 shares valued at Kshs.29,998,040 resulting in a variance of Kshs.513,000,000 which has not been explained, or evidence provided for the change in the share capital structure of the Company.

Consequently, the validity of the ordinary share capital of Kshs.543,000,000 as at 30 June, 2020 could not be confirmed.

4. 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: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020

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. Unsupported Commitments to Pay Tax Penalties

Included in administrative expenses of Kshs.2,148,497,000 and as disclosed in Note 9(a) is Kshs.1,104,044,000 tax penalties which date back to financial year 2017/2018.

Although the Management explained that the Company had made arrangements with the concerned agencies for instalment payment of the amounts due, no evidence was

provided to support the arrangements and demonstrate commitment to clear the penalties.

The Income Tax, NHIF, NSSF and HELB Acts impose penalties for non-remittance of dues and according to Regulation 45(e) of the Public Finance Management (National Government) Regulations, 2015, any liability or expenditure which could have been avoided and need not have been incurred is a loss. The Company risks incurring further losses through penalties and fines and may jeopardize its operations.

Consequently, the Management was in breach of the law.

2. Non-Remittance of Statutory Deductions

The statement of financial position reflects trade and other payables balance of Kshs.10,747,978,000 which includes other payables of Kshs.2,636,358,000 as reflected in Note 28 to the financial statements. The other payables balance of Kshs.2,636,358,000 in turn include statutory deductions totalling Kshs.1,516,443,310 which had not been remitted as at 30 June, 2020.

Category	2019/2020 (Kshs.)	Prior Years (Kshs.)	Total (Kshs.)
Retirement Benefits	198,628,000	241,867,798	440,495,798
PAYE	1,029,042,980	-	1,029,042,980
NSSF	20,499,382	5,974,400	26,473,782
NHIF	20,430,750	-	20,430,750
Total	1,268,601,112	247,842,198	1,516,443,310

The unremitted statutory deductions continue to attract penalties and interest while the non-remittance of retirement scheme deductions threatens the continued operation of the scheme and compromises the staff retirement plans, in addition to being punishable under Section 53A of the Retirement Benefits Act, 2017. In addition, the Management was in breach of the National Treasury Circular No.10/2020 on prioritization of pending bills by state corporations and semi-autonomous agencies (SAGAS) which required corporations to settle all pending bills by 30 June, 2020; all unremitted SACCO staff and loan deductions; and all statutory deductions (PAYE, NSSF, NHIF, HELB and Pension Arrears).

Consequently, the Management was in breach of the law.

3. Non Disposal of Asbestos Roofing

During the year under review, the Company removed asbestos from some buildings and dumped them in the compound contrary to Legal Notice No.121 of the Environmental Management and Coordination (Waste Management) Regulations 2006, which provides that waste containing asbestos is classified as hazardous waste and that such hazardous waste should be disposed off in a specified manner as approved by the National Environment Management Authority (NEMA). In addition, the Company had some buildings and bus sheds roofed with asbestos against the government regulations which required that all entities having their buildings roofed with asbestos be removed and replaced with galvanized iron sheets and the asbestos removed be disposed of properly.

No reasons were however provided for failure to adhere to government regulations and guidelines.

Consequently, the Management is in breach of the law.

4. Unsatisfactory Implementation of Enterprise Resource Planner (ERP)

During the financial year 2016/17, the Company in an effort to improve efficiency as well as take advantage of technology engaged a consultant through Request for Proposals (RFP) and a software systems company was subsequently awarded a contract and an agreement was signed on 31 March, 2016 for a contract sum of US\$.2,883,530. Under the contract, the vendor was to supply a system solution christened SAP ERP alongside an Agriculture Management System trading as Pulse AMS in partnership with its parent company of India. According to the contract, the package was to help the company address various technology based challenges by installation of five modules as below: -

- a) Agriculture Management System (AMS)
- b) Smart Weight Management System
- c) Field Data Management System
- d) Documents Management System:
- e) Business Suite on HANA-FICO, MM, SD, PP, PM, QM, PS, and Human Resource (OM, TM and Payroll) Modules.

An audit review of the project implementation status report in February, 2021 revealed that the Company had the following on board:

Description	Supplier	Application	User
AMS	AMITY	Sourcing of Sugar Cane & Pyt	Agriculture, Finance & Agriculture Services
SMARTWEIGH	AMITY	Cane Weighing	ICT Agriculture, Agriculture Services
SAP	AMITY	ERP	All Departments
SMARTSHELVES	COSEKE	Registry	Agriculture
NZOIA E SALES	UPESI	Online Sales	Marketing, Finance
MI PAYLOAD	Avery	Weighing all Products	Marketing, Finance

The following unsatisfactory issues were however observed;

4.1 Three suppliers offered services which overlapped with the ERP system that was to be implemented by the contracted software systems firm. The Smart shelves and MI Payload systems were explained to be the old systems that had been retained due to the failure to implement the documents management system and smart weight management system modules of the ERP. The failure was attributed to the Company not able to procure the required hardware for the modules.

4.2 The licensing regime in the vendor proposal under clause 3 and which the Company adopted was of a batched nature. It was not explained how the batching would be used to ensure the Company does not pay for unused or duplicated licenses.

4.3 As at 30 June, 2020, the total payment made totalled to US\$.2,065,950 equivalent to Kshs.212,792,850 against an approved amount of Kshs.236,436,500 or US\$.2,128,000 leaving a balance of Kshs.23,643,650. It was however not clear how the services were being assessed especially after the lapse of the contract period before full-service delivery. The implementation of the project began in March, 2016. The SAP Go live date was on 1 February, 2017 while AMS went live on 14 December, 2016. No details or evidence have been provided on how reimbursements are measured.

4.4 Third party service providers like mobile money or E-banking service providers who are integral in the now widely accepted cashless system had not been integrated in the system thereby denying the Company the envisaged technological advantages of reducing unnecessary interaction with paperwork.

4.5 A Service Level Agreement inbuilt in the ERP supplier agreement together with the inhibiting contract did not provide mitigation measures thus exposing the Company to exploitation by the supplier. Although information available indicates that the Company had done requests to be let off from this vendor and get local support, no further action has been taken against the vendor for failure to honour his part of the contract.

