REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NZOIA SUGAR COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2023

nzoia sugar
Company Ltd

Sweetening Kenya
since 1978

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

TEL:- 055 - 30500
Fax :- 055 - 30001
E-mail: md@nzoiasugar.com

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2023

Sweetening Kenya Since 1978

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

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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 45, 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 establish and manage sugarcane plantations and assist others to do.

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.

(ii) To establish and manage sugarcane plantations and assist others to do so.

KEY COMPANY INFORMATION .... *continued*

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 provides 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 2023 and who had a direct fiduciary responsibility were:

1	Chief Executive Officer	CPA Ezron Kotut
2	Chief Executive Officer	Dr.Chrispine Ogutu Omondi
3	Company Secretary	Ms. Ritah Mukhongo
4	Agriculture Services Manager	Mr. Ignatius Wafula
5	Factory Manager	Mr. Benjamin Mbaya
6	Internal Audit Manager	CPA Lucas Otene
7	Finance Manager	CPA Peter M. Simiyu
8	Sales & Marketing Manager	Ms. Edwina Omollo
9	Procurement Manager	Ms. Caroline Namunane
10	Human Resource Manager	Mr. Brian Keya
11	ICT Manager	Ms.Damaris Shikanga
12	Agriculture Manager	Mr. Francis Oringe
13	Public Relations Officer	Ms. Florence Mutinda
14	Quality Assurance Officer	Mr. Benson Khwatenge

KEY COMPANY INFORMATION .... *continued*

CORPORATE INFORMATION

DIRECTORS	Hon.Alfred Khang'ati	- Chairman - Appointed on 17th February 2023
	CPA Ezron Kotut	- Managing Director - Appointed on 10h May 2023
	DR.Chrispine Ogutu Omondi	- Managing Director - Appointed on 10th June 2021 -Left on 10th May 2023
	Daniel Muimi	- IDB Capital-Appointed by virtue of office
	Richard Njoba	- FCB - Appointed by virtue of office
	Protus Khisa	- Alt to PS Ministry of Agriculture Livestock & Fisheries
	Elizabeth Mudukiza Iminza	- Appointed on 17th February 2023
	Patrice Chumba	- Appointed on 17th February 2023
	Millicent Anyango Abudho	- Appointed on 17th February 2023
	Benson Madebe Chahasi	- Appointed on 17th February 2023
	Bonface Okhiya Otsiula	- Appointed on 17th February 2023
	Eunice Wanjiru Karanja	- Appointed on 17th February 2023
	Okwakau Ino Jonathan	- Appointed on 17th February 2023

COMPANY SECRETARY

- Ritah Mukhongo
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

Simiyu Makokha & Company Advocates
P.O Box 104
Bungoma

Manyonge Wanyama &Associates Advocates
Email: manyonge@gmail.com

Byran Khaemba, Kamau Kamau Co.& Advocates
P O Box 1300-00200
Nairobi

Lumatete Muchai & Co.Advocates
P.O Box 90565-80100
Mombasa

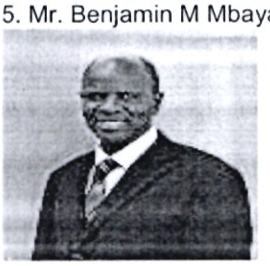
1. Hon. Alfred Khang'ati- Chairman 	Hon. Alfred Khang'ati holds a Masters in Building (Project) Management and B.A Hons in Land Economics from the University of Nairobi with over 30 years' experience in the leadership and management. He is a former Member of Parliament for Kanduyi constituency. He is a seasoned businessman with interests in the construction industry. He is skilled in governance and entrepreneurship and has been on various board in the banking industry, local and continental volleyball sports federation. He was appointed to the board on 17th February 2023.
2.CPA Ezron Kotut 	CPA Ezron Kotut is the acting Managing Director of Nzoia Sugar Company. He holds Master of Business Administration and Bachelor's degree in Management and Leadership from Management University of Africa. He is a Certified Public Accountant (K) and a Member of ICPAK. He has over 15 years' experience in the private sector and 13 years' experience in Sugar industry.
3. Dr.Chrispine Omondi 	Dr. Chrispine Omondi holds a PhD degree in Plant Breeding from the University of Nairobi, MSc degree in Crop Science and BSc degree in Agriculture from the same University. Dr Omondi has 31 years of experience in agricultural research. Prior to joining Nzoia Sugar Company he served as Institute Director responsible for Sugar Research (2 years) and Industrial Crops Research (4 years) at the Kenya Agricultural & Livestock Research Organization (KALRO). Served as the Managing Director till 2nd May 2023.
4. Mr.Benson Madebe Chahasi 	Mr. Benson Chahasi has an MBA in Management, BED in Arts and currently pursuing a Phd in Strategic Management. He has over 21 years' experience as a lecturer and an administrator.
5.Mr. Bonface O. Otsiula 	Hon. Bonface Otsiula holds Bachelor of Law Degree LLB, post graduate Diploma in Law and is an advocate of the High Court of Kenya with over 22 years' experience. He is a former KFF chairman Bungoma county. A former member of parliament for Bumula Constituency 2013-2017, Director at Nzoia Sugar Co.Ltd 2009-2012 and selection panellist SRC chair selection committee-March 2018.

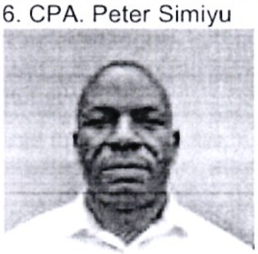
6. Mr.Daniel Muimi 	Mr.Daniel Muimi has B.A Degree from the University of Nairobi. He is also a qualified Certified Public Accountant of Kenya (CPA-K) and Certified Financial Analyst (CFA) with over 10years experience in financial sector specializing in development finance. Currently he is the acting Deputy Director Investment Appraisal and Administration Kenya Development Corporation.
7.Mr. Owakau Ino Jonathan 	Mr.Owakau Ino Jonathan is a heath professional with over 26 years work experience. He has a bachelor of Science Environmental Health. Previous he served as a district public health officer in charge of Teso district from 1997-2009, Bungoma East 2009-2010, Programme officer at Afya House in 2011 and sub-county medical officer in charge of health at Ugenya district 2011-2019. Chief officer health and sanitation, county government of Busia 2020-2022.
8. Mr. Patrice Chumba 	Bishop Patrice Chumba has a degree in Theology with over 34 years' experience. He is currently the presiding Bishop of all AIC Churches in the Western and Rift region.
9. Mr. Richard Njoba 	Mr. Richard Njoba has experience of over 34 years' in the private sector dealing with the business of equipment supply, industrial agri-processors and support to strategic institutions. He is skilled in governance and entrepreneurship through various board seats in the manufacturing industry, banking industry, local and continental sports federation. He sits on the board as alternate director of Fives Cail (FCB).

10.Ms. Elizabeth Mudukizi Iminza 	Ms. Elizabeth Iminza has a diploma certificate in criminology and criminal justice from Masinde Muliro university of science and Technology and is currently pursuing a degree in the same course at the same university. She has worked at Postal Corporation of Kenya, Ministry of Interior and Co-ordination, a board member of Givole and Jepkoyai secondary schools. She has over 20 years' experience in the public sector.
11.Ms. Eunice Wanjiru Karanja 	Ms. Eunice Karanja has MBA- Master's degree in strategic management and Leadership from St. Paul's university, Bachelor's degree and diploma certificate in Human Resource management. Ms. Eunice Karanja has worked in various organizations namely Parliamentary service commission as a fund manager, AMREF as a research assistant, UNDP as UN National Specialist on peace building and conflict resolution management, Ministry for internal security as peace coordinator based in North Rift, director in water services regulatory board (WASREB) served for a period of three years. Director in National Cereals and Produce Board (NCPB) up to last year, where she served in the following committees, Human Resource and Legal committee as the chair person, in the business and strategic planning committee as a member and finally toward the end chaired the finance and procurement committee.
12.Ms. Millicent Anyango Abudho 	Ms. Millicent Abudho has a diploma in marketing from Kenya Institute of Management (KIM) with over 20 years' experience in the marketing profession. She has worked as a sales manager for Sleek Kenya Limited, East Africa Glassware Mart Limited, Wiselink Marketing agency and Healthfirst International. Ms. Abudho has attended various training and development courses namely Agriculture budget monitoring and advocacy course, management &sales technique and training, customer relationship management programmes.
13. Mr. Protus Wanyonyi Khisa 	Mr. Protus Khisa has MSc. Soil Science/Agriculture degree from the University of Nairobi. He has over 25 years' experience working for the Ministry of Agriculture and Livestock Development.

14. Ms. Ritah Mukhongo 	Ms. Ritah Mukhongo is 42 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 18 years' experience in Legal matters. She took over on 15th January 2018.

MANAGEMENT TEAM

1. CPA. Ezron K Kotut 	CPA Ezron Kotut is the acting Managing Director of Nzoia Sugar Company. He holds Master of Business Administration and Bachelor's degree in Management and Leadership from Management University of Africa. He is a Certified Public Accountant (K) and a Member of ICPAK. He has over 15 years' experience in the private sector and 13 years' experience in Sugar industry.
2. Dr. Chrispine Ogutu Omondi 	Dr. Chrispine Omondi holds a PhD degree in Plant Breeding from the University of Nairobi, MSc degree in Crop Science and BSc degree in Agriculture from the same University. Dr Omondi has 31 years of experience in agricultural research. Prior to joining Nzoia Sugar Company he served as Institute Director responsible for Sugar Research (2 years) and Industrial Crops Research (4 years) at the Kenya Agricultural & Livestock Research Organization (KALRO). Served as the Managing Director till 2nd May 2023.
3. Mr. Ignatius B Wafula 	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 over 21 years' experience.
4. Ms.Ritah Mukhongo 	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 18 years' experience in Legal matters. She took over on 15th January, 2018.
5. Mr. Benjamin M Mbaya 	Mr. Benjamin Mbaya is the Acting Factory Manager. 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 32 years of experience in the sugar Industry.

6. CPA. Peter Simiyu 	CPA Peter Simiyu is the Acting Finance manager. He holds Masters of Business Administration and Bachelor's Degree in Commerce. He is a Certified Public Accountant (K) and a member of ICPAK. He has over 30 years' experience in the sugar industry.
7. Ms. Edwina A Omollo 	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 15 years' experience in sales and marketing.
8. Ms.Damaris Shikanga 	Ms.Damaris Shikanga is currently Acting Information Communication & Technology Manager. She has over 20 years' experience in information systems and data security.
9. Mr.Francis Oringe 	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.
10. Ms. Florence Mutinda 	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 13 years' experience.

11. Mr.Brian Keya 	Mr. Brian Keya is the Acting. Human Resource Manager. He holds a Bachelor's degree in Education from the Moi University Eldoret, a Post Graduate Diploma in Management from the Mediterranean Institute of Management in Cyprus and is a Trained Trainer. He is also pursuing a Master in Human Resource Management from the OUT/IHRM institute. He has over 22 years' experience in HR management.
12. Ms.Caroline Namunane 	Ms.Caroline Namunane is the Procurement Manager with over 11 years 'experience gained across different sectors. She holds a Master's Degree in Procurement and Logistics, a Degree in Purchasing and Supplies and a Graduate Diploma in CIPS level 5. She is a full member of the Kenya Institute of Supplies Management (KISM) and an Associate Member of the Chartered Institute of Purchasing and Supplies-UK (CIPS).
13.CPA Lucas A Otene 	CPA Lucas Alwala Otene is the head of Internal Audit, He holds a master of Business Administration and Bachelor's degree in Business Administrations. He is a Certified Public Accountant (K) and a member of ICPAK. He has over 20 years' experience.
14. Mr. Benson W Khwatenge 	Mr. Benson Wafula Khwatenge is the Quality Assurance Officer. He holds Bachelor of Law Degree LLB, post graduate Diploma in Law and currently undertaking master's programme MBA. He has over 21 years' experience in Legal matters.

