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South Nyanza Sugar Company Limited

Annual Report and Financial Statements
For the year ended 30 June 2012

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SONYSUGAR

Our Purpose

To increase national sugar production, reduce dependence on sugar imports, create employment opportunities and enhance regional development.

Our Vision

To be a world class manufacturer of sugar and associated products

Our Mission Statement

To manufacture high quality sugar and associated products by utilizing leading edge technology and investing in our people in order to deliver superior customer value, maximize shareholder returns and satisfy other stakeholders' interests.

Our Values

The Mission and Vision of the company shall be accomplished and realized by embracing the following core values:

- Teamwork
- Integrity
- Professionalism
- Transparency and Accountability
- Innovativeness and Creativity
- Customer Focus
- Social Responsibility

Our values are at the heart of our business. They form a critical element of our corporate strategy, influencing the way we operate daily and everywhere.

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CORPORATE INFORMATION

DIRECTORS

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

Charles O Ogalo	Chairman
Paul O Odola, MBS	Managing Director
Benjamin Andayi	Alternate - Permanent Secretary, Ministry of Agriculture (Appointed on 24 May 2011, Retired on 2 April 2012)
Beatrice King'ori	Alternate - Permanent Secretary, Ministry of Agriculture (Appointed 2 April 2012)
Kennedy Ondieki	Alternate - Permanent Secretary, Ministry of Finance
Janet Ongera	Re-appointed on 20 February 2012
Orpah A Ogutu	
Christopher Chacha	
Joseph L. Ole Kasae	
Mary Onyango	Retired on 31 March 2012
Joseph Ole Yiampoi	Retired on 19 June 2012
Zachariah M Nyaega	Retired on 19 June 2012

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

SENIOR MANAGEMENT

Paul O Odola, MBS	Managing Director
John L Imbogo	Head of Finance
Eunice Kitche-Oduor	Company Secretary
Benard A Otieno	Head of Manufacturing
Jane P Odhiambo	Head of Marketing and Business Development
Patrick MakOnyango	Head of Agriculture
Janet O Odingo	Head of Human Resources
Charles Mapesa	Head of Information and Communication Technology
Peter Odhiambo	Head of Procurement

REGISTERED OFFICE

P O Box 107 - 40405
Sare-Awendo

BANKERS

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

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

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

Cooperative Bank Ltd
P. O .Box 481 -40400
SUNA

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
The Rahimtulla Tower
P.O. Box 43963 – 00100 GPO
Nairobi

On behalf of:-
Kenya National Audit Office
Anniversary Towers
P.O. Box 30084 – 00100 GPO
Nairobi

COMPANY LAWYERS

Okongo,Wandago & Co Advocates
SUNA MIGORI

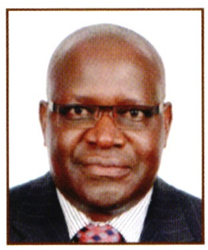
Otieno Yogo & Co Advocates
P. O. Box 2453-40100
KISUMU

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

BOARD OF DIRECTORS

Charles O Ogalo,
Chairman

Paul O Odola, MBS
Managing Director



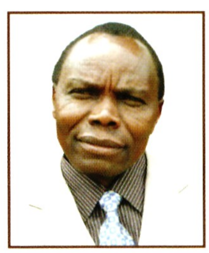
Benjamin Andayi
Alternate -
Permanent Secretary,
Ministry of Agriculture

Beatrice King'ori
Alternate -
Permanent Secretary,
Ministry of Agriculture

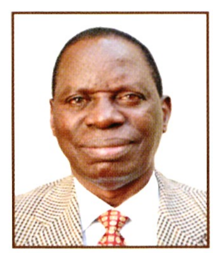
Janet Ongera
Director

Kennedy Ondieki
Director
(Date appointed–16.11.09)

Orpah A Ogutu
Director

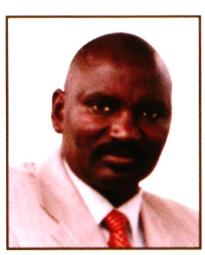


Zachariah M Nyaega
Director



Christopher Chacha
Director

Mary Onyango
Director



Joseph O Yiamboi
Director

Joseph L. Ole Kasae
Director

SENIOR MANAGEMENT

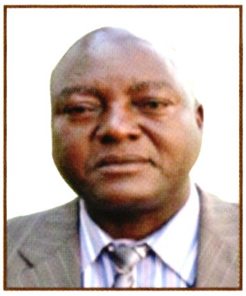
Paul O Odola, MBS
Managing Director

Benard A Otieno
Head of Manufacturing

John L Imbogo
Head of Finance

Eunice Kitche - Oduor (Mrs)
Company Secretary

Patrick Mak'onyango
Head of Agriculture



Charles Mapesa
Head of Information and Technology (Ag.)

Jane P Odhiambo
Head of Marketing & Business Development

Janet O Odingo
Head of Human Resources

Peter Odhiambo
Head of Procurement (Ag.)

CHAIRMAN'S REPORT

"Gross turnover of Kshs. 7.0 billion was realized as compared to Kshs. 5.9 billion achieved in the previous year."

On behalf of the Board of Directors, I am delighted to present our Annual Report and Financial Statements for the year ended 30 June 2012.