4.6 Although no Approved Project Implementation Plan as envisaged under Clause 4 of the contract was availed, the agreement indicates that the project was to last 28 weeks starting from April, 2016 meaning it should have been fully commissioned by the end of October, 2016. However, a detailed report relating to a post implementation review of the Enterprise Resource Planning (ERP) software project after vendor re-engagement from the ICT Authority reflects that numerous recommendations were not done and the board of management had frozen any further payments to the vendor until all the recommendations are fully adhered to.

Consequently, the Company did not obtain value for money in respect of US\$.2,883,530 (equivalent to about Kshs.282,600,000) invested in the ERP.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and I 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Ownership and Shareholding of the Company

The memorandum of association registered in 1975 reflects that the Company was owned by the Government of Kenya through The National Treasury, Ministry of Agriculture, and the Industrial Development Bank. However, a search conducted at the Registrar of Companies revealed that there are three companies with the same name but with different registration numbers, namely CPR/2010/330226, CPR/2010/81265 and C.13734. However, since the Company had not filed its returns for the years 2018, 2019 and 2020 it was not possible to confirm the current shareholding and directorship.

Consequently, the ownership and shareholding of the Company could not be ascertained.

2. Staff in Acting Positions

Human resource data presented for audit review revealed that seven (7) employees of the Company were holding posts in acting capacity for periods longer than six (6) months contrary to Section C14 of the Public Service Human Resource Policy and Procedures Manual of May, 2016 which states that when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary and that acting allowance will not be payable to an officer for more than six (6) months.

Further, most of the positions held in acting capacity are critical to the operations of the company amongst which includes the Managing Director and several departmental heads and it is not clear why these positions have not been substantively filled in view of their critical nature and importance in the running of the company.

Consequently, the Management was in breach of its own policies an indication of poor internal control systems.

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 Companies Act, 2015, I report based on my audit, that:

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable 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 Company's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

		2020	2019
	Note	KES'000'	KES'000'
Revenue	4	723,284	1,829,643
Fair value gain/(loss) on biological assets	5	<u>263,266</u>	<u>307,736</u>
TOTAL REVENUE		986,550	2,137,379
Cost of sales	6	<u>(1,488,271)</u>	<u>(2,330,248)</u>
Gross profit		(501,721)	(192,869)
OTHER OPERATING INCOME			
Gains on Disposal of Non-Financial Assets	7	(453)	-
Other Income	8	99,960	31,375
		99,507	31,375
Administrative expenses	9	(2,148,497)	(2,065,167)
Marketing and distribution costs	10	(999)	(3,004)
Depreciation of property, plant & machinery	15	(38,958)	(46,410)
Amortization of intangible Assets	16	(9,213)	(9,788)
TOTAL OPERATING EXPENSES		(2,197,667)	(2,124,370)
OPERATING PROFIT/(LOSS)	11	(2,599,881)	(2,285,864)
Finance income	12	2,986	7,624
Finance costs	13	<u>(886,351)</u>	<u>(885,792)</u>
PROFIT/(LOSS) BEFORE TAXATION		(3,483,246)	(3,164,032)
Taxation credit/(charge)	14	-	-
PROFIT/(LOSS) AFTER TAXATION		<u>(3,483,246)</u>	<u>(3,164,032)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		-	(4,759)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(3,483,246)</u>	<u>(3,168,791)</u>

Loss per share is negative Kes.128.30

The notes set out on pages 5 to 45 form an integral part of these Financial Statements.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

ASSETS	Note	2020 KES'000	2019 KES'000
Non current assets			
Property, plant and equipment	15	10,155,614	10,631,169
Intangible assets	16	172,295	181,508
Investment property	17	250,000	250,000
Out-growers balances	18	13,370	29,200
		10,591,278	11,091,877
Current assets			
Due from Out-growers	18	26,739	58,401
Inventories	19	675,353	584,690
Biological assets	5	805,366	538,978
Trade and other receivables	20	55,048	61,656
Short term deposits	21	320	47,000
Cash and bank balances	22	60,775	4,118
		1,623,602	1,294,843
Total assets		12,214,880	12,386,720
EQUITY AND LIABILITIES			
Equity			
Share capital	23	543,000	543,000
Revaluation surplus	24	5,965,504	5,965,504
Retained earnings	25	(51,543,138)	(48,059,892)
Shareholders' equity		(45,034,633)	(41,551,388)
Non current liabilities			
Long term borrowings	26	153,504	426,268
Deferred income taxation liability	27	3,885,282	3,885,282
		4,038,786	4,311,551
Current liabilities			
Borrowings	26	42,226,859	40,815,011
Trade and other payables	28	10,747,978	8,561,170
Provident fund obligation	29 a	198,628	201,993
Defined benefit scheme liability	29 b	-	45
Provision for staff leave pay	30	36,535	47,612
Taxation payable	14	726	726
		53,210,726	49,626,556
Total equity and liabilities		12,214,880	12,386,720

The Financial Statements set out on pages 1 to 4 were approved and authorised for issue by the board of directors on 23rd APRIL 2020 and were signed on its behalf by:

.....
Hon. Joash Wamang'oli
Chairman Board of Directors

.....
CPA Cde Wanjala MAKOKHA
Managing Director

.....
CPA Ezron Kotut
Finance Manager

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Share capital KES'000	Revaluation surplus KES'000	Retained deficit KES'000	Total KES'000
At 1 July 2018	543,000	5,970,263	(44,895,860)	(38,382,597)
Total comprehensive profit(loss)	-	(4,759)	(3,164,032)	(3,168,791)
At 30 June 2019	543,000	5,965,504	(48,059,892)	(41,551,388)
Total comprehensive profit(loss)	-	-	(3,483,246)	(3,483,246)
At 30 June 2020	543,000	5,965,504	(51,543,138)	(45,034,634)

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 KES'000	2019 KES'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	31 (a)	(38,603)	(257,277)
Interest received	12	2,986	7,624
Interest paid		-	-
Taxation paid	14	-	-
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		(35,617)	(249,653)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	15	(7,273)	(5,362)
Additions to biological assets	5	(100,636)	(178,061)
Additions to intangible assets	16	-	-
		<hr/>	<hr/>
Net cash used in investing activities		(107,909)	(183,423)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	26	153,504	426,268
Loans repaid	26	-	-
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		153,504	426,268
		<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		9,977	(6,808)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		51,118	57,925
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	31(b)	61,095	51,118
		=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2020