CHAIRMANS STATEMENT

On behalf of the board of directors and management of the company allow me to present to you the annual report on the business and operations of the company and financial results for the year ended 30 June 2023. The performance of the company has continued to be impacted negatively by key industry challenges namely; lack of mature cane for milling, cane poaching, high cost of production due to milling underage cane and massive importation of sugar which impacted negatively on sugar prices. Consequently, a negative result has been recorded once again. However, the Board and Management have put in place measures and continue to implement strategies aimed at reversing this trend.

INTERNATIONAL SUGAR MARKET

Global production is forecasted upwards by approximately 10.6 million tons to 187.9 million with higher production in Brazil and India which is expected to offset a decline in Russia. Consumption is anticipated to rise to a new record due to growth in markets such as India and Pakistan. Brazil, India and Thailand are anticipated to record an upsurge in exports to offset the decline facing Pakistan. Stocks are forecast lower in markets including China, to help meet domestic demand in India and Thailand in favor of higher exports.

Local Sugar Markets

The sugar industry continues to grapple with an acute cane shortage across all zones, with the exception of the Transmara catchment area. This has resulted in factories reporting lower sugar production, driving ex-factory, wholesale, and retail sugar prices up. Total sugarcane milled by all sugar factories slightly increased to 408,187 MT in May 2023, from 405,389 MT in April and 546,498 MT in March 2023. Sugar made decreased to 31,518 MT from 32,729 MT April and 49,372 MT in March 2023. The average industry cane to sugar ratio (TC/TS) fell further in April to 12.95, down from 12.39 the previous month and 11.07 in March. This is attributed to the milling of immature cane as the raw material shortage bite

Source: *https://www.fas.usda.gov/data/sugar-world-markets-and-trade*

Dividends

Due to poor 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 term and long-term strategic measures to restore the company's solvency and return it to profitability. The board is making every effort to address issue of lack of 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 revitalisation process.

Khang'ati

Hon. Alfred Khang'ati
Chairman, Board of Directors

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, 2023.The Factory milled lower tons totaling 161,946.12 tons (242,851.15 tons-last financial year). Turnover volumes decreased from 14,249 tons (last financial year) to 11,011.06 tons. However, in the year under review, the price of sugar averaged Kes 108,917.21 per ton (net of Vat) against a price of Kes. 86,749.91 Per ton (net of Vat) in similar period last year. Sugar prices were favorable in the quarter under review.

In the financial year ended 30th June 2023, the Government of Kenya disbursed Kes.500 million in August 2022 to pay farmers and workers arrears.

Management still remains optimistic and focused in turning around the company performance by putting measures in place to ensure cane availability and efficiency in the milling process.

2023/2024 Sugar Overview

U.S. production is estimated down slightly at 8.4 million tons. Imports are forecast down 4 percent to 3.0 million tons based on projected quota programs set at minimum levels consistent with World Trade Organization and free-trade agreement obligations, and on projected imports from Mexico, re-exports, and high-tier tariff imports. Consumption is practically unchanged while stocks are reduced with the lower production and imports.

Brazil production is forecast up 4.0 million tons to a near-record 42.0 million as favourable weather and increased area are expected to result in additional sugarcane available for crushing. Favourable sugar prices encouraged farmers to use their land for growing sugarcane instead of grains. The sugar/ethanol production mix is expected to favour sugar relative to the previous season going from 45 percent sugar to 48 percent and from 55 percent ethanol to 52 percent. Consumption is flat while stocks and record exports are projected to rise with higher supplies.

European Union production is forecast up 576,000 tons to 15.5 million as sugar beet production rebounds compared to the drought-affected crop the year before. In addition, increased sugar beet plantings in member states such as Poland, Spain, Romania, Slovakia, and Hungary are expected to more than offset reduced acreage in France. The ruling by the European Court of Justice (ECJ) not to allow States to grant temporary emergency authorizations for the use of banned neonicotinoids1 on sugar beet is forcing many French farmers to opt for alternative crop planting for 2023/24. On the other hand, sugar beet remains a valid cropping opportunity for polished farmers facing corn flowing from Ukraine and the low profitability of wheat. Consumption is forecast unchanged. Imports are down with the higher production, while exports are flat, and stocks are expected up.

India production is estimated up 4.0 million tons to 36.0 million on higher sugarcane area and yields. Consumption is anticipated to be up on increased demand from bulk buyers and processed food manufacturers. Imports are forecast unchanged while exports are expected to rise only slightly on the likelihood that the government maintains export caps to control inflation. Stocks are estimated down as a result of lower beginning stocks and higher consumption.

China production is expected up 1.0 million tons to 10.0 million as favourable weather is expected to result in higher sugarcane yields. Consumption is forecast up on the assumption that China's economy will continue recovering and consumer spending will increase. Imports are forecast to rise to fill the gap between supply and demand, despite higher domestic production. Stocks are forecast to continue trending downward as China also sources from its stocks to support rising consumption.

Egypt production is forecast up 25,000 tons to a record 2.8 million on higher sugar beet area. The rise in area is attributed to increased sugar beet demand with the establishment of new processing plants. Consumption is up with population growth and expansion of the

MANAGING DIRECTORS REVIEW......Continued

confectionary food products sector. Imports are expected to be up to help fill the gap between production and the demand for rising consumption.
Source: *https://www.fas.usda.gov/data/sugar-world-markets-and-trade*

LOCAL SUGAR MARKETS

Production.

Cumulatively, sugarcane milled from January to June 2023 was 3,421,619 MT, 21% down from 4,326,143 MT recorded in a same period last year. Total sugar bagged in the period January to June 2023 was 296,433 MT, 28% down from 410,536 MT in the same period last year.

Molasses production in January to June 2023 also took a downward trajectory hitting a low of 146,265 MT,13% down from 168,395 MT in the same period last year.

Sales.

Cumulative sugar sales from January to June 2023, were 300,827 MT, 26% down from 408,411 MT sold over the same period in 2022. Sales went down steadily from month to month. Molasses sales totalled 151,545 MT from January to June 2023, 8% down from 165,508 MT sold during the same period in 2022

Stocks.

Total closing stocks of sugar held by all factories as at the end of June 2023 decreased to 7,363 MT from 11,396 MT in May 2023.

Ex-Factory Sugar Prices

The weighted ex-factory sugar price for June 2023 dropped by 3% to Ksh 8,312 per 50kg bag from 8,597 per 50 kg bag in May.

Wholesale Sugar Prices

Wholesale sugar prices moved in lockstep with ex-factory sugar prices. Wholesale sugar prices dropped to an average of Ksh 8,751 per 50kg bag, down 5% from Ksh 9,252 in May 2023.

During the review period, both local and imported sugars were priced between Kshs 8,300 and 10,000 per 50kg bag.

Retail Sugar Prices

Retail sugar prices have been steadily rising since the beginning of the year easing off in the month of June 2023. Retail sugar prices averaged Ksh 206 per kilo in June 2023, down from Ksh 211 in May. The trend in retail prices is in tandem with both ex-factory and wholesale sugar prices.

Sugar Export

In June 2023, total sugar exports were 43.83 MT, up from 0.585 MT exported the previous month. Kenya is a net sugar deficit country, and most of its production is consumed locally.

Sugar Imports

Sugar imports in June totalled 32,564 MT 15% up from 28,258 MT in May 2023. The imports comprised of 23,922 MT Table sugar and 8,642 MT White Refined sugar.

In June 2023, COMESA FTA countries supplied 12,123 MT, while from EAC, specifically Uganda exported 7,573 MT bulk of which was White/Brown sugar, while 12,868 MT was imported from NON-COMESA countries.

MANAGING DIRECTORS REVIEW......Continued

CIF Value

In June 2023, CIF Mombasa landed values for imported white refined sugar averaged Kshs 91,445/tonne compared to Kshs 93,793/tonne for Mill White/Brown sugar. The overall average value for both White Refined and Mill White/Brown sugar in June 2023 was Kshs 93,170 per tonne, a decrease of 7% from Kshs 99,630/tonne recorded the previous month. The drop in CIF value is explained by an increase in the amount of duty-free sugar from China, Brazil and India that landed in April 2023. These three sources are cheaper than COMESA countries

Saudi Arabia was the cheapest sources of White Refined sugar, with a mean CIF value of Kshs 77,798/tonne. Mill White/Brown sugar imports from Brazil and China were the cheapest at an average price of Kshs 63,932/tonne, followed by sugar from India at CIF value of 67,184/tonne.

Source: Sugar Directorate Sugar Market Newsletter

Global Economic outlook in 2023

According to the Central Bank of Kenya Report, the Kenya Quarterly Economic Review, January -March 2023 the global economic growth remained subdued in quarter one of 2023, characterized by significant variation across the regions. However, stronger global service sector demand, decline in commodity prices, strong diaspora remittance flows, and ease of inflation and supply chain pressures continued to support recovery of economic activities in most of the economies.

According to the IMF World Economic Outlook (WEO) April 2023, annual global growth is projected to decline from 3.4 percent in 2022 to 2.8 percent in 2023, and improve slightly to 3.0 percent in 2024. The decline in global output growth in 2023 is largely driven by reduced economic activity in the advanced economies, attributable to increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector in advanced economies. Growth in the advanced economy group, is projected at 1.3 percent in 2023 and to moderate to 1.4 percent in 2024. Growth in most economies in this group is forecast to slowdown in 2023, including the US (1.6 percent), Euro Area (0.8 percent), UK (-0.3 percent), and Japan (1.3 percent). In the emerging market and developing economies (EMDEs), growth is projected to slowdown, from 4.0 percent in 2022 to 3.9 percent in 2023 and 4.2 percent in 2024, a downgrade of 0.1 percentage points compared to the January 2022 updates projections.

In Sub-Saharan Africa (SSA), economic activity is projected at 3.6 percent in 2023 and to improve to 4.2 percent in 2024. Nigeria, South Africa, and Kenya are expected to grow by 3.2 percent, 0.1 percent, and 5.3 percent in 2023, respectively. In 2024, they are expected to grow by 3.0 percent (Nigeria), 1.8 percent (South Africa), and 5.4 percent (Kenya)

Source: **Central Bank of Kenya Report, the Kenya Quarterly Economic Review, January -March 2023**

MANAGING DIRECTORS REVIEW......Continued

Kenya Economic outlook in 2023

In Q1, the economy likely grew at a similar rate to Q4 2022, supported by services and agriculture. Looking at available data, the private-sector PMI averaged lower in Q1 relative to Q4, while remittances fell slightly in annual terms. More positively, growth in private credit and exports was robust in the first quarter. Moving to Q2, the remained in the contractionary territory in April-May and remittances fell again year on year. Meanwhile, on 15 June, the government announced the fiscal year 2023–2024 budget, which aims to decrease the fiscal deficit for FY 2023, ending in June 2024, to 4.4% from an estimated 5.8%. The budget could lead to upward price pressures due to a hike in the tax for petroleum products. In other news, the approved disbursement of funds in May by the IMF, the World Bank and Afrexim bank increases the government's access to hard currency, easing exchange rate pressures.