Review of Operations

The operating environment was more challenging than ever before. Adverse weather conditions disrupted cane supply to the factory and this was compounded by cane poaching which intensified for most part of the year. A total of 637,547 tons of cane was milled, as compared to 725,827 tons during the same period last year, representing a 12% decline. Sugar produced at 64,582 tons was 13% lower than the 2011 production of 74,279 tons

Financial Results

The financial results for the year ended 30 June 2012 reflected another good year's performance despite the challenges experienced. The Company posted an operating profit of Kshs. 998 million (2010/2011 – Kshs. 635 million) and a profit before tax of Kshs. 1,024 million (2010/2011 –Kshs. 563 million), which is 82% higher than last year. Gross turnover of Shs7.0 billion was realized as compared to Kshs. 5.9 billion achieved in the previous year. A sustained demand for sugar and molasses, increased sales of branded sugar and strategic pricing resulted in improved sales revenue during the year.

Contribution to Government Revenue

SonySugar continues to be a major contributor to the exchequer in taxes from value added tax (VAT), Sugar Development Levy (SDL), corporation tax and others, contributing over Kshs. 1,261 million in the year compared to Kshs. 995 million in 2011.

The Company however, still holds the view that high taxes and levies on sugar have continued to impede growth and expansion of the industry. We appeal for a policy intervention in this area.

Our Farmers

In the period under review, Kshs. 2.6 billion (2010/2011-Shs 1.4billion) was paid to cane farmers and other related service providers including land development contractors, cane weeders and cutters, and transporters. In order to boost cane availability, motivate and retain our farmers, the company provides farm inputs and agriculture services such as fertilisers, seed cane, land development, harvesting and cane transport services. The Company is committed to the statutory requirement of paying cane farmers within thirty days of cane delivery. Training of both farmers and field staff was carried out extensively with a view to enhancing cane yield and availability.

As part of our continued commitment to improve stakeholder relations, the Board undertook a familiarization tour of the various sectors, engaging farmers in dialogue to map out ways to improve service levels. Our long term objective is to ensure our communities view us as a company that cares and adds value to their economic welfare.

Sustainability

In our efforts to make long lasting impact in the communities where we operate, we undertook various community development activities which addressed issues within our areas of focus, namely:-

CHAIRMAN'S REPORT (CONTINUED)

- **The environment:** In our commitment to uphold high standards of environmental conservation and management, over 100,000 tree seedlings were planted through the joint effort of our employees and farmers.
- **Infrastructure Development:** Kshs. 188 million was invested in infrastructure development involving rehabilitation/construction of over 650 km of roads and bridges, assisting in improving access to farms, reducing zonal distances and opening more areas for cane farming.
- **Health and Safety:** Greater awareness on employees' health and safety was raised with the participation of our staff in workshops on HIV/AIDS and health education programmes. Free anti- retroviral drugs were supplied to affected employees and the community.

The Board

The Board of Directors are committed to achieving the highest standards of corporate governance and providing the overall policy and strategic direction of the company. Through its diversity and broad based guidance/ directions the Board immensely contributed to the impressive performance achieved during the year.

During the year, the Board lost the valuable and incisive contribution of Mrs Mary Onyango who passed on after a long struggle with cancer. The same year also saw Mr Benjamin Andayi - alternate to Permanent Secretary, Ministry of Agriculture serve on the Board for 11 months and subsequently replaced by Mrs Beatrice King'ori whom we warmly welcome.

Corporate Governance

The Board of Directors is committed to the highest standards of corporate governance and is aware that this is critical to building sustainable value for the shareholders. The Board is inclined to act honestly, ethically, diligently and in accordance with the law and the broad principles set out in its charter in serving the interests of SonySugar's shareholders and all other stakeholders.

The Board convenes an average of four formal meetings per year, including one meeting dedicated primarily to strategic planning. In addition, various Board Committees (which include Audit, Finance, Operations and General Purposes Committees), meet at least three times each year to discuss various issues on the position of the company and the performance of management.

The Future

This year has been exceptional, a year of significant investment in our business, our people, our communities and our brand.

The year ahead of us is expected to be challenging based on the current operating environment. In particularly cane poaching still remains a major threat to the future cane availability and general company performance. We expect the Government's effort on restructuring to focus on privatization of state owned millers. The expectation is that this will make the millers more competitive and thus strategically position them in readiness for the regional liberalization of the COMESA member states economies.

The Company shall continue to stay on course and guided by its Strategic Plan 2009/2014. The Board remains cautiously optimistic of a satisfactory performance in the coming year.

Appreciation

To conclude, I wish to express my sincere appreciation to my fellow Board members, management and staff for their tireless dedication which has resulted in the delivery of record performance in 2011/2012 financial year. This has also been made possible through the continued patronage and spirited support of our farmers and other stakeholders. Finally, I would like to thank the shareholders for their continued support, mutual trust, guidance and a good working relationship.

Thank you.

Charles O Ogalo
Chairman

MANAGING DIRECTOR'S REPORT

It gives me great pleasure to present the annual report and financial statements for the year ended 30 June 2012.

Financial Performance

The year under review experienced a very hostile macro-economic environment characterised by high inflation, high interest rates, and volatile exchange rates. The operating environment was even more challenging for SonySugar as it faced rampant theft of its contracted cane by rival millers who did not care to develop their own cane. However, despite these challenges, the company posted significant growth in its revenues and profit.