		ACTUAL	BUDGET	PERFORMANCE DIFFERENCE
	Note	Shs'000	Shs'000	Shs'000
Revenue	4	723,284	5,118,475	(4,395,191)
Fair value gain/(loss) on biological assets	5	263,266	-	(263,266)
TOTAL REVENUE		986,550	5,118,475	(4,131,925)
Cost of sales	6	<u>(1,488,271)</u>	<u>(3,291,015)</u>	1,802,744
Gross profit		(501,721)	1,827,460	(2,329,181)
OTHER OPERATING INCOME				
Gains on Disposal of Non-Financial Assets	7	(453)	-	(453)
Other Income	8	99,960	164,344	(64,384)
		99,507	164,344	(64,837)
Administrative expenses	9	(2,148,497)	(1,186,978)	(961,519)
Marketing and distribution costs	10	(999)	(13,433)	13,434
Depreciation of property, plant & machinery	15	(38,958)	(137,549)	98,591
Amortisation of intangible Assets	16	(9,213)	-	(9,213)
TOTAL OPERATING EXPENSES		(2,197,667)	(1,337,960)	(859,707)
OPERATING PROFIT/(LOSS)	11	(2,599,881)	653,844	(3,253,725)
Finance income	12	2,986	8,339	(5,353)
Finance costs	13	<u>(886,351)</u>	<u>(627,372)</u>	(258,979)
PROFIT/(LOSS) BEFORE TAXATION		(3,483,246)	34,811	(3,518,057)
Taxation credit/(charge)	14	=	=	
PROFIT/(LOSS) AFTER TAXATION		<u>(3,483,246)</u>	<u>34,811</u>	(3,518,057)

BUDGET NOTES

1. Revenue had an adverse variance due to low production volumes as a result of prolonged maintenance that lasted for 7 months.
2. The Company did not realize the targeted amount for other income as the earmarked projects i.e. soya oil and beans sales did not take off as planned.
3. Finance income fell below target due to cash-flow constraints experienced by the company hence not able to deposit extra cash into fixed deposits accounts as planned.

XVII. NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

- | | |
|---|---|
| Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses | The amendments to IAS 12 Income Taxes clarify the following aspects: <ul style="list-style-type: none">• 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.

(ii) *New and revised IFRSs in issue but not yet effective for the year ended 30 June 2020*

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

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES (Continued)

Based on an analysis of the Company's financial assets and financial liabilities as at 30 June 2020 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.

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

(iii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2020 (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.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 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 2020 (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 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 2020 (Continued)

IFRS 17 Insurance Contracts (Continued)

(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.

(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 2020(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 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.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 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 2020 (Continued)

IFRS 17 Insurance Contracts (Continued)

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.

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2020 (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 2020

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

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

Revenue recognition

(i) Sale of goods

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

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest income

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

(iii) Other income

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

Expense recognition

The company records expenses when they are incurred, meaning when the goods are received or the services are provided, whether or not an invoice has been received or payment has been made.

Foreign currencies

In preparing the financial statements of the company, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

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

Taxation

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

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

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

Property, plant and equipment

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

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

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

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

Inventories

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

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

Intangible assets

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

Biological assets

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

The fair value of growing cane is determined based on the present value of expected net cash flows. The fair value of harvested cane is determined based on the prices of cane existing in the market less estimated point of sale costs
Immature growing cane is valued at cost up to cane age from 0 – 9 months.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

Leases

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

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

The company as lessor

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

The company as lessee

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

Cash and cash equivalents

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

Financial instruments

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

Financial assets

Classification

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

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held to maturity

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

Available-for-sale financial assets

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

Recognition

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

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

Derecognition

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

Financial liabilities

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

Other financial liabilities

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

The company's key other financial liabilities are:

Borrowings

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

Trade and other payables

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

Impairment

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

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

Employee benefits

Defined benefit scheme

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES (Continued)

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

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

Defined contribution schemes

The company operates a defined contribution provident fund for eligible Unionisable employees. The fund is administered independently of the company's assets. It is funded by contributions from the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The company's contributions to the fund are charged to profit or loss in the year to which they relate.

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

Provisions for staff leave pay

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

Dividends

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

Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

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

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

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

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

Held to maturity investments

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

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

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

• **Key sources of estimation and uncertainty**

Biological assets (unharvested cane)

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

Property, plant and equipment and intangible assets

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

Impairment

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

Contingent liabilities

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS.....Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

3 GOING CONCERN

At 30 June 2020, the company had a shareholders' deficit of KES 45,034,508 (2019 - KES 41,551,388) and current liabilities exceeded current assets by KES 51,586,999 (2019 - KES. 48,331,713). This situation indicates the existence of a material uncertainty which may cast doubt on the company's ability to continue as a going concern.

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

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

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS

	2020	2019
	KES'000	KES'000
4 REVENUE ANALYSIS		
Gross sales	824,544	2,122,385
Less: Sugar Development Levy	-	-
Less: Value Added Tax	(101,260)	(292,742)
	<u>723,284</u>	<u>1,829,643</u>
	=====	=====
Net sales analysed as follows:		
Sugar sales	681,581	1,712,079
Molasses sales	41,703	117,564
	<u>723,284</u>	<u>1,829,643</u>
	=====	=====
	2020	2019
	KES'000	KES'000
5 BIOLOGICAL ASSETS		
At beginning of the year	538,978	367,698
- Additions	100,636	178,060
Decrease due to harvest	(97,514)	(314,515)
As restated	542,101	231,242
(Loss)/gain arising from changes in fair value attributable to physical changes	263,266	307,736
Loss)/gain arising from changes in fair value attributable to price changes	-	-
	<u>263,266</u>	<u>307,736</u>
Fair value gain/(loss) during the year	<u>263,266</u>	<u>307,736</u>
	=====	=====
At the end of the year	<u>805,366</u>	<u>538,978</u>
	=====	=====