Inflation came in at 8.0% in May (April: 7.9%) on stronger price pressures for food, housing and transport. Soaring sugar prices were the key reason behind May's uptick in food prices. In 2023, inflation is expected to average slightly above last year's level, driven by currency depreciation, a VAT hike on fuel and last year's scrapping of the petrol subsidy.

Kenya Economic Growth

Growth lost momentum in the fourth quarter, with GDP expanding by 3.8% year on year (Q3: +4.3% yoy). This brought overall growth for 2022 to 4.8%, down from a revised 7.6% in 2021. The deceleration was due to the weakening of a post-pandemic base effect and the negative impact of adverse weather conditions on the agricultural sector.

The agricultural sector shrank across all four quarters of 2022, contracting by 0.9% year on year in the fourth quarter (Q3: -1.3% yoy). Additionally, transport activity slowed in the period (Q4: +3.2% yoy; Q3: +4.8% yoy) and the construction sector also decelerated (Q4: +2.4% yoy; Q3: +3.5% yoy). While growth in the retail and wholesale trade sector moderated to 2.7% in Q4 from 3.6% in Q3, growth in the manufacturing sector remained unchanged from the prior quarter, with the sector expanding by 1.8% in Q4.

Economic growth is expected to remain stable in Q1 2023 although, there are some downside risks. On the consumer side, elevated inflation likely negatively affected private spending, while the ongoing depreciation of the shilling, the scarcity of dollars, widespread social unrest and persistent drought likely had a negative impact on both consumption and private investment.

https://www.focus-economics.com/countries/kenya

FINANCIAL PERFORMANCE

Total turnover for the period under review was Kes.1.3 Billion net of taxes (FY 2021/22-Kes.1.2 Billion). The sales were below target due to low production volumes due to frequent factory breakdowns and occasional lack of adequate cane in the yard for milling. High prices of sugar were experienced due to the scarcity of sugar in the local market.

Prices of sugar were on average Kes.108,917 net of taxes per ton (Kes.86,749.91 same period last year). Cost of production stood at Kes. 433,748. per ton. The company made negative earnings before tax and interest of Kes.3.3 billion (2021/22-negative 3.5 Billion) against budgeted profit before tax and interest of Kes.681 Million.

MANAGING DIRECTORS REVIEW......Continued

Achievements for the Twelve months ended 30th June, 2023 are as follows:

- Reorganization of nucleus estate payment model from task only to cost per hectare completed to be able to know the cost of every cultural operation carried out on the nucleus estate, the impact and value for money. This model is being piloted using the weeding cultural operation, so far 7 nucleus estate fields measuring 42.75 hectares have been fully weeded at a total cost of Kes.252, 260. This will be rolled out to cover other nucleus estate cultural operations basing the payment on the cost per hectare hence able to know the fields covered and the real cost of each cultural operation.

- Purchased 200 bags of subsidized fertilizer and 100 litres of sencor chemical for weed application in nucleus estate. We expect to engage KNTC more to be able to get more fertilizer allocation to be utilized during this planting season.

- The company resumed rapid response initiative (RRI) of planting cane in the nucleus estate by engaging staff and other stakeholders on Tuesdays and Thursdays every week. So far 126.24 hectares have been planted.

- Reduced farmers' arrears from 753 M as at 30th June 2022 to 269 M as at 30th June 2023.

- Enhanced communication to farmers through SMS

- The company planted 39,755 trees in the year under review against a target of 50,000 trees.

- The company provided industrial attachments to over 223 students in the year under review.

- Nzoia Sugar Football Club improved on the league position from position 14 the previous year to position 4 in the year under review improving the image of the company through advertisement and publicity.

- The company has maintained industrial harmony despite facing many challenges.

Challenges for the period under review were as follows:

- Cash flow constraints delayed acquisition of fertilizers in the nucleus estate to improve on cane yields that are below target of 65 TCH.

- Delayed payments of staff, suppliers and farmers.

- Various factory related stops which led to stale cane.

- Lack of mature harvestable cane for milling due to abandonment and poaching by private millers.

- High cost of production due to low production volumes, fixed costs and inflationary pressures.

- All the above factors contributed to the company not meeting the budget of 600,000 tons of cane for crushing at the TC/TS ratio of 11.04 to produce 54,347 tons of sugar for sale. This led to inadequate financial resources to meet company operations.

MANAGING DIRECTORS REVIEW......Continued

WAY FORWARD

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

a) **Short term measures**

- Undertake annual maintenance so as to improve on factory efficiency.
- Implement cost optimization measures to inculcate efficiency in operation.
- Expand area under cane with fast maturing varieties both in the Nucleus estate and Out-growers' region.
- Embark on internal funds generation through sale of scrap and trees to raise funds to revamp nucleus estate.
- Revenue diversification through intercropping soya beans with cane.
- Enhance farmers' extension services on the latest technology in cane development activities for better yields.
- The board is lobbying for funds as they wait for write off of GOK loans by the National Treasury.

b) **Long term Measures**

- Improve on brand visibility and distribution channels that will improve on revenue.
- Cost optimization across value chain to reduce on cost of production.
- Factory Modernization.
- Revenue diversification to ethanol, bee keeping and dairy farming.

CPA EZRON KOTUT
MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

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.

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.

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.

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 2015 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

i)	Ms. Millicent Anyango Abudho	-	Chair
ii)	Mr. Benson Chahasi	-	Member
iii)	Ms. Elizabeth Mudukiza	-	Member
iv)	Mr. Richard Njoba	-	Member
v)	Mr. Protus Wanyonyi Khisa	-	Member
vi)	Ms. Theodora Gichana	-	Member

CORPORATE GOVERNANCE STATEMENT......Continued

Finance & Establishment Committee

i)	Hon. Bonface Okhiya Otsiula -	Chair
ii)	Mr. Okwakau Ino Jonathan -	Member
iii)	Mr. Richard Njoba -	Member
iv)	Ms. Millicent Anyango Abudho-	Member
v)	Ms. Eunice Karanja -	Member
vi)	Treasury representative -	Member
vii)	Ms. Theodora Gichana -	Member

Audit and Risk Committee

i)	Mr. Daniel Muimi -	Chair
ii)	Bishop Patrice Chumba	-Member
iii)	Ms. Elizabeth Mudukiza	-Member
iv)	Mr. Benson M. Chahasi	-Member
v)	Treasury representative	-Member
vi)	Ms. Theodora Gichana	-Member

Human Resource and Administration Committee

i)	Ms. Eunice Karanja -	Chair
ii)	Bishop Patrice Chumba	-Member
iii)	Mr. Kwakau Ino Jonathan -	Member
iv)	Mr. Daniel Muimi -	Member
v)	Hon. Bonface Okhiya Otsiula -	Member
vi)	Mr. Protus Wanyonyi Khisa -	Member
vii)	Ms. Theodora Gichana	-Member

Schedule of meetings held during the period

Main Board	Ordinary	1
	Special	2
BDC	Ordinary	1
	Special	0
HR & A	Ordinary	2
	Special	1
F& RM	Ordinary	1
	Special	0
Audit	Ordinary	1

Note: The Board was appointed on 17th February, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

1. AGRICULTURE DEPARTMENT

A summary of the achievements for the 12 months ending 30th June, 2023

PERFORMANCE PARAMETERS	ACTUAL12 MONTHS 2022/2023			TARGET 12 MONTHS 2022/2023			VARIANCE
	OG	N/E	TOTAL	OG	N/E	TOTAL	TOTAL
Area under cane (Ha)	15,471.50	1,995.69	17,467.19	21,600	3,400	25,000	(7,532.81)
Cane Development (Ha)	186.58	276.21	462.79	2,000	500	2,500	(2037.21)
Fertilizer DAP (bag)	0	0	0	1000	4000	5000	(5000)
UREA (bag)	0	0	0	1000	400	5000	(5000)
NPK	0	187	187	-	-	-	187
Mean cane Yield TCH	56.14	44.89	49.7	65	65	65	(15.3)

1. **Area under cane**

The total area under cane of 17,467.19 ha was below target due to reduced cane planting arising from inadequate funds for cane development both in the Nucleus Estate and the Out growers and abandonments by farmers.

2. **Cane Planting**

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

3. **Fertilizer**

Cash flow challenges impacted negatively on fertilizer supply both in the Nucleus Estate and out growers. However, towards the end of financial year, the Company procured 200bags of NPK for planting of which **187** bags was applied to cane.

4. **The overall targeted cane yield of 65 TCH**

Was not achieved due to harvesting of cane that was not planted with fertilizer and harvesting under age cane > 18 months.

5. **Way forward**

- Timely procurement of fertilizer and herbicides
- Improved land preparation and input supplies.
- Prompt payment of farmers, casuals, land preparation and cane maintenance contractors to ensure crop husbandry practices in the Nucleus Estate are up to the standards and stem cane poaching.
- Intensify cane planting.
- Allocate adequate resources for cane development and maintenance in the Nucleus Estate.

2. AGRICULTURAL SERVICES DEPARTMENT

During the financial year 2022/23, a total of **162,407.98** tons of mill cane was harvested and transported to the factory against target of **600,000 Tons**. The summary of other performance parameters is highlighted below:

Performance parameter		Target	Achievement	Variance (%)
Cane harvested and transported (Tons)	Nucleus Estate	120,000.00	91,053.12	(73.82)
	Out Growers	480,000.00	71,354.86	
	TOTAL	**600,000.00**	**162,407.98**	
Staleness Index		≤ 2.0	2.48	(24.0)
Extraneous Matter		≤ 2.9	4.39	(51.38)
NSC Fleet Utilization- Cane Transport (Tons)		60,000.00	4,428.29	(92.62)
Average stack weight (Tons)		4.5-5.5	2.56	(48.8)
Cane cutter turn-up		80%	35.99	(55.01)
Roads maintenance		144km	10.70	(92.57)
Field Workshop Machinery Availability		90%	52.9	(41.22)

EXPLANATION FOR THE YEAR TO DATE AND VARIANCES

a) **Cane Harvesting and Transport.**

i) The negative variance of 437,592.02 tonnes on cane harvested and transported was due to non-availability of adequate mature cane for harvesting as well as factory breakdowns.

ii) Average stack weight was 2.56 tons. This was below the required limits of between 4.5 to 5.5 tons. This was as a result of harvesting immature fields.

iii) Cane cutter turn-up kept diminishing towards the end of the Financial Year as the quantities of cane for harvesting was low. We however posted an average turn-up of 35.99%. This compares with previous year of 2021/2022 where cutters turn-up was 37.81%.

b) **NSC Strategic Fleet Utilization**

i) The NSC Fleet delivered a total of 4,428.29 tons against a target of 60,000.00 tons being a drop compared to previous financial year of 2021/22 where the fleet transported 10,382.99 tons. This was as a result of auctioneer threats, lack adequate cane for transport and long lead machinery breakdown period for lack of timely spares.

ii) The NSC Strategic fleet was also engaged on bagasse transport from Butali Sugar Factory as well as seed cane delivery to the Nucleus Estate (Seed cane delivery has been done by NSC fleet alone).

c) Field Workshop Machinery Availability

i) Field workshop machinery availability was 52.9% against a target of 90%. The target was not achieved due to untimely sourcing of spares and this greatly resulted to an increase on downtime.