Revenue grew by 18.6% rising to Kshs. 7.0 billion (2011 Kshs. 5.9 billion) mainly as a result of strategic pricing. The Company posted an operating profit of Kshs. 998 Million and a pre-tax profit of Kshs. 1,024 Million. The good performance is a continuation of the upward trend in profitability, which has strengthened the balance sheet in the last four years. The net working capital position also improved from a negative of Kshs. 135 million (restated) in the previous year to a positive of Kshs. 415 million in the year under review. This position is after making substantial provisions of Kshs. 443 Million in respect of doubtful Outgrowers receivables arising from the on-going reconciliation exercise. Management is continuing to reconcile the Outgrowers ledger to validate the balances before migration to the new integrated Enterprise Resource Planning (ERP) and Agriculture Management System (AMS) that are expected to be rolled out in 2013-2014. It is expected that this long running problem dating back to the year 2000 will be fully resolved at the end of the financial year ending 30 June 2013.

Agriculture

A total of 637,547 tons of cane was harvested during the year compared to 725,827 tons the previous financial year representing a decline of 12%. The general farming environment presented a challenge. Out-grower cane yields dropped from 83.6 tons/ha in 2011 to 69.9 tons/ha attributed to reduced cane harvesting age. Extreme wet conditions were experienced in the second half of the year leading to substantial damage to the road network, increased cost of cane haulage and reduced cane delivery to the factory.

"a total of Kshs. 2.6 billion was paid to farmers and related services providers during the year"

In the absence of strong industry regulation, a number of interventions, yielding limited success, were put in place to curb cane poaching by rival millers. The loss of cane led to decline in cane supply and exposed the company to financial losses due to non-recoverability of investments in the poached cane. Cane fires were generally low on both the Nucleus Estate and out-grower farms compared to the previous year. To improve cane development and cane transport, a strategic decision to invest in cane fleet was made and twenty haulage tractors, twelve trailers, three winches and three loaders were procured.

The cane position as at 30 June 2012 was 17,608 hectares. This was made up of 2,134 hectares in the Nucleus Estate and 15,474 hectares from out-growers. This was higher than same period last year of 17,036 hectares by 572 hectares. The increase was attributed to positive uptake of cane farming resulting from the favorable cane price and timely payments to farmers.

However, the cane area is not sufficient to sustain the factory envisaged optimized capacity of 3,000 tcd. The Company is enhancing cane development so as to reach optimal area of over 18,500 hectares in the next two years through; timely and prompt execution of cane development operations and payment of cane proceeds, strengthening of the rapid response team to counter cane poaching, farmer sensitization and education on best cane husbandry and management practices and adoption of early maturing varieties.

Farmers Payment

The Company continues to pass on the benefits from favourable sugar prices to cane farmers through offering competitive cane prices. A total of Kshs. 2.6 billion was paid out directly to farmers for cane supplies and other related payments in the year under review. Management continues to adhere to the requirements of Sugar Act 2001 on payment to farmer's within 30 days.

Factory Operations

The factory operations were adversely impacted by reduced and unsteady cane supply in the second half of the year occasioned by heavy rains and consequent low cane delivery leading to reduced throughput and unplanned stoppages. Only 64,582 tons of sugar was produced against last year's 74,279 tons. A rendement of 10.13% was achieved compared to last year's 10.23%. This decline was due to reduced production efficiencies and poor cane quality.

Operational Costs

Total operating costs increased to Kshs. 4.9 billion from Kshs. 4.3 billion in the previous year, while cost of production increased to Kshs. 77,078 per ton of sugar compared to Kshs. 58,266 per ton of sugar in the previous financial year. The high cost of cane from the out-grower scheme, and packaging and process chemicals costs were the principal contributors to the overall cost of production. The unit cost of production was higher than in previous year as a result of lower production volumes.

The Market

A total of 63,514 tons of sugar was sold during the period under review. This was 85% of the previous year's 74,794 tons. Gross turnover stood at Kshs. 7,059 million (2011 - Kshs. 5,920 million) which is 19% above that achieved last year attributed to better sugar selling prices during the year.

The sugar and molasses market was vibrant with both products fetching good prices throughout the year. The local market benefited partly from a drop in world sugar production and increased local demand. The Company maximized on all sales opportunities with an optimal mix of pricing and distribution strategies. The second half of the year was less vibrant mainly as a result of un-controlled cross border sugar trade in the East Africa region especially Tanzania and the entrance of new millers in the SonySugar cane growing belt. The second half of the year also recorded a high incidence of counterfeit sugar taking advantage of the vibrant market and the general increase in counterfeited consumer products locally. The Company made great effort toward curbing the counterfeits with little success.

The focus during the year was to enhance distribution and customer service and fully utilize our investments in sales resources. Additionally a review of trading terms for major supermarket chains was done with a view to forming a closer partnership with them and building a strong relationship. These efforts paid off with an increase in the customer satisfaction index from 65.5% to 71.1%. Going forward, The Company's major focus will be to protect its market share in-view of the increased competition from both local millers and imported sugar. Marketing effort shall be aimed at strengthening relationships with distributors and key retailers through trade reward programs. To reap more benefits from a strong brand, marketing investments are planned to build the brand image and equity.