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. COST OF SALES	2020	2019
	KES'000	KES'000
Opening stock raw material-Cane	2,788	-
Cane purchased -N/Estate	79,574	308,418
-O/G	642,515	1,045,420
Total cane received	724,877	1,353,839
Raw materials available for crushing	724,877	1,353,839
Closing stock raw materials	(4,810)	(2,788)
Cost of cane ground	720,067	1,351,051
Production - Direct labour	111,439	124,890
- Direct Expenses	31,466	55,169
Total Direct expenses	142,905	180,058
Prime costs	862,972	1,531,110
Factory -Indirect labour	171,754	175,233
-Indirect Expenses	174,668	128,842
-Depreciation	449,726	510,247
Total indirect costs	796,148	814,322
Factory cost of production	1,659,120	2,345,432
Add: Opening work in progress	49,047	33,984
Less: Closing work in progress	(19,397)	(49,047)
	1,688,770	2,330,369
Factory cost of completed goods		
Add: Opening stock Finished goods	1,072	950
Goods available for sale	1,689,841	2,331,319
Less: Closing stock Finished goods	(201,571)	(1,071)
Cost of sales	<u>1,488,271</u>	<u>2,330,248</u>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. GAINS/(LOSS) ON DISPOSAL OF NON-FINANCIAL ASSETS

Disposal of Motor vehicles	(453)	-
	<hr/>	<hr/>
	-	-
	=====	=====
No disposal was made during the financial year 2018/2019		

8. OTHER INCOMES

Rental income	4,296	6,184
Miscellaneous Receipts	57,040	15,819
Decrease in provisions	32,294	-
Company Machine Fleets	6,331	9,372
	<hr/>	<hr/>
	99,960	31,375
	=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020 KES'000	2019 KES'000
9 (a) ADMINISTRATIVE EXPENSES		
Staff costs	720,891	929,755
Other costs	29,662	74,961
Legal and professional fees	11,014	9,720
Corporate social responsibility	193	387
Medical services	721	19,425
Travelling	5,921	17,069
Security	786	299
Books & Periodicals	12	238
Directors expenses	11,691	29,404
Honorarium	745	743
Repairs and maintenance	11,876	6,674
Rent and rates	18,045	17,868
Insurance	52,601	52,601
Cane safety expense	37	1,633
Bank charges	5,110	2,668
Contracted services	41,595	35,265
Telephones and communications	2,242	5,595
Audit fees	2,205	2,205
Stationery	1,918	4,925
Contingency	-	-
Donations	247	-
Fuel and lubricants	16,404	39,573
Motor vehicle running	11,309	19,376
Foreign Exchange Differences	99,229	33,454
Tax penalties	1,104,044	761,330
	<u>2,148,497</u>	<u>2,065,167</u>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	KES'000	KES'000
9(b) STAFF COSTS		
Salaries and allowances	623,089	810,921
Bonus	-	-
Pension - defined contribution scheme	44,890	50,269
Provident fund	-	-
Staff overtime	496	907
Staff training	30	1,885
Casual labour	44,960	59,795
Other staff costs	3,823	1,231
Staff gratuity provision	-	-
Pension - statutory defined contribution scheme	3,604	4,747
Defined benefit scheme credit (note 18(b))	-	-
	<u>720,891</u>	<u>929,755</u>
	=====	=====
The average number of employees at the end of the year was:		
Permanent employees-Management	270	319
Permanent employees-Unionisable	546	618
Temporary and contract employees	1,823	1,788
10. MARKETING AND DISTRIBUTION COSTS		
Salaries and wages of sales personnel		
Advertisement and promotional expenses	582	2,123
Other Selling and distribution costs	417	882
	<u>999</u>	<u>3,004</u>
	=====	=====
11. LOSS BEFORE TAXATION		
Loss before taxation is arrived at after:		
Charging:		
Staff costs (note 9 b)	720,891	929,755
Depreciation of property, plant and equipment (note 15)	497,897	556,657
Amortisation of intangible assets (note 16)	9,213	9,788
Directors' emoluments - Fees	-	-
- Other	-	-
Directors' expenses	12,436	29,404
Auditors' remuneration	2,205	2,205
Bad and doubtful debts	-	-
Profit(loss) on disposal of assets	453	-
Loss (Gain) on foreign exchange	99,229	33,454
Interest receivable	(2,986)	(7,624)
	<u>-</u>	<u>-</u>
	=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2020	2019
		KES'000	KES'000
12	FINANCE INCOME		
	Interest income:		
	On farmers balances	1,877	3,860-
	On deposits with financial institutions	217	2,904
	On staff loans	892	860
		<u>2,986</u>	<u>7,624</u>
		=====	=====

The interest income on farmers' balances relates to the interest the company charges farmers in relation to credit advanced for farm inputs. The company recovers these amounts from the amounts payable to farmers on harvested cane.

		2020	2019
		KES'000	KES'000
13	FINANCE COSTS		
	Interest expense	886,351	885,792
		<u>886,351</u>	<u>885,792</u>
		=====	=====

		2020	2019
		KES'000	KES'000
14	TAXATION		
(a)	Taxation charge/(credit)		
	Current taxation based on the adjusted profit for the year at 30% - current year		-
	Deferred taxation credit (note 18)	-	-
	Prior year under provision of taxation recoverable		-
		<u>-</u>	<u>-</u>
		=====	=====
(b)	Reconciliation of expected tax based on loss before taxation charge/(credit)		
	Loss before taxation	(3,483,246)	(3,164,032)
		<u>(3,483,246)</u>	<u>(3,164,032)</u>
		=====	=====
(c)	Taxation recoverable		
	At beginning of the year	(726)	(726)
	Paid in the year	-	-
	Charge for the year	-	-
	Prior year under provision of taxation recoverable		-
		<u>(726)</u>	<u>(726)</u>
		=====	=====
	At end of year	(726)	(726)
		<u>(726)</u>	<u>(726)</u>
		=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land	Factory building	Residential & school buildings	Plant & machinery	Tractors, trailers & heavy vehicles	Cars & motor cycles	Furniture, fittings & equipment	Computer system	Factory tools & implements	Water & electricity installation	Cane Roots	Capital WIP KES	Total
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000
COST OR VALUATION													
At 1 July 2018	5,800,339	681,902	100,771	5,643,612	374,770	104,271	43,732	85,350	30,382	119,204	63,832	205,009	13,253,174
Additions	-	-	-	-	-	-	579	450	-	-	-	4,333	5,362
Revaluation	(1,739)	-	-	-	(2,100)	(920)	-	-	-	-	-	-	(4,759)
Transfer	-	4,244	(3)	-	6,600	310	-	-	80	-	-	-	11,231
Disposals	-	(122,782)	122,782	-	-	-	-	-	(4,244)	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-	-	-	-	-	(4,244)
At 30 June 2019	5,798,600	563,364	223,550	5,643,612	379,270	103,662	44,311	85,801	26,218	119,204	63,832	209,342	13,260,764
At 1 July 2019	5,798,600	563,364	223,550	5,643,612	379,270	103,662	44,311	85,801	26,218	119,204	63,832	209,342	13,260,764
Additions	-	-	-	-	6,150	-	56	310	-	-	12,754	757	20,027
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2020	5,798,600	563,364	223,550	5,643,612	383,620	91,727	44,367	85,794	26,218	119,204	76,586	210,099	13,266,743