3. FACTORY/PRODUCTION DEPARTMENTS

In the period under review (from July 1st 2022 to June 30th 2023), the company milled 161,946.12 tons of cane against a target of 600,000 tons resulting to a negative variance of 438,053.88 tons of cane and produced 11,005.89 tons of sugar against a target of 54,347 tons giving a negative variance of 43,341.11 tons. The TC/TS averaged 14.67 against a target of 11.04 giving a negative variance of 3.63.

2022-2023 KEY PERFORMANCE INDICATORS

Parameter	Actual	Target	Variance
Cane Milled (Tons)	161,946.12	600,000	-438,053.88
Sugar Bagged (Tons)	11,005.89	54,347	-43,341.11
TC/TS	14.67	11.04	-3.63
Factor Time Efficiency	42.45	86.00	-43.55
Pol in Cane (%)	10.04	11.50	-1.46

i. Cane milled and sugar bagged total targets for the quarter/year were not achieved due to: -
   a) Lack of critical spares for replacement of worn out equipment affecting throughput and sugar recoveries
   b) Acute lack of cane in the yard for milling.

ii. Factory time efficiency below target due to inadequate routine maintenance and lack of critical spares.

iii. Pol % cane below target due to milling young cane and unplanned stoppages leading to cane deterioration.

KEY CHALLENGES

i. Inadequate mature cane
ii. Weak gantry crane, cane stacker and shovel affecting throughput.
iii. Poor performance by mud filters. - lacking critical spares
iv. Frequent stop and start affecting boiler refractory
v. Compressors are weak and due for service.
vi. Steam turbines lack critical spares
vii. Bagasse elevator drum/rollers worn out.
viii. Old pumps in the plant (Boiler feed water, Juice, syrup, massecuites, molasses pumps, condensate and river pumps are worn out)
ix. Motors and accessories are worn out.
x. Various Pipes and valves are worn out.
xi. Ageing and exiting of staff in key areas.

xii. Long lack of cane stoppages and frequent factory stops leading to (staleness) sucrose inversion at clarifiers/juice tanks.

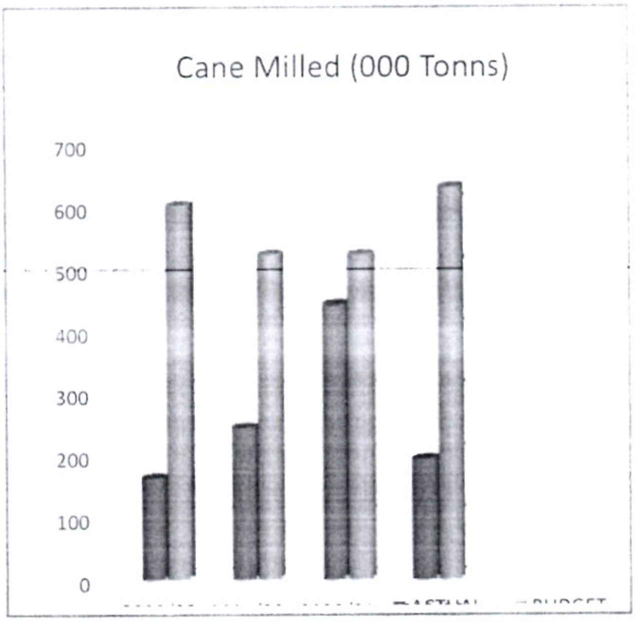
A) WAY FORWARD

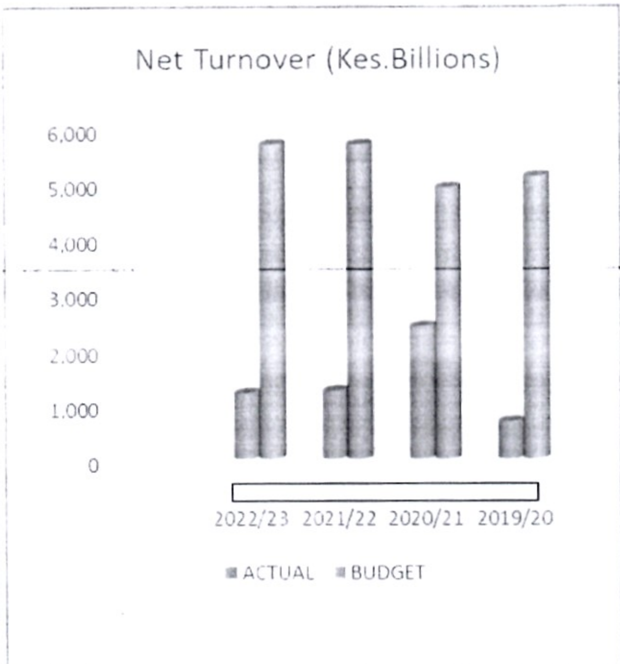
i. To undertake complete annual maintenance as soon as possible.
ii. To procure and avail the critical spares and replace the worn-out equipment on the run to improve factory efficiency and sugar recovery.
iii. To undertake vigorous cane planting and maintenance in the nucleus estate.

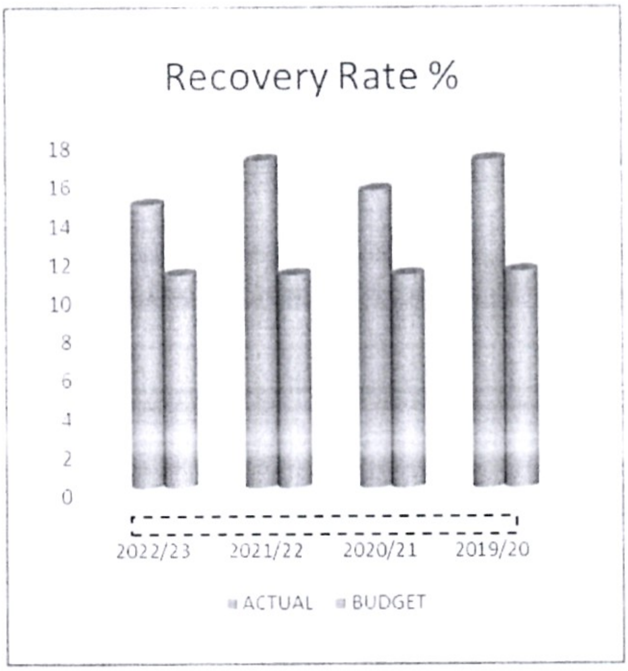
Addressing these issues without external capital injection may not be feasible in the short run.

MANAGEMENT DISCUSSION AND ANALYSIS......Continued

PERFORMAMNCE HIGHLIGHTS







ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Environmental and Sustainability Reporting is the disclosure and communication of environmental, social and governance (ESG) goals as well as a company's progress towards them. Corporate Social Responsibility (CSR) is the continuous commitment by the company to behave ethically and contribute to the economic development while improving the quality of life of the work force, their families as well as the local community and society at large.

Source: World Business Council of Sustainable Development-WBCSD.

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

During the financial year (1stJuly 2022 to 30th June 2023), the following ESG activities were undertaken:

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

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.

Environmental Sustainability
The company has always conserved the environment by planting trees and donating tree seedlings to schools to plant during annual tree planting exercises, during the year 39,755 trees were planted. Furthermore, we sell tree seedlings to our farmers and the surrounding community at subsidized prices.

Infrastructure
As part of ESG and subject to availability of machines and funds, the Company supports the infrastructure within its Out growers' zone by grading and gravelling roads.

Water
The company supplies clean water to the community around through various water points erected in the markets neighbouring the company. In addition, the company also supplies clean water to our farmers for use during funerals upon request and subject to provision of fuel and machinery.

Youth development and sports
Nzoia Sugar Company is a full sponsor to Nzoia Sugar FC. The team currently plays at the Kenya Premier League. The team employs talented young youths and nurtures them to be great players.

REPORT OF THE COMPANY MANAGEMENT

The Company Management present their report together with the audited financial statements of Nzoia Sugar Company Limited (the "company") for the year ended 30th June 2023, which shows its state of affairs.

The audited financial statements of the company are used by the company shareholders, customers, employees, lenders and the general public.

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
2022/23	11,006	161,946	14.67
2021/22	14,240	242,851	16.97
2020/21	28,474	440,266	15.41
2019/20	11,624	193,288	16.99
2018/19	23,537	362,999	15.36

RESULTS

The results for the financial year ended 30th June 2023 are set out on pages 1 to 48.

	2023 KES 000'	**2022 KES 000"**
Turnover	1,312,758	1,292,001
Profit/Loss before Interest & Tax	(3,276,182)	(3,548,190)
Profit/Loss after tax	(4,165,153)	(4,437,177)

DIVIDENDS

The directors do not recommend a dividend in respect of the year (2022/23– 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, 2023.

Company Secretary
Bungoma

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 ....2023 and signed on its behalf by:

....	....
Hon. Alfred Khangati **Chairman Board of Directors**	**CPA Ezron Kotut** **AG. Managing Director**

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

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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 56, which comprise of the statement of financial position as at 30 June, 2023, 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 a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Nzoia Sugar Company Limited as at 30 June, 2023, 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 Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects a net operating loss of Kshs.4,165,153,000 for the year ending 30 June, 2023 (2021/2022: Kshs.4,437,177,000). This deteriorated further the shareholders' equity from a debit of Kshs.52,424,269,000 in 2021/2022 to a debit balance of Kshs.56,589,422,000 in the year under review.

Further, the current liabilities balance of Kshs.63,081,579,000 exceeded the current assets balance of Kshs.1,351,925,000 by Kshs.61,729,654,000, demonstrating that the Company is unable to meet its financial obligations as and when they fall due.

In addition, the Company had accumulated losses totaling Kshs.63,099,847,000 as at 30 June, 2023 as reflected in the statement of financial position and statement of changes in equity. This state of affairs is indicative of an acute financial challenge facing the Company which raises significant doubt on its ability to operate as a going concern. This material uncertainty that casts doubt on the Company`s ability to continue as a going concern has, however, not been disclosed in the financial statements by the Management.

In the circumstances, the Company is technically insolvent and its continued existence as a going concern is dependent on the financial support from its creditors and the Government.

2. Inaccuracies in Loan Balance

Included in the statement of financial position is a balance of Kshs.46,308,296,000 in respect of borrowings which, as disclosed in Note 26(a) to the financial statements, relates to loans of Kshs.43,984,629,000 and Kshs.2,823,589,000 from The National Treasury and Agriculture, Food and Fisheries Authority (AFFA) respectively. However, the balance of Kshs.46,308,296,000 disclosed in the statement of financial position differs from the balance of Kshs.46,808,218,000 shown in Note 26 of the financial statements. The variance of Kshs.499,922,000 has not been explained or reconciled.

Further, the total loan portfolio comprises of a principal amount of Kshs.12,544,135,000 and accrued interest of Kshs.34,264,083,000. No explanation was provided for the failure to clear the long outstanding loans which have attracted the huge accumulated interest. In addition, supporting documents including financing agreements, repayment terms and Board approval were not provided for audit review.

In the circumstances, the accuracy and valuation of the loan balance of Kshs.46,308,296,000 could not be confirmed.

3. Long Outstanding Goods in Transit

The statement of financial position reflects a balance of Kshs.494,901,000 in respect of inventories which, as disclosed in Note 19 to the financial statements, includes a balance of Kshs.430,076,000 relating to consumables out of which Kshs.179,410,294 is in respect of goods in transit. Records available indicate that the goods have been in transit for the last eight (8) years.

In the circumstances, existence and valuation of the inventories balance of Kshs.494,901,000 could not be confirmed.