Management System

The Company strives to maintain and improve its ISO 9001:2008 Quality Management System (QMS) through rigorous implementation of the requirements, management reviews, and internal and external surveillance audits. We have undergone successful recertification audit by the Kenya Bureau of Standards after three years of compliance. Through QMS significant improvements in quality of our products & services, enhanced profitability, efficiencies, customer/employee satisfaction, market share and company reputation have been realized. We have also maintained and improved the standardization and diamond mark of quality requirements of our processes and systems to ensure customer satisfaction and compliance to legal requirements. The Company achieved certification in ISO 14001:2004 Environmental Management System (EMS) in November 2011 and has strived to maintain and improve the system through rigorous implementation of the requirements, management reviews, and internal / external surveillance audits. The system is enabling us to manage complex liability issues, provide assurance to stakeholders, reduce cost associated with waste and promote a positive company image.

We are in the process of establishing and implementing a Laboratory Management System as part of continuous improvement initiative in order to achieve accreditation of our laboratories to enhance competence of testing and calibration.

Information Communication and Technology

The Company is on course to acquiring an Enterprise Resource Planning System (ERP) to replace the currently used Willow Financials and AMS as core applications. This implementation will see integration of all business processes to provide a one stop access to all business information by click of a button. In addition, there are dozens of other projects throughout the company, such as weighbridge upgrade, school management system, help desk system, increasing the presence of wireless networking, Web content improvement and information security.

The use of information technology has seen increased expansion of the network to cover all the core functional areas with a corresponding purchase of ICT equipment and systems (PC's, Laptops, and UPS's) and users training. Several departments throughout the company, are continually evaluating their services and how best to align these services with new technologies and benchmarked standards for full compliance.

Human Resource

Staff establishment as at 30 June 2012 stood at 1,217 permanent employees and 881 contract employees making a total of 2,098 employees as compared to 1,259 permanent and 775 contract employees totalling to 2,034 as at 30 June 2011.

During the year, the Parent Ministry approved the Job Evaluation Report. The report recommends a wide range of initiatives aimed at efficiency and effectiveness in the utilization of our human resource. A work plan for the implementation of job evaluation has been drawn and will be implemented in the next financial year. In order to address the new changes in government legislation as contained in the New Labour Laws, the company reviewed the current Staff Administrative Code. Necessary approvals will be sought in the coming financial year before implementation.

The Company addressed a wide range of issues that had been highlighted in the employee satisfaction survey of June 2011. The Company is on course to undertake an exit survey to gauge the level of satisfaction arising from the implementation of the recommendations of the previous survey. The training plan for the year under review was implemented under the guidance of the Corporate Training Committee. At the close of the year, 89.25% of the training plan had been achieved.

MANAGING DIRECTOR'S REPORT (CONTINUED)

The variance was attributed to the relocation of funds to cater for the training costs of apprentices following withdrawal of funding from Directorate of Industrial Training (DIT).

We recognize the importance of harmonious industrial relations in realizing maximum productivity. There was constructive engagement between the union and management that ensured employee participation leading to uninterrupted company operations. The Company attaches great importance to the health of its workers. This is done through offering curative, preventive and rehabilitative health care at the company run medical centre. During the period under review, major renovations of the medical facility were undertaken to ensure improved quality of health care.

Sony Complex Primary School has continued to improve its performance in academic and co-curriculum activities. The school's mean score performance in the KCPE results improved from 349.43 in the year 2010 to 364.21 in the year 2011. In addition, the school has been active in drama participating up to the national level. Our major challenge now and in future is to manage the emerging competitive business environment. The Company shall adopt all strategies possible to ensure it attracts, develops and retains the human capital necessary for driving the company business.

Future Outlook and Strategy

Strategic direction shall continue to be guided by the current revised 2009/2014 Strategic Plan with a view to ensuring a sustained profitability.

The Company shall continue to contract more farmers in addition to the current number so as to boost cane availability. New cane varieties introduced by the Kenya Sugar Research Foundation (KESREF) which are early maturing and of high yields are being rolled out to farmers.

The Company is on schedule to roll out the new Enterprise Resource Planning system in year 2013. The Company expects to reap benefits from the system in terms of timely processing of farmers payments, efficient and effective communication, faster data processing and cost savings across the business.

The world sugar prices are on the decline in the range of USD 600 to USD 630 per ton. Therefore the local market is expected to experience low sugar prices in the coming year. The sugar industry in the country and in the region is expected to get more competitive as we approach the national elections in the year 2013.

Economic environment is expected to be more challenging to predict. The rate of inflation has been on the steady decline, the local currency strengthened and fuel prices reduced. All these are indicators for a favourable trading environment if they persist into the long term.

Management team is aware of the huge task facing us in the financial year 2012-2013. Our main challenge is to show continuous and consistent improvement of services to farmers, employees, customers and other partners in order to achieve set targets and ultimate realization of the Strategic Plan 2009/2014.

Conclusion

The SonySugar team is committed to growing the business. We shall continue to harness and direct all our efforts in utilization of available opportunities in order to sustain the company's profitability and future growth. We therefore look upon and depend on the support of our shareholders and all stakeholders to return better results.

Thank you.

Paul O Odola, MBS
Managing Director

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 30 June 2012, which discloses the state of affairs of the Company.

Principal Activities
The Company grows sugarcane, manufactures and sells sugar and by-products.