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land	Factory building	Residential & school building	Plant & machinery	Trailers & heavy vehicles	Cars & motor cycles	Furniture, fittings & equipment	Computer Hardware	Factory tools & implements	Water & electricity installation	Cane Roots	Capital WIP	Total
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000
DEPRECIATION													
At 1 July 2018	-	148,431	31,885	1,456,026	243,084	58,708	14,963	28,751	6,170	45,999	18,339	-	2,052,356
Restated depreciation				597	3,509	(470)					18,339		21,975
Revaluation					(990)	(399)							(1,233)
Charge for the year Disposals	-	41,493	9,583	418,699	39,074	11,356	4,402	8,557	3,007	10,981	9,504	-	556,657
At 30 June 2019	-	189,924	41,468	1,875,322	284,677	69,195	19,366	37,309	9,177	56,979	46,182	-	2,629,599
At 1 July 2019		189,924	41,468	1,875,322	284,677	69,195	19,366	37,309	9,177	56,979	46,182	-	2,629,599
Restated depreciation													
Disposals	-	-	-	-	(961)	(6,096)	-	(96)	-	-	-	-	(7,154)
Charge for the year	-	37,344	9,104	376,829	26,219	5,633	3,750	7,273	2,556	9,334	10,641	-	488,684
At 30 June 2020	-	227,268	50,571	2,252,152	309,935	68,732	23,116	44,486	11,733	66,313	56,823	-	3,111,130
NET BOOK VALUE (Valuation)													
At 30 June 2020	5,798,600	336,095	172,979	3,391,461	73,685	22,995	21,251	41,309	14,485	52,892	19,763	210,099	10,155,614
At 30 June 2019	5,798,600	373,440	182,083	3,768,289	94,593	34,467	24,945	48,492	17,041	62,226	17,650	209,342	10,631,169

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment were revalued on 30 June 2015, by Real Appraisal Limited. Assets were revalued using the depreciated replacement cost method. Management is in the process of procuring a valuer to value assets as per the policy.

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

In 1977, the company was granted leasehold land registration East Bukusu/North Sang'alo/1904, East Bukusu/East Sang'alo/1444 and Ndivisi/Khalumuli/1459 and a 50-year land grant for land reference 4857/64 with effect from April 2002 from the Government of Kenya. In 2015, the leasehold land was valued at KES 6,028,600,000.

16 INTANGIBLE ASSETS

	2020 KES'000	2019 KES'000
COST		
At 1 July	181,508	237,264
Revaluation	-	(6,990)
Transfer from capital WIP		
	<u>181,508</u>	<u>230,274</u>
AMORTISATION		
At 1 July	48,766	45,867
Depreciation	-	(6,889)
Charge for the year	9,213	9,788
	<u>57,979</u>	<u>48,766</u>
NET BOOK VALUE	<u>172,295</u> =====	<u>181,508</u> =====

Intangible assets represent computer software costs, ERP software and antivirus software accounted as per IAS 38. Intangible assets are amortised over a period of 20 years from 2017.

17 INVESTMENT PROPERTY

At fair value:

At beginning of year	250,000	250,000
Fair value gain	-	-
	<u>250,000</u> =====	<u>250,000</u> =====

Locations and details of the investment property are LR No.4857/64/Kileleshwa in Nairobi area.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	KES'000	KES'000
18 DUES FROM OUTGROWERS		
Due from out-growers	390,266	392,620
Less: provision for doubtful debts	(350,157)	(305,018)
	<u>40,109</u>	<u>87,601</u>
	=====	=====
Due within 1 year	26,739	58,401
After 1 year	13,370	29,200
	<u>40,109</u>	<u>87,601</u>
	=====	=====

Due from out-growers relates to credit advanced to farmers towards farm inputs. The cane planted acts as collateral for the amount advanced. The cane planted takes a maximum of 18 months to harvest.

	2020	2019
	KES'000	KES'000
19 INVENTORIES		
Sugar and molasses	201,571	1,072
Sugar in process	19,397	49,047
Raw materials	4,810	2,788
Consumables	449,575	531,783
	<u>675,353</u>	<u>584,690</u>
	=====	=====
	2020	2019
	KES'000	KES'000
20 TRADE AND OTHER RECEIVABLES		
Trade receivables	28,852	24,914
Less provision for doubtful debts	(24,914)	(24,914)
	<u>3,937</u>	<u>-</u>
	=====	=====
Other receivables	141,278	157,419
Prepayments and deposits	30,025	10,396
Staff receivables	22,551	34,114
Less provision for doubtful debts	(142,743)	(140,273)-
	<u>55,048</u>	<u>61,656</u>
	=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020 KES'000	2019 KES'000
21 SHORT TERM DEPOSITS		
National Bank of Kenya Limited	-	-
Standard Chartered Bank of Kenya Limited	320	47,000
	<u>320</u>	<u>47,000</u>
	=====	=====

The effective interest rates was as follows:

	2020 %	2019 %
National Bank of Kenya Limited	7	7
Standard Chartered Bank of Kenya Limited	7	7
	===	===

Short term deposits are held against letters of credit committed against ordered overseas items.