4. Unsupported Intangible Assets

The statement of financial position reflects a balance of Kshs.149,679,000 in respect of intangible assets as disclosed in Note 16 to the financial statements. The intangible assets represent an Enterprise Resource Planning (ERP) system which was procured through a contract entered into in March, 2016 at a cost of Kshs.282,600,000 and a contract period of twelve (12) months. However, as at 30 June, 2023 the implementation was at 80% and Kshs.212,800,000 representing 75% of the project cost had been paid. Although Note 16 to the financial statements indicates that the ERP has been amortized over the years with amounts totaling Kshs.82,887,000, no explanation was provided on the basis of amortizing an incomplete project. Further, no justifiable explanation was provided for the inordinate delay in completing the project.

In the circumstances, valuation of the intangible assets balance of Kshs.149,679,000 as at 30 June, 2023 could not be confirmed.

5. Unsupported Deferred Income Taxation Liability

The statement of financial position reflects a deferred taxation liability balance of Kshs.3,885,282,000 as disclosed in Note 27 to the financial statements and which has remained the same from 2021/2022. However, supporting documents including schedules were not provided for audit review.

In the circumstances, the accuracy and completeness of the balance could not be confirmed.

6. Variances in Loan Balances Between Records of the Company and The National Treasury

The financial statements reflect an outstanding loan balance from the National Treasury of Kshs.43,984,629,00 as at 30 June, 2023. However, records maintained by The National Treasury's Government Investment and Public Enterprises (GIPE) reflect a balance of Kshs.1,813,173,550, resulting to an unexplained and unreconciled variance of Kshs.42,171,455,450.

In the circumstances, the accuracy and completeness of the outstanding loan balance of Kshs.46,308,296,000 could not be confirmed.

Emphasis of Matter

Idle Investment Property

Included in the balance of non-current assets of Kshs.9,525,436,000 shown in the statement of financial position is a balance of Kshs.303,978,000 relating to investment property which, as disclosed in Note 17 to the financial statements, relates to the Company's residential property situated in Kileleshwa, Nairobi. The property attracts annual land rates of Kshs.112,600 and has a market monthly rental income of Kshs.75,000. However, as reported previously, the property has not been occupied for the last ten (10) years which translates to a loss of rental income totaling to Kshs.9,000,000. The Company has been denied income due from the property.

Although attempts were made in 2017 to get approval from the Ministry to develop the property, no evidence was provided of any follow up on the matter.

My opinion is not modified in respect of this matter.

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

Unresolved Prior Year Matters

In the report for the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in use of Public Resources. However, the issues had not been resolved and Management did not provide satisfactory reasons for the delay in resolving the issues as required by the Public Sector Accounting Standards Board reporting template.

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. Long Outstanding Trade and Other Payables

The statement of financial position reflects a balance of Kshs.16,335,495,000 in respect of trade and other payables which, as disclosed in Note 28 to the financial statements, includes tax penalties amounting to Kshs.8,921,307,000. No explanation was provided for the failure to pay taxes which attracted the huge penalties. This was contrary to Section 37(1) of the Income Tax Act (Cap 470) and Section 19 of the Value Added Tax Act, 2013 (amended 2021) which require prompt payment of taxes.
In the circumstances, Management was in breach of the law.

2. Excess Wage Bill

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.3,080,948,000 in respect of administrative expenses which, as disclosed in Note 9 to the financial statements, includes an amount of Kshs.828,183,000 relating to staff costs representing 57% of the total revenue balance of Kshs.1,442,562,000. This is contrary to Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that staff costs of a public entity should not exceed 35% of the revenue.

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

3. Lack of Ethnic Diversity in Staff Recruitment

Review of Human Resource records including the payroll revealed that during the year under review, the Company had six hundred and forty (640) employees. However, out of this number, five hundred and forty-four (544) or 85% were from the same ethnic community. This is in contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

4. Failure to File Annual Returns

Records available indicate that the last time the Company file returns with the Registrar of Companies was 31 March, 2021. No explanation was provided on the failure to file annual returns. This is contrary to the provisions of Section 705(1) of the Companies Act, 2015 which requires a company to file annual returns with the Registrar.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the 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 (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and 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 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism 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 Management.

- Conclude on the appropriateness of 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 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.

FCPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

12 February, 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 KES'000'	2022 KES'000'
Revenue	4	1,312,758	1,292,001
Fair value gain/(loss) on biological assets	5	129,805	101,840
TOTAL REVENUE		**1,442,562**	**1,393,841**
Cost of sales	6	(1,651,909)	(1,948,644)
Gross profit		(209,347)	(554,803)
OTHER OPERATING INCOME			
Gains on Disposal of Non-Financial Assets	7	223	-
Other Income	8	45,706	18,320
		45,929	**18,320**
Administrative expenses	9	(3,080,948)	(2,975,778)
Marketing and distribution costs	10	(1,763)	(1,458)
Depreciation of property, plant & machinery	15	(22,169)	(26,142)
Amortization of intangible Assets	16	(7,885)	(8,331)
TOTAL OPERATING EXPENSES		**(3,112,764)**	**(3,011,709)**
OPERATING PROFIT/(LOSS)	**11**	**(3,276,182)**	**(3,548,192)**
Finance income	12	53	6
Finance costs	13	(889,024)	(888,991)
PROFIT/(LOSS)BEFORE TAXATION		**(4,165,153)**	**(4,437,177)**
Taxation credit/(charge)	14	-	-
PROFIT/(LOSS) AFTER TAXATION		**(4,165,153)**	**(4,437,177)**
OTHER COMPREHENSIVE INCOME(LOSS)		-	1,920
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(4,165,153)**	**(4,435,257)**

Earnings per share is negative Kes.7.671

The notes set out on pages 6 to 48 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2023 KES'000	2022 KES'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	9,054,089	9,396,985
Intangible assets	16	149,679	157,563
Investment property	17	303,978	303,978
Out-growers balances	18	17,691	19,026
		9,525,436	**9,877,552**
Current assets			
Due from Out-growers	18	35,382	38,052
Inventories	19	494,901	543,375
Biological assets	5	791,942	911,032
Trade and other receivables	20	28,289	25,767
Short term deposits	21	-	-
Cash and bank balances	22	1,412	18,482
		1,351,925	**1,536,709**
Total assets		**10,877,361**	**11,414,260**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	543,000	543,000
Revaluation surplus	24	5,967,425	5,967,425
Retained earnings	25	(63,099,847)	(58,934,693)
Shareholders' equity		**(56,589,422)**	**(52,424,269)**
Non-current liabilities			
Long term borrowings	26	499,922	415,893
Deferred income taxation liability	27	3,885,282	3,885,282
		4,385,204	**4,301,175**
Current liabilities			
Borrowings	26	46,308,296	44,448,471
Trade and other payables	28	16,335,495	14,881,095
Provident fund obligation	29 a	161,489	170,717
Defined benefit scheme liability	29 b	240,500	-
Provision for staff leave pay	30	35,073	36,344
Taxation payable	14	726	726
		63,081,579	**59,537,354**
Total equity and liabilities		**10,877,361**	**11,414,260**

The Financial Statements set out on pages 1 to 4 were approved and authorised for issue by the Board of Directors on......29th......Sept........ 2023 and were signed on its behalf by:

Hon. Alfred Khang'ati	**CPA Ezron Kotut**	**CPA Peter Simiyu**
Chairman Board of Directors	**Managing Director**	**Finance Manager**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

	Share capital KES'000	Revaluation surplus KES'000	Retained deficit KES'000	Total KES'000
At 1July 2021	543,000	5,965,504	(54,497,516)	(47,989,013)
Total comprehensive profit(loss)	-	1,920	(4,437,177)	(4,435,257)
At 30 June 2022	**543,000**	**5,967,425**	**(58,934,693)**	**(52,424,270)**
Total comprehensive profit(loss)	-	-	(4,165,153)	(4,165,153)
At 30 June 2023	**543,000**	**5,967,425**	**(63,099,846)**	**(56,589,423)**

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.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 KES'000	2022 KES'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	31 (a)	(353,103)	(327,313)
Interest received	12	53	6
Interest paid		-	-
Taxation paid	14	-	-
Net cash generated from/(used in) operating activities		(353,050)	(327,307)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	15	(32,816)	(44,729)
Additions to biological assets	5	(131,126)	(80,730)
Net cash used in investing activities		(163,943)	(125,459)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	26	499,922	415,893
Loans repaid	26	-	-
Net cash (used in)/generated from financing activities		499,922	415,893
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(17,070)	(36,873)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		18,482	55,355
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	31(b)	1,412	18,482

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2023

	Note	ACTUAL	BUDGET	PERFORMANCE DIFFERENCE
		Shs'000	Shs'000	Shs'000
Revenue	4	1,312,758	5,613,708	(4,300,950)
Fair value gain/(loss) on biological assets	5	129,805	-	129,805
TOTAL REVENUE		**1,442,562**	**5,613,708**	**(4,171,145)**
				-
Cost of sales	6	(1,651,909)	(3,427,638)	1,775,729
Gross profit		(209,347)	2,186,070	(2,395,417)
OTHER OPERATING INCOME				
Gains on Disposal of Non-Financial Assets	7	223	-	223
Other Income	8	45,706	51,449	(5,743)
		45,929	**51,449**	**(5,520)**
Administrative expenses	9	(3,080,948)	(1,429,210)	(1,651,738)
Marketing and distribution costs	10	(1,763)	-	(1,763)
Depreciation of property, plant & machinery	15	(22,169)	(126,879)	104,760
Amortisation of intangible Assets	16	(7,885)	-	(7,885)
TOTAL OPERATING EXPENSES		**(3,112,764)**	**(1,556,089)**	**(1,556,675)**
OPERATING PROFIT/(LOSS)	**11**	**(3,276,182)**	**681,430**	**(3,957,612)**
Finance income	12	53	-	53
Finance costs	13	(889,024)	(586,953)	(302,071)
PROFIT/(LOSS)BEFORE TAXATION		(4,165,153)	94,477	(4,259,630)
Taxation credit/(charge)	14	-	-	-
PROFIT/(LOSS) AFTER TAXATION		**(4,165,153)**	**94,477**	**(4,259,630)**

BUDGET NOTES

1. Revenue had an adverse variance due to low production volumes as a result of frequent stoppages and non-servicing of the factory machinery.

2. Administrative expenses had an adverse variance due to non-payment of taxes leading to incurring huge penalty taxes of Kes.1.5 billion.

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 2021

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

(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2023

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 2023

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 2023

1. ACCOUNTING POLICIES (Continued)

Based on an analysis of the Company's financial assets and financial liabilities as at 30 June 2023 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 2023 (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.

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 2023

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 2023 (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 2023

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 2023(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 2023(Continued)

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 2023 (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 2023 (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 2023

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 accrual's 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 it's 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

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 2023

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.

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 financials assets at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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.

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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.

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

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 2023

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 2023

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.

NOTES TO THE FINANCIAL STATEMENTS......Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

3 GOING CONCERN

At 30 June 2023, the company had a shareholders' deficit of KES 56,589,422 (2022 - KES 52,424,269) and current liabilities exceeded current assets by KES 61,729,654 (2022 - KES. 58,000,645). 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.