Results and Dividends
The profit for the year of Shs 653,555,000 (2011: Shs. 381,390,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

Production and Sales
The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2012.

Cane Deliveries (tons)	2012	2011
Nucleus Estate	95,097	119,604
Outgrowers	542,450	606,223
Total	**637,547**	**725,827**
Sugar Produced (tons)	**64,582**	**74,279**
Rendement	**10.13%**	**10.23%**

Directors

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

Auditors
The Company is audited by the Auditor General in accordance with Section 12 of Public Audit Act 2003 and State Corporation Act (Cap 446).

Approval of Financial Statements
The financial statements were approved by the Board of Directors on 17th December 2012.

By order of the Board

Eunice Kitche-Oduor
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the 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 Company and of its profit or loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Charles O Ogalo
Chairman

Paul O Odola, MBS
Managing Director

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of South Nyanza Sugar Company Limited set out on pages 20 to 52, which comprise the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PricewaterhouseCoopers auditors appointed under Section 39 of the Public Audit Act, 2003. The audit was carried out in accordance with the provisions of Articles 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Receivables from Outgrowers

The current assets balance of Kshs. 2,980,453,000 as at 30 June 2012 includes receivables from outgrowers balance of Kshs. 581,794,000 (2011-Kshs. 341,579,000). The balance comprises the Company's provision of agricultural inputs and services to outgrowers and the related accrued interest income as shown under Note 15.

However, the Company does not have accurate and complete detailed listings to support the balances in the general ledger.

In the circumstances, it has not been possible to confirm the validity and recoverability of the receivables from outgrowers net balance totaling to Kshs. 581,794,000 as at 30 June 2012.

2. Excessive Spare Parts Inventory

The statement of financial position reflects inventories of Kshs. 646,939,000 out of which Kshs. 553,245,000 represents spare parts inventory comprising engineering spare parts and sugar in process amounting to Kshs. 537,298,000 and Kshs. 15,947,000 respectively.

However, review of the movement of the spares parts inventory taking into account the cyclical repairs and maintenance of the plant, indicated there is significant over stocking leading to idle spare parts capacity and unnecessary stocks holding costs.

In the circumstances, the excessive spare parts inventory is likely to lead to obsolescence losses in future.

3. Borrowings

Note 22 to the financial statements reflects borrowings totaling to Kshs. 1,027,932,000 out of which Kshs. 624,246,000 is owed to the Government of Kenya. However, records held by the Ministry of Finance reflected a total of Kshs. 575,539,447 resulting to an unreconciled and unexplained variance of Kshs. 48,706,553.

Further the financial statements reflect Sugar Development Fund (SDF) loans amounting to Kshs. 233,418,000 while records available from Kenya Sugar Board reflect Kshs. 248,524,000 resulting to unreconciled variance of Kshs. 15,106,000 as at the time of this audit.

In the circumstances, it has not been possible to confirm the validity and accuracy of the borrowings totaling Kshs. 1,027,932,000 as at 30 June 2012.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all materials respects, the financial position of the company as at 30 June 2012, 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 Companies Act, Cap. 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 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, proper books of accounts have been kept by the Company, so far as appears from my examination of those books; and

iii. The Company's statement of financial position is in agreement with the books of account.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL
Nairobi
26 February 2013

SonySugar Chairman Mr Ogalo (right) presents an award to Mr Dennis Omai of Ouru Superstores Kisii at a customer forum event.

Statement of Comprehensive Income

	Notes	2012 Shs'000	Year ended 30 June 2011 Shs'000
Gross sales		**7,059,571**	**5,920,272**
Indirect taxes:			
- Value Added Tax (VAT)		(945,356)	(801,920)
- Sugar Development Levy (SDL)		(227,249)	(192,659)
Revenue	5	5,886,966	4,925,693
Losses arising from changes in fair value less costs to sale of biological assets	12	(96,680)	(16,507)
		5,790,286	4,909,186
Cost of sales		(3,893,125)	(3,459,829)
Gross profit		1,897,161	1,449,357
Other income	6 (a)	65,084	44,662
Distribution costs		(65,647)	(62,800)
Administrative expenses		(898,542)	(796,112)
Operating profit		998,056	635,107
Finance income	6 (b)	87,474	-
Finance cost	7	(61,917)	(72,012)
Profit before income tax		1,023,613	563,095
Income tax expense	10	(370,058)	(181,705)
Profit for the year		653,555	381,390
Other comprehensive income, net of tax:			
Gains on revaluation of property, plant and equipment.	18	-	1,147,137
Total comprehensive income for the year		**653,555**	**1,528,527**

The notes on pages 20 to 47 are an integral part of these financial statements.