22 BANK AND CASH BALANCES

Cash and bank balances	60,775	4,118
Short term deposits (note 21)	320	47,000
	<u>61,095</u>	<u>51,118</u>
	=====	=====

Cash and bank balances are held at National Bank, Kenya Commercial Bank, Co-operative Bank of Kenya, Diamond Trust Bank and Standard Chartered Bank as at 30th June 2020.

	2020 KES'000	2019 KES'000
23 ORDINARY SHARE CAPITAL		
Authorised:		
30,000,000 ordinary shares of KES 20 each	600,000	600,000
	=====	=====
Issued and fully paid:		
27,150,000 ordinary shares of KES 20 each	<u>543,000</u>	<u>543,000</u>

24 REVALUATION RESERVE

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

25 RETAINED EARNINGS (DEFICIT)

The retained earnings (Deficit) represent amounts available for distribution to the entity's shareholders.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2020 KES'000	2019 KES'000
26	BORROWINGS		
	a) Loans		
	National Treasury	39,757,414	38,685,601
	Agriculture Food and Fisheries Authority	2,622,949	2,555,679
		<u>42,380,363</u>	<u>41,241,280</u>
		=====	=====
	The borrowings are repayable as follows:		
	On demand or within 1 year	42,226,859	40,815,012
	After 1 year	153,504	426,268
		<u>42,380,363</u>	<u>41,241,280</u>
		=====	=====
	Total borrowings	42,380,363	41,241,280
		=====	=====
	The company has defaulted on loan repayments and the entire loan amount is due for repayment on demand.		
		2020 KES'000	2020 KES'000
	b) Movement in loans		
	At 1 July	41,241,280	39,877,342
	Accrued interest	886,351	885,792
	Interest paid	-	-
	Foreign exchange difference	99,229	33,454
	Loans received	153,504	426,268
	Grants Adjustment	-	18,424
		<u>42,380,363</u>	<u>41,241,280</u>
		=====	=====
	At 30 June	42,380,363	41,241,280
		=====	=====
	This is made up of:		
	Principal	12,544,135	12,544,135
	Accrued interest	29,836,228	28,697,145
		<u>42,380,363</u>	<u>41,241,280</u>
		=====	=====
26	BORROWINGS		
	The effective interest rates on the borrowings during the year were:		
	c) Interest rates		
		2020	2019
		%	%
	The National Treasury	5.3	5.3
	Agriculture Food and Fisheries Authority	10.9	10.9
		=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

d) Details of securities for borrowings

The loans from The National Treasury and the Agriculture Food and Fisheries Authority are unsecured. These loans were advanced in tranches on diverse dates in the 1990's and have been long outstanding. The company has defaulted on repayment of both principal and interest in the past. The terms and conditions of the loan could not be satisfactorily established due to the lapse in time and the lack of complete records.

27 DEFERRED INCOME TAXATION LIABILITY

Deferred income taxes are calculated on all temporary differences under the liability method using the current enacted tax rate of 30%.

	2020 KES'000	2019 KES'000
The net deferred taxation liability is attributable to the following items:		
Deferred taxation liabilities:		
Accelerated capital allowances	-	-
Fair value adjustment - biological assets	-	-
Revaluation surpluses	-	-
	<hr/>	<hr/>
Total liabilities	-	-
Deferred taxation assets:		
Provision for service gratuity		-
Provision for staff leave pay		-
Unrealised exchange losses		-
General doubtful debts provision		-
Provision for obsolete stock		-
Tax losses available for offset against future profits		-
Deferred tax assets not recognised		-
	<hr/>	<hr/>
Total assets		-
	<hr/>	<hr/>
Total	3,885,282 =====	3,885,282 =====
The movement on the deferred taxation account during the year was as follows:		
At 1 July	3,885,282	3,885,282
Prior year adjustment (note 28)	-	-
As restated	-	-
Charged to other comprehensive income	-	-
Profit or loss charge (note 8a)	<hr/>	<hr/>
At 30 June 2020	3,885,282 =====	3,885,282 =====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The deferred tax asset has not been recognised in the financial statements because of the uncertainty regarding the company's ability to generate sufficient taxable profits in the foreseeable future that will allow the deferred tax asset to be recovered. The directors consider it prudent not to recognise any deferred tax asset until the future of the company can be predicted reliably.

28 TRADE AND OTHER PAYABLES

	2020 KES'000	2019 KES'000
Trade payables	838,954	696,313
Due to out growers	473,001	329,146
Tax penalties	4,389,640	3,285,596
Sugar Development Levy	831,891	856,603
Accruals	1,578,133	1,506,335
Other payables	2,636,358	1,887,177
	<u>10,747,978</u>	<u>8,561,170</u>
	=====	=====

29 RETIREMENT BENEFITS OBLIGATIONS

	2020 KES'000	2019 KES'000
(a) AMOUNTS DUE TO STAFF PROVIDENT FUND		
Balance at the beginning of the year	201,993	212,627
Interest charge	-	-
Paid during the year	(3,365)	(10,634)
	<u>198,628</u>	<u>201,993</u>
	=====	=====

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 (b) DEFINED BENEFITS SCHEME ASSET (CONTINUED)

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Alexander Forbes Financial Services (EA) Limited. Normal retirement age for scheme members was assumed to be 60 years. The accrued liability in respect of pensioners was taken as the present value of the expected future pension payments. The principal assumptions used for the purposes of the actuarial valuations were as follows:

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

	2020	2019
	KES'000	KES'000
The credit recognised in profit or loss in respect of the scheme is as follows:		
Current service cost		
Net interest on the net defined benefit asset		
Total included in staff costs in respect of scheme	=====	=====

Retirement Benefits Obligations

	2020	2019
	KES'000	KES'000
Actuarial gains		-
Return on plan assets		-
Change in effect of asset ceiling		-
Total (credit)/charge to other comprehensive income	=====	=====

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

	2020	2019
	Sh'000	Sh'000
Value of accrued liabilities	-	-
Value placed on scheme assets	-	-
	=====	=====
	-	(45)