NOTES TO THE FINANCIAL STATEMENTS

		2023 KES'000	2022 KES'000
4	**REVENUE ANALYSIS**		
	Gross sales	1,522,799	1,498,721
	Less: Value Added Tax	(210,041)	(206,720)
	Net sales	1,312,758	1,292,001
	Net sales analysed as follows:		
	Sugar sales	1,199,294	1,236,099
	Molasses sales	113,464	55,902
		1,312,758	1,292,001

		2023 KES'000	2022 KES'000
5	**BIOLOGICAL ASSETS**		
	At beginning of the year	911,032	804,937
	- Additions	131,126	80,730
	Decrease due to harvest	(380,022)	(76,475)
	As restated	662,137	809,192
	(Loss)/gain arising from changes in fair value attributable to physical changes	129,805	101,840
	Loss)/gain arising from changes in fair value attributable to price changes	-	-
	Fair value gain/(loss) during the year	129,805	101,840
	At the end of the year	791,942	911,032

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. COST OF SALES	2023	2022
	KES'000	KES'000
Opening stock raw material-Cane	-	7,189
Cane purchased -N/Estate	437,027	88,827
-O/G	308,870	915,103
Total cane received	**745,897**	**1,011,119**
Raw materials available for crushing	745,897	1,011,119
Closing stock raw materials	(2,448)	-
Cost of cane ground	**743,449**	**1,011,119**
Production - Direct labour	110,449	113,930
- Direct Expenses	53,557	57,871
Total Direct expenses	**164,006**	**171,801**
Prime costs	**907,455**	**1,182,920**
Factory -Indirect labour	175,767	184,932
-Indirect Expenses	255,061	188,142
-Depreciation	352,214	392,422
Total indirect costs	**783,042**	**765,496**
Factory cost of production	**1,690,497**	**1,948,416**
Add: Opening work in progress	25,817	25,207
Less: Closing work in progress	(61,425)	(25,817)
	1,654,889	**1,947,806**
Factory cost of completed goods		
Add: Opening stock Finished goods	419	1,257
Goods available for sale	**1,655,309**	**1,949,063**
Less: Closing stock Finished goods	(3,400)	(419)
Cost of sales	**1,651,909**	**1,948,644**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 KES'000	2022 KES'000

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

	2023 KES'000	2022 KES'000
Disposal of Motor vehicles &Generators	223	-

The Company disposed Suzuki KBL 246G, Suzuki S. Wagon KAY 328V, Motorcycle KAT 006X and two 1750 KVA FCB generators during the year.

8. OTHER INCOMES

	2023 KES'000	2022 KES'000
Rental income	8,994	7,686
Miscellaneous Receipts	9,013	3,893
Decrease in provisions	24,271	-
Gain on Investment Revaluation- Kileleshwa	-	-
Company Machine Fleets	3,428	6,741
	45,706	18,320

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 (a) ADMINISTRATIVE EXPENSES	2023 KES'000	2022 KES'000
Staff costs	828,183	579,518
Other costs	11,735	5,902
Legal and professional fees	10,250	15,695
Corporate social responsibility	45	137
Medical services	96	2,985
Travelling	7,532	5,316
Security	1,121	1,818
Books & Periodicals	-	18
Directors expenses	12,701	-
Honorarium	268	-
Repairs and maintenance	8,825	9,160
Rent and rates	17,665	18,006
Insurance	35,139	43,165
Cane safety expense	-	-
Bank charges	3,741	2,376
Contracted services	33,178	34,054
Telephones and communications	3,184	3,790
Audit fees	2,205	2,205
Stationery	1,611	2,504
Contingency	-	-
Donations	1,440	1,109
Fuel and lubricants	25,603	26,096
Motor vehicle running	13,330	18,087
Foreign Exchange Differences	554,908	258,043
Tax penalties	1,508,186	1,945,798
	3,080,948	**2,975,778**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2023	2022
		KES'000	**KES'000**
9(b)	**STAFF COSTS**		
	Salaries and allowances	460,884	479,520
	Bonus	-	-
	Pension - defined contribution scheme	277,193	36,600
	Provident fund	-	-
	Staff overtime	2,128	2,661
	Staff training	291	184
	Casual labour	79,696	54,025
	Other staff costs	163	2,620
	Staff gratuity provision	-	-
	Pension - statutory defined contribution scheme	7,828	3,907
	Defined benefit scheme credit	-	-
		828,183	579,518
	The average number of employees at the end of the year was:		
	Permanent employees-Management	216	232
	Permanent employees-Unionisable	424	463
	Temporary and contract employees	1,887	1,800

10. MARKETING AND DISTRIBUTION COSTS

	2023	2022
Salaries and wages of sales personnel		
Advertisement and promotional expenses	1,706	1,428
Other Selling and distribution costs	57	30
	1,763	1,458

11. LOSS BEFORE TAXATION

Loss before taxation is arrived at after
Charging:

	2023	2022
Staff costs (note 9 b)	828,183	597,518
Depreciation of property, plant and equipment (note 15)	374,383	418,564
Amortisation of intangible assets (note 16)	7,885	8,331
Directors' emoluments - Fees	-	-
- Other	-	-
Directors' expenses	12,969	-
Auditors' remuneration	2,205	2,205
Bad and doubtful debts	-	-
Profit(loss) on disposal of assets	(223)	-
Loss (Gain) on foreign exchange	554,908	258,043
Interest receivable	(53)	(6)
	-	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2023	2022
		KES'000	KES'000
12	**FINANCE INCOME**		
	Interest income:		
	On farmers balances	36	-
	On deposits with financial institutions	17	6
	On staff loans	-	-
		53	6

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.

		2023	2022
		KES'000	KES'000
13	**FINANCE COSTS**		
	Interest expense	889,024	888,991

			2023	2022
			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 27)	-	-
		Prior year under provision of taxation recoverable		-
			-	-
	(b)	Reconciliation of expected tax based on loss before taxation charge/(credit)		
		Loss before taxation	(4,165,153)	(4,437,177)
	(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		-
		At end of year	(726)	(726)

PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	Leasehold land KES '000	Factory building KES '000	Residential & school buildings KES '000	Plant & machinery KES '000	Tractors, trailers & heavy vehicles KES '000	Cars & motor cycles KES '000	Furniture, fittings & equipment KES '000	Computer system KES '000	Factory tools & implements KES '000	Water & electricity installation KES '000	Cane Roots	Capital WIP KES '000	Total KES '000
At 1 July 2021	5,798,600	563,364	223,550	5,643,612	381,820	91,727	45,167	95,316	26,218	119,204	175,627	204,528	13,368,735
Additions					-		650	15,820			28,258	-	44,729
Revaluation												(372)	(372)
Transfer													
Reclassification											-	(15,644)	(15,644)
Disposals					-	-		-					
At 30 June 2022	5,798,600	563,364	223,550	5,643,612	381,820	91,727	45,818	111,136	26,218	119,204	203,885	188,512	13,397,448
At 1 July 2022	5,798,600	563,364	223,550	5,643,612	381,820	91,727	45,818	111,136	26,218	119,204	203,885	188,512	13,397,448
Additions					-		97	255			32,465	-	32,816
Revaluation													
Transfer													
Reclassification													
Disposals				(1,200)	-	(1,980)		-					(3,180)
At 30 June 2023	5,798,600	563,364	223,550	5,642,412	381,820	89,747	45,914	111,391	26,218	119,204	236,350	188,512	13,427,084

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land	Factory building	Residential & school building	Plant & machinery	Trailers Tractors& 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 2021	-	260,879	59,220	2,591,298	328,741	74,480	26,424	52,082	13,906	74,247	100,623		3,581,899
Restated depreciation											-		-
Disposals	-	-	-	-	-	-	-	-	-	-		-	-
Charge for the year	-	30,249	8,216	305,231	14,056	4,312	2,909	8,858	1,847	6,744	36,142	-	418,564
30th June 2022	-	291,127	67,437	2,896,529	342,796	78,792	29,333	60,940	15,753	80,991	136,765		4,000,463
Disposals	-	-	-	(563)	-	(1,287)	-	-	-	-		-	(1,850)
Charge for the year	-	27,224	7,806	274,588	9,815	2,739	2,487	7,568	1,570	5,732	34,855	-	374,383
At 30 June 2023	-	318,351	75,242	3,170,554	352,611	80,244	31,820	68,508	17,323	86,723	171,619		4,372,995
NET BOOK VALUE (Valuation)													
At 30 June 2023	**5,798,600**	**245,013**	**148,308**	**2,471,858**	**29,209**	**9,503**	**14,094**	**42,883**	**8,896**	**32,482**	**64,730**	**188,512**	**9,054,089**
At 30 June 2022	**5,798,600**	**272,238**	**156,113**	**2,747,083**	**39,023**	**12,935**	**16,485**	**50,195**	**10,466**	**38,214**	**67,121**	**188,512**	**9,396,985**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

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.5,798,600,000.00

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.

Depreciation charge for the year ended 30th June 2023 of Kes.374,382,609 has been apportioned between cost of sales of Kes.352,213,679 as per note 6, comprising of factory buildings, plant &machinery, trailers, tractors &heavy vehicles, water &electricity installation and on the face of profit or loss and other comprehensive income for the year ended 30th June 2023 page 1 of Kes.22,168,930, comprising School/Residential buildings, Cars & motor cycles, Furniture &Fittings, Computer hardware, Factory tools & implements and cane roots.

16 INTANGIBLE ASSETS

	2023 KES'000	2022 KES'000
COST		
At 1 July	157,563	163,602
Revaluation	-	2,292
Transfer from capital WIP		
	157,563	165,894
AMORTISATION		
At 1 July	75,003	66,672
Depreciation		
Charge for the year	7,884	8,331
At 30 June	82,887	75,003
NET BOOK VALUE	149,679	157,563

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 INVESTMENT PROPERTY

At fair value:		
At beginning of year	303,978	303,978
Fair value gain	-	-
At end of year	303,978	303,978

Locations and details of the investment property are LR No.4857/64/Kileleshwa in Nairobi area. Valuation of the property was carried out by Nairobi City County Government as per (Cap 266) Sec.9 (4) of the Valuation for Rating Act, Laws of Kenya.

18 DUES FROM OUTGROWERS

	2023 KES'000	2022 KES'000
Due from out-growers	209,900	211,243
Less: provision for doubtful debts	(156,827)	(154,165)
	53,073	57,078
Due within 1 year	35,382	38,052
After 1 year	17,691	19,026
	53,073	57,078

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.

19 INVENTORIES

	2023 KES'000	2022 KES'000
Sugar and molasses	3,400	419
Sugar in process	61,425	25,817
Raw materials	-	-
Consumables	430,076	517,138
	494,901	543,375

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 TRADE AND OTHER RECEIVABLES

	2023 KES'000	2022 KES'000
Trade receivables	26,270	26,205
Less provision for doubtful debts	(24,914)	(24,914)
	1,356	1,291
Other receivables	147,827	148,381
Prepayments and deposits	24,673	32,357
Staff receivables	15,340	14,935
Less provision for doubtful debts	(160,907)	(171,196)
	28,289	25,767

21 SHORT TERM DEPOSITS

	2023 KES'000	**2022 KES'000**
National Bank of Kenya Limited	-	-
Standard Chartered Bank of Kenya Limited	-	-
	-	-

The effective interest rates was as follows:	2023 %	2022 %
National Bank of Kenya Limited	7	7
Standard Chartered Bank of Kenya Limited	7	7

No short- term deposits were held against letters of credit during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 BANK AND CASH BALANCES

		2023 KES'000	2022 KES'000
KCB - Bungoma Current A/C	1107813840	6	1,032
NBK - Bungoma Current A/C	01001054695600	0.03	7
NBK Savings A/C	01242054695600	0.03	0.088
Coop Current A/C	01120049157301	0.54	255
DTB Current A/C	0267463001	605	7,060
SCB SAFARI A/C	0152517955300	-	8,857
SCB Current A/C	0102417955300	36	1,140
Receipts Before Banking	company receipts	729	-
Bungoma Petty Cash	company cash	35	132
TOTAL		1,412	18,482

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 2023.