Statement of Financial Position

	Notes	30 June 2012	30 June 2011 (Restated)	30 June 2010 (Restated)
		Shs'000	Shs'000	Shs'000
ASSETS				
Non-current assets				
Property, plant and equipment	**11**	**3,671,191**	**3,560,113**	**2,047,301**
Current assets				
Biological assets	12	539,056	592,220	590,269
Inventories	13	646,939	529,288	498,506
Trade and other receivables	14	135,411	136,556	222,349
Outgrowers	15	581,794	341,579	268,402
Cash and bank balances	16	1,077,253	339,915	47,188
		2,980,453	**1,939,558**	**1,626,714**
Total Assets		**6,651,644**	**5,499,671**	**3,674,015**
EQUITY AND LIABILITIES				
Equity attributable to owners				
Share capital	17	353,970	353,970	353,970
Revaluation reserve	18	1,731,923	1,838,686	800,428
Retained earnings		1,166,621	406,303	(83,966)
Total equity		**3,252,514**	**2,598,959**	**1,070,432**
Liabilities				
Non-current liabilities				
Grants	19	59,194	50,323	56,723
Deferred income tax	20	774,381	775,419	143,009
		833,575	**825,742**	**199,732**
Current liabilities				
Trade and other payables	21	1,214,645	1,025,455	1,038,524
Current income tax		322,978	40,268	-
Borrowings	22	1,027,932	1,009,247	1,365,327
		2,565,555	**2,074,970**	**2,403,851**
TOTAL EQUITY AND LIABILITIES		**6,651,644**	**5,499,671**	**3,674,015**

The notes on pages 20 to 47 are an integral part of these financial statements.

The financial statements on pages 16 to 47 were approved for issue by the board of directors on 17th December 2012 and signed on its behalf by:

Charles O Ogalo
Chairman

Paul O Odola, MBS
Managing Director

Statement of Changes in Equity

	Notes capital Shs'000	Share reserves Shs'000	Revaluation earnings Shs'000	Retained equity Shs'000	Total
Year ended 30 June 2011					
At start of year					
- as previously reported		**353,970**	**800,428**	**143,311**	**1,297,709**
- prior year adjustment	27	-	-	(227,277)	(227,277)
- as restated		**353,970**	**800,428**	**(83,966)**	**1,070,432**
Comprehensive income for the year					
Profit for the year		-	-	381,390	381,390
Gain on revaluation of property, plant and equipment	11	-	1,638,110	-	1,638,110
Deferred income tax on revaluation	18	-	(490,973)	-	(490,973)
Transfer of excess depreciation	18	-	(155,540)	155,540	-
Deferred income tax on transfer of excess depreciation	18	-	46,661	(46,661)	-
Total comprehensive income		**-**	**1,038,258**	**490,269**	**1,528,527**
At end of year		**353,970**	**1,838,686**	**406,303**	**2,598,959**
Year ended 30 June 2012					
At start of year					
- as previously reported		**353,970**	**1,838,686**	**633,580**	**2,826,236**
- prior year adjustment	27	-	-	(227,277)	(227,277)
- as restated		353,970	1,838,686	406,303	2,598,959
Profit for the year		-	-	653,555	653,555
Transfer of excess depreciation	18	(152,518)	152,518	-	
Deferred income tax on transfer	18 -	45,755	(45,755)	-	
Total comprehensive income		**-**	**(106,763)**	**760,318**	**653,555**
At end of year		**353,970**	**1,731,923**	**1,166,621**	**3,252,514**

The notes on pages 20 to 47 are an integral part of these financial statements.

Statement of Cash Flows

	Notes	Year ended 30 June 2012 Shs'000	2011 Shs'000
Cash flows from operating activities			
Cash generated from operations	23	1,172,574	874,100
Interest received	6	144,287	34,699
Interest paid and other finance charges		(46,368)	(69,046)
Tax paid	10	(88,386)	-
Net cash generated from operating activities		**1,182,107**	**839,753**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(495,037)	(190,945)
Proceeds from sale of fixed assets		16,312	-
		(478,725)	**(190,945)**
Cash flows from financing activities			
Loan received	22	100,000	-
Grant received	19	15,271	-
Repayment of borrowings		(251,583)	(174,172)
		(136,312)	(174,172)
Net increase in cash and cash equivalents		**567,070**	**474,636**
Cash and cash equivalents at start of year		339,915	(134,721)
Cash and cash equivalents at end of year	16	**906,985**	**339,915**

The notes on pages 20 to 47 are an integral part of these financial statements.

SonySugar Managing Director Mr Paul Odola (left) presents a gift to Mr Jonathan Ciano, CEO Uchumi Supermarket at a customer forum event.

Notes

1 General information

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

PO Box 107 - 40405
Sare-Awendo

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 July 2011.
The amendments to existing standards below are relevant to the Company's operations

Standard	Title
IAS 1	Presentation of financial statements
IAS 24	Related party disclosures

The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Company was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

Changes in accounting policy and disclosures (continued)

(a) New and amended standards adopted by the Company (continued)

The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. Related party disclosures have been made following adoption of this amendment.

Other amendments and interpretations to standards became mandatory for the year beginning 1 July 2011 but had no significant effect on the Company's financial statements.

SonySugar Director Mr Kasae (right) presents an award to Mr Norrington Omolo of Timon Stores Oyugis at a customer forum event.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Company. However, the directors are yet to assess the impact on the Company's operations.

Standard	Title	Applicable for financial years beginning on/after
IFRS 13	Fair value measurement	1 January 2013
IFRS 9	Financial instruments	1 January 2015

IFRS 13, 'Fair value measurement' - IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Company is yet to assess IFRS 13s full impact.

IFRS 9, 'Financial instruments' – effective 1 January 2015. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. This standard is not likely to have a material impact on the financial statements of the Company.
There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT), Sugar Development Levy (SDL), returns, rebates and discounts and after eliminating sales within the Company. SDL does not apply to molasses sales.