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	KES'000	KES'000
30 PROVISIONS FOR STAFF LEAVE PAY		
At the beginning of the year	47,612	58,923
Movement in the year	(11,077)	(11,311)
	<u>36,535</u>	<u>47,612</u>
	=====	=====
At the end of the year		
	<u>36,535</u>	<u>47,612</u>
	=====	=====
31 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of loss before taxation to cash generated from (used in) operations		
Loss before taxation	(3,483,246)	(3,164,032)
<i>Adjustments:</i>		
Finance income (note 12)	(2,986)	(7,624)
Finance costs (note 13)	886,351	885,792
Fair value gain investment property	-	-
Depreciation (note 15)	497,897	556,657
Amortisation (note 16)	9,213	9,788
Loss/ (gain) on disposal of property, plant and equipment	453	-
Foreign exchange difference on borrowings (note 26)	99,229	33,454
Fair value loss /gain on biological assets (note 5)	(263,266)	(307,736)
	<u>Cash used in operations before working capital changes</u>	<u>(1,993,702)</u>
	(2,256,355)	
<i>Movements in:</i>		
Out-growers balances	(47,492)	(17,666)
Inventories	90,663	7,363
Trade and other receivables	6,608	64,911
Staff provident fund	(3,365)	(10,634)
Defined benefit obligation (note 29)	-	-
Trade and other payables	2,182,415	1,703,761
Provision for staff leave pay (note 30)	(11,077)	(11,311)
	<u>Cash generated (used in) operations</u>	<u>(257,277)</u>
	(38,603)	
	=====	=====
(b) Analysis of the balances of cash and cash equivalents		
Bank and cash balances (note 22)	60,775	4,118
Short term deposits (note 21)	320	47,000
	<u>61,095</u>	<u>51,118</u>
	=====	=====

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 RELATED PARTY BALANCES AND TRANSACTIONS

a) Key management compensation

The remuneration for key management during the year was as follows:

Salaries and other benefits	63,543	64,452
	=====	=====

b) Directors' remuneration

Fees for services as directors		
Directors Honorarium	745	743
Directors' expenses	11,691	29,404
	=====	=====

33 CAPITAL COMMITMENTS

Commitments at the year-end for which no provision has been made in these financial statements:

Authorised and contracted for	-	47,000
Authorised but not contracted for	876,778	720,354
	=====	=====
	876,778	767,354
	=====	=====

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

2020	2019
KES'000	KES'000

34 CONTINGENT LIABILITIES

Pending claims	52,500	74,200
Letters of credit	-	47,000
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES

Overview

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

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

- Credit risk
- Market risk
- Liquidity risk

The key operational risks include political and environmental risks.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

The company counters this risk by placing significant emphasis on the vetting and selection of farmers. This is done with the aid of comprehensive and documented criteria which includes a review of farmers' payment histories. The company also monitors budgeted sales outputs and expected factory crushing capacity and also forecasts of expected environmental conditions to aid it in budgeting for these advances. However, the existence of favourable weather conditions will always remain outside the control of the company.

Political upheavals and general unrest also pose a risk to the company usually resulting in the burning of immature cane. Burning of immature cane reduces the quality and the quantity of the yield from such cane in addition to raising production costs and waste. While an element of this risk is outside the company's control, it has however sought to mitigate this risk by enhancing security in its nucleus estates. The company does not purchase burnt cane from farmers in order to discourage irresponsible burning of immature cane by farmers in order to readily obtain quick cash.

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

In measuring credit risk relating to trade receivables, the company therefore reflects three components:

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

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

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

Collateral

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

The credit risk exposures are classified in three categories:

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

Neither past due nor impaired

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

Past due but not impaired

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

Impaired

Impaired financial assets are those for which the company determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt, or the collateral doesn't sufficiently cover the exposure. On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

Analysis of credit risk exposure

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

	Neither past due nor impaired KES'000	Past due but not impaired KES'000	Impaired KES'000	Total KES'000
30 June 2020				
Trade receivables	-	3,937	24,914	28,852
Due from outgrowers	-	40,109	350,157	390,266
Short term deposits	-	-	-	-
Bank balances	61,095	-	-	61,095
	<u>61,095</u>	<u>44,046</u>	<u>375,071</u>	<u>480,213</u>
	=====	=====	=====	=====
30 June 2019				
Trade receivables	-	-	24,914	24,914
Due from outgrowers	58,401	29,200	305,019	392,620
Short term deposits	47,000	-	-	47,000
Bank balances	4,118	-	-	4,118
	<u>109,519</u>	<u>29,200</u>	<u>329,933</u>	<u>468,652</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES

Credit risk management (Continued)

Market risk management

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

(i) Interest rate risk

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

(ii) Currency risk

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

Liquidity risk management

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

The following table analyses the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods.

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

At 30 June 2020	1 – 6 Months KES'000	6 – 12 Months KES'000	Above 1 year KES'000	Total KES'000
Borrowings	-	42,226,859	153,504	42,380,363
Trade payables	-	838,954	-	838,954
Payables to out-growers	-	473,001	-	473,001
	-	43,538,814	153,504	43,692,318

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

	1 – 6 Months KES'000	6 – 12 Months KES'000	Above 1 year KES'000	Total KES'000
At 30 June 2019				
Borrowings	-	40,815,012	426,268	41,241,280
Trade payables	-	696,313	-	696,313
Payables to outgrowers	-	329,146	-	329,146
	<u>-</u>	<u>41,840,471</u>	<u>426,268</u>	<u>42,266,739</u>
	=====	=====	=====	=====

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

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

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

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

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 30 June 2020				
Property, plant and equipment	-	10,155,614	-	10,155,614
Biological assets	-	805,366	-	805,366
Investment property	-	250,000	-	250,000
	=====	=====	=====	=====
At 30 June 2019				
Property, plant and equipment	-	10,631,169	-	10,631,169
Biological assets	-	538,978	-	538,978
Investment property	-	250,000	-	250,000
	=====	=====	=====	=====

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Financial instruments not measured at fair value

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

36 CAPITAL MANAGEMENT

The company's objectives when managing capital are:

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

The capital structure of the company consists of debt, which includes the borrowings less cash and cash equivalents and equity attributable to equity holders, comprising issued capital, revaluation surplus and retained earnings. The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital.