23 ORDINARY SHARE CAPITAL

	2023 KES'000	2022 KES'000
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	543,000	543,000

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2023 KES'000	2022 KES'000
26 BORROWINGS		
a) Loans		
National Treasury	43,984,629	42,108,009
Agriculture Food and Fisheries Authority (AFFA)	2,823,589	2,756,355
	46,808,218	44,864,364

The borrowings are repayable as follows:

	2023 KES'000	2022 KES'000
On demand or within 1 year	46,308,296	44,864,364
After 1 year	499,922	-
Total borrowings	46,808,218	44,864,364

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

	2023 KES'000	2022 KES'000
b) Movement in loans		
At 1 July	44,864,363	43,301,437
Accrued interest	889,024	888,991
Interest paid	-	-
Foreign exchange difference	554,908	258,043
Loans received	499,922	415,893
Affa loan adjustment	-	-
At 30 June	46,808,218	44,864,363
This is made up of:		
Principal	12,544,135	12,544,135
Accrued interest	34,264,083	32,320,228
	46,808,218	44,864,363

Foreign exchange difference is as a result of the differences in the exchange rate used of Kes.140.52 to the USD as at 30th June 2023 and opening exchange rate of Kes.117.83 to the USD as at 1st July 2022 in relation to foreign denominated loans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 **BORROWINGS**

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

c) **Interest rates**

	2023	2022
	%	%
The National Treasury	5.3	5.3
Agriculture Food and Fisheries Authority	10.9	10.9
	=====	=====

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%.

	2023	2022
	KES'000	KES'000
The net deferred taxation liability is attributable to the following items:		
Deferred taxation liabilities:		
Accelerated capital allowances	1,719,603	1,719,603
Fair value adjustment - biological assets	102,816	102,816
Revaluation surpluses	2,545,575	2,545,575
Total liabilities	4,367,994	4,367,994
Deferred taxation assets:		
Provision for service gratuity	(73,184)	(73,184)
Provision for staff leave pay	(26,741)	(26,741)
Unrealised exchange losses	(17,214)	(17,214)
General doubtful debts provision	(268,633)	(268,633)
Provision for obsolete stock	(96,940)	(96,940)
Tax losses available for offset against future profits	(5,535,461)	(5,535,461)
Deferred tax assets not recognised	5,535,461	5,535,461
Total assets	(482,712)	(482,712)
Total	3,885,282	3,885,282
	========	========
At 30 June 2023	3,885,282	3,885,282
	========	========

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. Management 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

	2023 KES'000	2022 KES'000
Trade payables	869,870	805,232
Due to out growers	272,549	753,254
Tax penalties	8,921,307	7,413,121
Sugar Development Levy	831,891	831,891
Accruals	2,163,696	2,044,462
Other payables	3,276,183	3,033,137
	16,335,495	14,881,096

29 RETIREMENT BENEFITS OBLIGATIONS

(a) AMOUNTS DUE TO STAFF PROVIDENT FUND

	2023 KES'000	**2022 KES'000**
Balance at the beginning of the year	170,717	175,685
Interest charge	-	-
Paid during the year	(9,228)	(4,968)
Balance at the end of the year	161,489	170,717

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 31st December 2020 by Octagon Pension Services 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.

Staff Retirement Benefits Scheme-DC
Actuarial Valuation as at 31st December 2020

Asset Class	**Kes. '000'**	**%**
Property	123.80	50.50
Guaranteed Fund	4.40	1.80
Government Securities	70.80	28.90
Quoted Equities	38.20	15.60
Corporate Bonds	2.60	1.10
Net Current Assets	5.20	2.10
Total	**245.00**	**100.00**

Value of accrued liabilities	**31.12.2020**	**31.12.2016**
Current Employees	116.20	225.40
Deferred and Outstanding	11.00	12.30
Pensioners (including spouses and dependants)	361.20	229.60
Total Liabilities	**488.40**	**467.30**
Total Assets	**245.00**	**376.80**
Surplus/(Deficit)	**(243.40)**	**(90.50)**
Funding Level	**50.20%**	**80.60%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2023	2022
		KES'000	KES'000
30	**PROVISIONS FOR STAFF LEAVE PAY**		
	At the beginning of the year	36,344	33,857
	Movement in the year	(1,271)	2,487
	At the end of the year	35,073	36,344

31 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before taxation to cash generated from (used in) operations

	2023	2022
Loss before taxation	(4,165,153)	(4,437,177)
Adjustments:		
Finance income (note 12)	(53)	(6)
Finance costs (note 13)	889,024	888,991
Fair value gain investment property	-	-
Depreciation (note 15)	374,383	418,564
Revaluation (note 15& 16)	-	(1,920)
Amortisation (note 16)	7,885	8,331
Loss/ (gain) on disposal of property, plant and equipment	(223)	-
Fair value loss /gain on biological assets (note 5)	(129,805)	(101,840)
Foreign exchange difference on borrowings (note 26)	554,908	258,337
Biological assets harvested	381,988	(76,475)
Cash used in operations before working capital changes	(2,087,037)	(3,043,195)
Movements in:		
Out-growers balances	(4,005)	2,555
Inventories	48,474	83,506
Trade and other receivables	2,521	(3,364)
Staff provident fund	(9,228)	4,968
Defined benefit obligation (note 29)	240,500	-
Trade and other payables	1,454,400	2,625,731
Provision for staff leave pay	1,271	2,487
Cash generated (used in) operations	(353,103)	(327,313)

(b) Analysis of the balances of cash and cash equivalents

	2023	2022
Bank and cash balances (note 22)	1,412	18,482
Short term deposits (note 21)	-	-
	1,412	18,482

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 RELATED PARTY BALANCES AND TRANSACTIONS

a) Nature of related party relationships

Entities and other parties related to the company include those parties who have the ability to exercise control or significant influence over its operating and financial decisions. Related parties include management personnel, their associates, close family members and other government agencies.

The Company is related to;

(i.) The National Government
(ii.) The Ministry of Agriculture
(iii.) Board of Directors
(iv.) Key management
(v.) Sales and purchases from other government agencies

		2023	2022
		KES'000	**KES'000**
b)	**Due to related parties-Molasses Sales**		
	Agro-Chemical Company Limited	195	2,139
		=======	=======
c)	**Key management compensation**		
	The remuneration for key management during the year was as follows:		
	Salaries and other benefits	46,564	46,094
		=======	=======
d)	**Directors' remuneration**		
	Fees for services as directors		
	Directors Honorarium	268	-
	Directors' expenses	12,701	-
		=======	=======

33 CAPITAL COMMITMENTS

Commitments at the year-end for which no provision has been made in these financial statements:		
Authorised and contracted for	-	-
Authorised but not contracted for	-	69,500
	-	69,500
	========	=======

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2023 KES'000	2022 KES'000
34	**CONTINGENT LIABILITIES**		
	Pending claims	17,000	40,000
	Letters of credit	-	-
		=======	=======

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

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

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

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

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

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

The 'probability of default' by the customer or 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

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:

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

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:

30 June 2023	Neither past due nor impaired KES'000	Past due but not impaired KES'000	Impaired KES'000	Total KES'000
Trade receivables	-	1,356	24,914	26,270
Due from outgrowers	-	53,073	156,827	209,900
Short term deposits	-	-	-	-
Bank balances	1,412	-	-	1,412
	1,412	54,429	181,741	237,582
30 June 2022				
Trade receivables	-	1,291	24,914	26,205
Due from outgrowers	-	57,078	154,165	211,243
Short term deposits	-	-	-	-
Bank balances	18,483	-	-	18,483
	18,483	58,369	179,079	255,931

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Market risk management

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

(i) Interest rate risk

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)
Liquidity risk management (Continued)

At 30 June 2023	1 – 6 Months KES'000	6 – 12 Months KES'000	Above 1 year KES'000	Total KES'000
Borrowings	499,922	-	46,308,296	46,808,218
Trade payables	-	869,870	-	869,870
Payables to out-growers	-	272,549	-	272,549
	499,922	1,142,419	46,308,296	47,950,637

At 30 June 2022	1 – 6 Months KES'000	6 – 12 Months KES'000	Above 1 year KES'000	Total KES'000
Borrowings	415,893	-	44,448,471	44,448,471
Trade payables	-	805,232	-	805,232
Payables to outgrowers	-	753,254	-	753,254
	415,893	1,558,486	44,448,471	46,422,850

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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

- 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 2023				
Property, plant and equipment	-	9,054,089	-	9,396,985
Biological assets	-	791,942	-	911,032
Investment property		303,978	-	303,978
	=======	========	=======	=======
At 30 June 2022				
Property, plant and equipment	-	9,396,985	-	9,396,985
Biological assets	-	911,032	-	911,032
Investment property		303,978	-	303,978
	========	=======	========	=======

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

b) Financial instruments not measured at fair value

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 CAPITAL MANAGEMENT

The gearing ratio at the year-end was as follows:

	2023	2022
	KES '000	KES '000
Shareholders' deficit	(56,589,422)	(52,424,269)
Borrowings (note 26)	46,808,218	44,448,471
Short term deposits (note 21)	-	-
Cash and bank balances (note 22)	(1,412)	(18,482)
Net debt	46,806,806	44,429,989
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.

PROGRESS ON FOLLOW UP ON AUDITORS RECOMMENDATIONS

Reference No/Paragraph number on the Audit report	Issue/Observations from Audit report	Management comments	Status:(Resolved/Not resolved)	Timeframe(Put a date when you expect the issue to be resolved)
1.Page 1	**Material Uncertainty Related to Going Concern**	The company faces an acute financial challenge due to aging factory machinery, accrued loan interests, prolonged drought affecting cane growth and development leading to depleted raw cane material for milling. These factors have made the company not able to fully meet its financial obligations as and when they fall due. However, the directors have assumed that the Government of Kenya (GOK) will continue to support the factory and will not demand for the settlement of the outstanding loan amounts. In the event the Government of Kenya demand for the settlement of their net loans, adjustment will be required to restate the assets to their realizable 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. The company is also banking on the implementation of sessional paper number 12 of 2012 presented to parliament, where the cabinet proposed for the write off of all Government of Kenya and Sugar Fund loans of Public Sector Owned Sugar Companies, Nzoia Sugar Company Limited being one of them.	NOT RESOLVED	30.06.2023
2.1 Page 2	**Idle Plant**	Revaluation was carried out in 2015 by Real Appraisal limited on the idle assets and an impairment recorded as per the revalued figures for each item. The Company started the process of disposing the assets in 2016 after the Ministry of Agriculture gave authority to dispose assorted obsolete equipment supplied by Arkel international to Nzoia Sugar Company Limited. The company invited the	ON GOING	30.06.2023