Notes (continued)

2 Summary of significant accounting policies (continued)

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

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

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

(ii) Interest income is recognised using the effective interest method.

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

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit and loss) and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings. Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives, as follows:

Buildings	25 - 40 years
Plant and machinery	10 - 15 years
Equipment and motor vehicles	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2 (e)).Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the income statement.

2 Summary of significant accounting policies (continued)

When revalued assets are sold, the amounts included in other reserves relating to that asset are transferred to retained earnings.

(e) Impairment of non-financial assets

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

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

(f) Inventories

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

(g) Trade receivables

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

(h) Trade payables

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

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

(i) Share capital

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

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(k) Employee benefits

(i) Retirement benefit obligations

The Company operates defined contribution retirement benefit schemes for its unionised employees and defined benefit schemes for non-unionised employees. The Company and all its employees also contribute to the appropriate national Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the

Notes (continued)

2 Summary of significant accounting policies (continued)

Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. .

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

(ii) Other entitlements

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

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

(l) Current and deferred income tax

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

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Borrowings

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

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

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

(n) Provisions

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

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

(o) Grants

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

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

(p) Leases

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

3 Critical accounting estimates and judgements

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

Notes (continued)

(i) Critical accounting estimates and assumptions

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

2 Summary of significant accounting policies (continued)

Biological assets

In determining the fair value of biological assets, management uses estimates based on historical data relating to yields and prices of sugar. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences between estimates and actual experience. The significant assumptions used
are set out in note 20.

Recoverability of receivable from Outgrowers

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

Income taxes

Significant judgement is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives of plant and equipment

The Company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The rates used are set out in Note 2 (d) above.

(ii) Critical judgements in applying the entity's accounting policies

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

- the classification of financial assets and leases
- whether financial and non-financial assets are impaired.

2 Summary of significant accounting policies (continued)

4 Financial risk management

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

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

Market risk

(i) Foreign exchange risk

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

At 30 June 2012, if the Kenyan Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post tax profit for the year would have been Shs 68,518 (2011: Shs 853,574) higher/lower.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

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

At 30 June 2012 and 30 June 2011, the company did not have any borrowings at variable rates.

(iv) Credit risk

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

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

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

Notes (continued)

(iv) Credit risk (continued)

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2012 is made up as follows:

	2012 Shs'000	2011 Shs'000
Cash at bank	1,077,253	339,915
Trade receivables	21,835	20,213
Receivable from outgrowers	581,794	341,579
Other receivables	113,576	116,312
	1,794,458	**818,019**

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

None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced). The trade receivables which were past due but not impaired relate to a number of independent customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	2012 Shs'000	2011 Shs'000
Past due but not impaired:		
- by up to 30 days	11,323	5,195
- by 31 to 60 days	7,627	575
Total past due but not impaired	**18,950**	**5,770**
Total receivables:		
Carrying amount before provision for impairment loss	1,271,616	965,610
Provision for impairment loss	(554,411)	(487,475)
Net carrying amount	**717,205**	**478,135**

Notes (continued)

4 Financial risk management (continued)

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

(v) Liquidity risk

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

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

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

Surplus cash held by the Company, over and above the amounts required for working capital management are invested in interest bearing fixed deposit accounts. At the reporting date, the Company held liquid assets of Shs 1,077,253,000 (2011: Shs 339,915,077,000) that are expected to readily generate cash inflows for managing liquidity risk.

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

	Less than 1 year **Shs'000**
At 30 June 2012:	
Liabilities	
- borrowings	1,027,932
- trade and other payables	1,214,645
Total financial liabilities (contractual maturity dates)	**2,242,577**
At 30 June 2011:	
Liabilities	
- borrowings	1,009,247
- trade and other payables	1,025,455
Total financial liabilities (contractual maturity dates)	**2,034,702**

Notes (continued)

4 Financial risk management (continued)

(vi) Capital management

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

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

	2012 Shs'000	2011 Shs'000
Total borrowings	1,027,932	1,009,247
Less: cash and cash equivalents	(1,077,253)	(339,915)
Net debt	**(49,321)**	**669,332**
Total equity	3,252,513	2,598,959
Total capital	**3,203,192**	**3,268,291**
Gearing ratio	0%	20%

5 Revenue

Analysis of revenue by category:		
White and brown sugar	5,796,351	4,855,984
Molasses	90,615	69,709
	5,886,966	**4,925,693**

6 a) Other income	2012 Shs'000	2011 Shs'000
Interest on receivables from Outgrowers	56,813	34,567
Interest income on staff car loans	-	132
Miscellaneous income	8,271	9,963
	65,084	**44,662**

b) Interest income on fixed deposits		
Interest income on bank deposits	**87,474**	**-**

7 Finance costs

Interest expense – KSB (SDF) and GOK loan	39,998	42,203
Interest expense – bank overdraft	6,360	26,843
Bank charges	15,559	2,966
	61,917	**72,012**

Notes (continued)