Based on the review, the company analyses and assesses the gearing ratio to determine the appropriate levels. This ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings less cash and cash equivalents.

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

	2020	2019
	KES '000	KES '000
The gearing ratio at the year-end was as follows:		
Shareholders' deficit	(45,034,633)	(41,551,388)
Borrowings (note 26)	42,380,363	41,241,280
Short term deposits (note 21)	-	(47,000)
Cash and bank balances (note 22)	(61,095)	(4,118)
Net debt	42,319,268	41,292,398
Gearing ratio	Over 100% =====	Over 100% =====

37 INCORPORATION

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

38 CURRENCY

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XVIII. PROGRESS ON FOLLOW UP ON AUDITORS RECOMMENDATIONS 2020

Area	Management Response	Implementation by
i) Property Plant and Equipment Included in the PPE of KES 12,096,771,000 2016/17 financial year was a plant with a carrying value of KES 295,697,000 which was procured between 1990-1993 but has been lying idle since acquisition and thus has not generated any income for the Company.	<i>We invited the Ministry of Public Works to value the idle assets for purpose of disposal and a reserve price was given for every item. The management is in the process of disposing the idle assets through competitive bidding.</i>	Chief Executive Officer/Factory Manager/Purchasing Manager
ii) Provisions and contingent liabilities As at the time of audit in 2016/17 financial year, independent confirmations from all company lawyers had not been received with regard to ongoing litigations, therefore the impact of outstanding cases could not be established.	The company is still following up on the confirmations sent to our lawyers through the company secretary.	Company Secretary
iii) Management of out-growers (farmers) balances The out-growers balances (farmers) are managed using the Agricultural Management Systems (AMS) which captures individual farmer records while the finance systems is using Systems Applications and Production (SAP) which maintains a control account of the total out-growers balances. The interface between the two systems is still manually done hence the records between the two are inconsistent. Therefore, there was a possibility that the out-growers balances recorded were not be accurate.	<i>The AMS system has captured the farmers' balances correctly and reconciliations are periodically done. The interface is what has not been completed though the process is on.</i>	Information Technology Manager/ Finance Manager
iv) The National Treasury Guaranteed loans As at 30/6/2017 the Government of Kenya through the National Treasury loans guaranteed to the	<i>The government of Kenya through the privatization commission is in the process of writing off the loans. Management wrote to the Ministry of Finance with a</i>	Board of Directors/ Chief Executive Officer

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

company's creditors stood at KES 36,289,427,006 comprising of accrued interest of KES 26,193,798,631 and Principal amount of KES 10,095,628,375. The Company has continued to default on repayments while there is no actionable evidence of write off.	<i>view of carrying out reconciliation of the loan amount before privatization is completed. Attached session Paper no.12 of 2012</i>	
v)		
vi) Loan from Agricultural and food Authority- KES 2,403,175,624.00 As at 30/6/2017 the Company had a loan from Agricultural and food Authority, for which the Company had not met its covenant terms. The principal and the interest had not been settled. Further, the Company had not remitted KES 856,603,000 to the Sugar Board as required by the Sugar Act No. 10 of 2001.	<i>The Company still owes formally Kenya Sugar Board the above amount for loans advanced and SDL. The cash flow constraints the company has been undergoing made it difficult to release the payment to KSB. Low sugar prices brought about by cheap sugar imports and high cost of production affected the ability of the company to meet most of its obligations including the loans. The government of Kenya through the privatization commission is in the process of writing off the loans.</i>	Board of Directors/ Chief Executive Officer
vii) Non-Remittance of taxes and other levies During the 2016/17 financial year, the Company did not clear outstanding payments of recovered balances OF Pay As You Earn (P-A-Y-E), Value Added Tax (VAT), Sugar Development Levy (SDL) and withholding taxes to the respective institutions notwithstanding the growing arrears and penalties of non-Payment.	<i>The tax arrears payable to KRA has not been cleared owing to challenges related to cash flows. The prices of sugar went drastically low to almost 50% of our cost of production and therefore making it difficult for us to honour our commitment of meeting the obligations as they fell due. The company has engaged the KRA office on the repayment structure once the company cash-flow improves.</i>	Chief Executive Officer

Uganda Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XIX. APPENDIX 1: PROJECTS IMPLEMENTED BY THE COMPANY

	Project/Contractor	Year of Budget	Budget (Ksh)	Contract Sum (Ksh)	Amount paid (Ksh)	Ongoing Jobs	%age Comp.	Remarks
1	Mayanja Twin Cell Culvert/ Kinde Eng.	2016/17	11,392,339.20	11,392,339.20	4,556,935.68	Work completed	100	Completed waiting Commission
2	Design, manufacture, supply, installation & commissioning of syrup clarification plant/ Surviron	2011/12	60,000,000.00	38,700,000.00	24,572,811.00	Installed	100	Not Completed due to Lack of Funds
3	Supply of 54TPH Boiler modification/ Avant Garde Eng.	2015/16 2016/17	140,000,000.00	126,518,000.00	113,036,000.00	None	50	Items at the site not Cleared to Financial Constraint
4	Supply, installation & commissioning of mixed juice filtration system & rehabilitation of mud filters/ Shalini	2016/17	93,000,000.00	90,356,000.00	30,340,850.00	None	55	Mud Rehabilitation awaiting Eng. Filtration equipment
5	Upgrade of one cane weighbridge PIC mounted to surface type./ Avery EA Ltd	2015	10,000,000.00	9,816,512.00	6,338,420.00	Completed	100	Contractor at 20% payment commission 10% retention
6	Boiler Maintenance	2019/2020	27,600,000.00	27,600,000	24,750,000	Completed	100	Contractor awaiting payment on 1 retention.
7	ERP IMPLEMENTATION	2016/2017	282,600,000.00	282,600,000.00	212,800,000.00	Ongoing	80	Ongoing
	TOTAL		624,592,339	586,982,851	416,395,016			

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

XX. APPENDIX 2: INTER COMPANY TRANSFERS

The Company had no inter-entity transfers as at the end of 30th June 2020

XXI. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

The Company had no transfers from other Government entities as at the end of 30th June 2020