		Ministry of Public Works to value the idle assets for purpose of disposal and a reserve price was given for every item to be disposed totaling to Kes.217,370,000. The tender for the Sale of Arkel Yard NSC/PUR-21(A)/2016-17 was advertised on 21st April 2017 and closed on 9th May 2017 in the Standard newspaper. However only 6 items worth Kes.8.6 million attracted bidders from a total of 52 items worth Kes.217.3million translating to minimum expected sale of 4%. The disposal exercise was not successful hence the company did not sell the items. The disposal minutes are attached for your review. The company is in the process of restarting the disposal process a fresh after the appointment of the company board of directors by the Government of Kenya as per gazette notice no.1902 dated 16th February 2023 and gazette notice no.1905 dated 13th February 2023 attached.		
2.2 Page 2	**Installation of CCTV Surveillance System**	This project was undertaken by M/S valley point on 15th Nov 2016,there were delays in the completion of the project due to some financial challenges. The project was however completed in March 2021, 10% retention completion certificate issued on 31st March 2021 as attached.	RESOLVED	
3.1 Page 2	**Slow moving and Unutilized Inventories**	Nzoia Sugar Company Limited produces brown sugar. Due to increasing demand for white sugar, the Company commenced the process for procurement of syrup clarifier plant that would facilitate the same. In observation of all procurement procedures, this plant was delivered and installed to completion by Suviron equipment PVT limited on 9th of December 2015. Tender for supply of chemicals i.e. 40 tons of colour precipitants magnafloc LT 7991 and 2 tons of floatation polymer magnafloc LT25 for commissioning syrup clarifier was awarded to Shalini Impex on 30/3/2016. These chemicals were	ONGOING	30.06.2023

		delivered, inspected and received on 9/3/2017. For commissioning of the plant, it was imperative that cane availability is guaranteed to enable the plant run for three months without any major stoppage. We had envisioned this by the time we started the procurement process. However, when we were about to commission the plant, we started experiencing a serious cane shortage due to poaching and drought. This situation saw us mill at least three days in a week which persisted up to the time we closed down the factory. Unfortunate being perishable goods, the chemicals expired.		
3.2 Page 3	**Uncleared Goods**	The company ordered for goods from overseas worth Kes. 142,712,554 to facilitate maintenance of the factory. By the time they arrived at the port the company had started experiencing cash flow challenges due to inadequate raw materials coupled with poor state of the factory. So far goods worth Kes.54,691,092.98 have been delivered and used for factory maintenance .	ONGOING	30.06.2023
4 Page 3	**Unsupported Loan on Long Term Borrowings**	The management is following up the documentation from treasury at the same time awaiting the action of the government of Kenya on write-off as per session paper no. 12 of 2012.	ONGOING	30.06.2023
5 Page 3	**Unsupported Deferred Income Taxation Liability**	The company had engaged the services of a tax consultant to carry out the computation of deferred income tax liability. When the company started experiencing cashflow challenges, the consultant terminated the services citing delayed payment thus the reason for maintaining the same figure. However, the company is in the process of engaging another tax consultant to carry out the tax computation.	ONGOING	30.06.2023
6 Page 3	**Unsupported Administrative Expenses**	Directors expenses on local travels of Kes.2,059,778 were availed during the audit process as billed by the contracted company, Saints Travel & Safaris Ltd, to procure transport services for the directors. The company is still following up on the requested supporting documents by	COMPLETED	30.06.2023

		the auditors and will avail them as soon as they are retrieved.		
7 Page 4	**Unsupported Provisions and Contingent Liabilities**	The audit process had already been completed by the time the company lawyers provided independent confirmation letters to support the contingent liabilities. Supporting documents for contingent liabilities have been attached for your review as provided by the company lawyers.	ONGOING	30.06.2023
1 Page 4	**Unsupported Trade and Other Receivables**	The company owes most of the suppliers on down-payment money for previous supplies hence they demand for upfront pay for current supplies that the company requires for its operations. The advance payments amounting to Kes.7,461,274 had not been accounted for as at the end of financial year 30th June 2019. So far goods and services amounting to Kes.3,063,397.73 have been delivered.	ONGOING	30.06.2023
2 Page 5	**Unpaid Salary and Wages**	The Company has been undergoing some financial difficulties due to inadequate raw materials owing to cane poaching. This has actually been an industry wide challenge that didn't spare our company. The financial difficulties led to accrual of various obligations, unpaid salary and wages being among them. The company resumed operations mid-February 2020 and has paid the salary arrears for the month of March 2019 to October 2019 amounting to Kes 352,629,352.96 .	RESOLVE D	
3 Page 5	**Unutilized Investment Property**	The house was last occupied seven years ago by a tenant called Sophia Nyambura who generated huge rent arrears totaling to Kes.1,080,000 causing the company to set in motion the distress for rent process. She moved to court vide Nairobi CMCC No.1130 of 2011, obtained an injunction and continued to enjoy the injunction until such time that she moved out of the premises leaving the house in a state of disrepair and vandalism. The Chief internal auditor after touring the plot in the financial year did a report on its status after which the head of projects went on site to	ONGOING	30.06.2023

		assess the cost involved to get the facility back to the statues of generating revenue. Management has assessed the report but financial constraints have delayed its implementation.		
4 Page 5	**Failure to Remit Statutory Deductions**	The Company has been undergoing some financial difficulties due to inadequate raw materials owing to cane poaching. This has actually been an industry wide challenge that didn't spare our company. The financial difficulties led to accrual of various obligations, statutory deductions being one of them. The company resumed operations mid-February 2020 and has paid statutory arrears amounting to Kes 200,387,602 as at 30th June 2022 and Kes.266,496,922 as at 28Th February 2023	ONGOING	30.06.2023
5 Page 6	**Unremitted Retirement Benefits Deductions**	The Company has been undergoing some financial difficulties due to inadequate raw materials owing to cane poaching. This has actually been an industry wide challenge that didn't spare our company. The financial difficulties led to accrual of various obligations, retirement benefits being one of them. The company resumed operations mid-February 2020 and has paid retirement benefits arrears amounting to Kes.23,317,083.00 as at 30th June 2022 and Kes.31,138,150.61 as at 28th February 2023.	ONGOING	30.06.2023
1 Page 7	**Long Outstanding Staff Receivables**	There are ongoing criminal proceedings against the former staff debtors in Bungoma Chief magistrate court criminal case number 12 of 2019 . Staff receivables amounting to Kes.34, 114, 000 are being recovered through the payroll, as at 30th June 2022, Kes.21, 322,645 had been recovered and the process is still going on monthly.	ONGOING	30.06.2023
1 Page 2 2022-2023	**Goods in Transit**	The company ordered for goods from overseas worth Kes. 322,061,668 to facilitate maintenance of the factory. By the time they arrived at the port the company had started experiencing cash flow challenges due to	ONGOING	30.06.2023

		inadequate raw materials coupled with poor state of the factory. Out of Kes.322,061,668, goods worth Kes.60,000,000 were paid by Agriculture and Food Authority, delivered and used for factory maintenance in July 2022, while goods worth Kes.54,691,092.98 paid by the Company have been delivered and used for factory maintenance as per the attached schedule.		
2 Page 2 2022-2023	**Property Plant & Equipment**	The revaluation loss of Kes.372,000 on capital work in progress and revaluation gain of Kes.2,292,031 in intangible asset resulting to a revaluation surplus of Kes.1,920,134 on statement of changes in equity is as a result of carrying out a reconciliation of all payments made towards ERP system both to the vendor and Kenya Revenue Authority as per the attached schedule.	ONGOING	30.06.2023
3 Page 2 2022-2023	**Unsupported Intangible Assets**	The revaluation loss of Kes.372,000 on capital work in progress and revaluation gain of Kes.2,292,031 in intangible asset resulting to a revaluation surplus of Kes.1,920,134 on statement of changes in equity is as a result of carrying out a reconciliation of all payments made towards ERP system both to the vendor and Kenya Revenue Authority as per the attached schedule. The net book value of Kes.157,563,000 represents the value of ERP system whose implementation is complete and it is being used by the company in carrying out its day to day operations. The intangible asset is amortised over a period of 20 years as per the intangible asset schedule note.16. The software/system that is fully available for use has been amortised for 20 years from 2017 hence the net value of Kes.157,563,000 as at 30th June 2022. All the supporting schedules and documentations to support intangible asset totaling Kes.157,563,000 were available during the audit. The same has been attached for your review.	ONGOING	30.06.2023

4 page 2 2022-2023	**Non-Servicing of Loans**	The Company has for quite some time experienced cash flow challenges as a result of poor factory performance due to non-maintenance for over 6 years. The factory has been operating below capacity and frequent breakdowns caused a lot of losses. This impaired our ability to meet a number of obligations including repayment of loans. The company completed its annual factory maintenance in August 2022, envisages to improve on efficiency and thus more production that will generate more revenue to meet the repayment of loans.	ON GOING	30.06.2023
5 Page 3 2022-2023	**Going Concern**	The company faces an acute financial challenge due to aging factory machinery, accrued loan interests, prolonged drought affecting cane growth and development leading to depleted raw cane material for milling. These factors have made the company not able to fully meet its financial obligations as and when they fall due. However, the directors have assumed that the Government of Kenya (GOK) will continue to support the factory and will not demand for the settlement of the outstanding loan amounts. In the event the Government of Kenya demand for the settlement of their net loans, adjustment will be required to restate the assets to their realizable 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. The company is also banking on the implementation of the Treasury Memorandum On Action Plans To Revive and Commercialize The State Owned Sugar Companies presented to parliament on 22nd August 2023.	ON GOING	30.06.2023
Page 4 2022-2023	**Idle Investment Property**	The house was last occupied seven years ago by a tenant called Sophia Nyambura who generated huge rent arrears totaling to Kes.1,080,000 causing the company to set in motion the distress for rent process. She moved to court vide Nairobi CMCC No.1130 of 2011, obtained an	ONGOING	30.06.2023

		injunction and continued to enjoy the injunction until such time that she moved out of the premises leaving the house in a state of disrepair and vandalism. The Chief internal auditor after touring the plot in the financial year did a report on its status after which the head of projects went on site to assess the cost involved to get the facility back to the statues of generating revenue. Management has assessed the report but financial constraints have delayed its implementation.		
1 Page 4 2022-2023	**Unresolved Prior Year**	The findings as per the certificate signed by the Auditor General have been fully captured and are being addressed.	ON GOING	30.06.2023
2 Page 4 2022-2023	**Long Outstanding Trade & Other Payables**	The Company has for quite some time experienced cash flow challenges as a result of poor performance of the factory due to lack of maintenance among other factors. This impaired its ability to meet a number of obligations including the Trade and other payables. Partial maintenance was done on the factory in the months of June to August 2022 and there is improved performance. It is envisaged that improved efficiency will increase production that will generate more revenue to meet the accrued obligations.	ON GOING	30.06.2023
3 Page 5 2022-2023	**Excess Wage Bills**	The company operating TC/TS averaged 16.97 against a target of 11.04 during the year under review due to non-maintenance of factory for the last 6 years leading to frequent factory breakdowns, poor performance by mud filters, turbines, boilers, aged filters and low mill extraction. Despite the low total cane to total sugar ratio extraction, the labour costs remained fixed hence exceeding the set legal limit but management expects the ratio to drop to 35% or below when we resume continuously milling. The company completed its annual factory maintenance in August 2022 and expects improved factory efficiency.	ON GOING	30.06.2023

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	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 Port not Cleared due to Financial
2	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 Rehabilitatic awaiting Comm. Eng. Juice Filtrat equipment yet to supplied and Installed.
3	ERP IMPLEMENTATION	2016/2017	282,600,000.00	282,600,000.00	212,800,000.00	Ongoing	80	Ongoing
	TOTAL		**515,600,000.00**	**499,474,000.00**	**356,176,850.00**			

APPENDIX 2: INTER COMPANY TRANSFERS

The Company had no inter-entity transfers as at the end of 30th June 2023

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 2023