8 Expenses by nature

	2012 Shs'000	2011 Shs'000
Raw materials and consumables used	2,628,638	2,397,574
Employee benefits expense (Note 9)	1,286,998	1,229,208
Depreciation on property, plant and equipment (Note 11)	359,802	281,414
Amortisation of grant (Note 19)	6,400	6,400
Audit fees	4,400	4,400
Receivables - provision for impairment losses	28,327	26,485
Outgrowers - provision for impairment losses	38,609	22084
Loss on revaluation of equipment (Note 11)	-	34,830
Obsolete stocks written-off	23,296	12,225
Other expenses	480,844	304,121
Total cost of sales, distribution expenses and administrative costs	**4,857,314**	**4,318,741**

9 Employee benefits expense

Salaries and wages	1,228,368	1,170,353
Retirement benefits costs:		
- Defined contribution scheme	57,316	57,712
- National Social Security Funds	1,314	1,143
	1,286,998	**1,229,208**

10 (a) Income tax expense

Current income tax	371,096	,268
Deferred income tax (Note 20)	(1,038)	141,437
Income tax expense	**370,058**	**181,705**

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

Notes (continued)

	2012	2011
	Shs'000	Shs'000
Profit before income tax	**1,023,613**	**563,095**
Tax calculated at the statutory income tax rate of 30% (2011 – 30%)	307,084	168,929
Tax effect of:		
Expenses not deductible for tax purposes	49,275	12,776
Under provision of deferred income tax in prior year	13,699	-
Income tax expense	**370,058**	**181,705**

(b) Current income tax payable

The movement in current income tax liability in the balance sheet is as follows:

	2012	2011
	Shs'000	Shs'000
At start of year	40,268	-
Charge for the year	371,096	40,268
Payments in the year	(88,386)	-
At end of year	**322,978**	**40,268**

11 Property, plant and equipment

	Leasehold Land	Building	Plant and machinery	Trailers, tractors and motor vehicles	Office and other equipment	Roads and fencing	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs' 000	Shs'000
At 1 July 2010								
Cost or valuation	**335,000**	**802,993**	**2,426,025**	**1,056,508**	**174,002**	**101,426**	**105,416**	**5,001,370**
Accumulated depreciation	(42,298)	(389,763)	(1,672,192)	(682,387)	(97,192)	(70,237)	-	(2,954,069)
Net book amount	**292,702**	**413,230**	**753,833**	**374,121**	**76,810**	**31,189**	**105,416**	**2,047,301**
Year ended 30 June 2011								
Opening net book amount	**292,702**	**413,230**	**753,833**	**374,121**	**76,810**	**31,189**	**105,416**	**2,047,301**
Revaluation surplus (Note 18)	342,675	272,365	847,014	176,056	-	-	-	1,638,110
Additions	-	624	31,259	61,881	51,241	-	45,940	190,945
Transfers	-	-	3,960	176	2,732	5,087	(11,954)	-
Depreciation charge	(4,981)	(24,361)	(139,696)	(98,376)	(8,670)	(5,330)	-	(281,414)
Revaluation deficit	-	-	-	-	(34,830)	-	-	(34,830)
Closing net book amount	**630,396**	**661,858**	**1,496,370**	**513,858**	**87,283**	**30,946**	**139,402**	**3,560,113**
At 30 June 2011								
Cost or valuation	**677,675**	**1,075,982**	**3,308,258**	**1,294,623**	**227,975**	**100,958**	**139,402**	**6,824,873**
Accumulated depreciation	(47,279)	(414,124)	(1,811,888)	(780,765)	(140,692)	(70,012)	-	(3,264,760)
Net book amount	**630,396**	**661,858**	**1,496,370**	**513,858**	**87,283**	**30,946**	**139,402**	**3,560,113**

Notes (continued)

11Property, plant and equipment (continued)

	Leasehold Land	Building	Plant and machinery and motor vehicles	Trailer , tractors	Office and Other Equipment	Roads and fencing	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2012								
Opening net book amount	**630,396**	**661,858**	**1,496,370**	**513,858**	**87,283**	**30,946**	**139,402**	**3,560,113**
Additions	-	5,539	107,104	285,074	18,329	806	78,185	495,037
Transfers	-	-	14,620	-	-	-	(14,620)	-
Disposals (net)	-	-	-	(24,158)	-	-	-	(24,158)
Depreciation charge	(6,414)	(24,681)	(208,657)	(108,369)	(9,101)	(2,580)	-	(359,802)
Closing net book amount	**623,982**	**642,716**	**1,409,437**	**666,405**	**96,511**	**29,172**	**202,967**	**3,671,190**
At 30 June 2012								
Cost or valuation	**677,675**	**1,081,520**	**3,429,982**	**1,465,544**	**211,474**	**101,765**	**202,967**	**7,170,927**
Accumulated depreciation	(53,693)	(438,804)	(2,020,545)	(799,139)	(114,963)	(72,592)	-	(3,499,736)
Net book amount	**623,982**	**642,716**	**1,409,437**	**666,405**	**96,511**	**29,173**	**202,967**	**3,671,191**

Notes (continued)

11 Property, plant and equipment (continued)

The Company's property, plant and equipment were revalued on 31 December 2010, by Lloyd Masika Limited. Valuations were made on the basis of estimated open market value. The revaluation surplus net of applicable deferred taxes was credited to other comprehensive income and is shown in other reserves in shareholder's equity.

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

	2012 Shs'000	2011 Shs'000
Cost	3,335,707	2,930,663
Accumulated depreciation	(2,144,916)	(1,937,632)
Net book amount	**1,190,791**	**993,031**

Bank borrowings are secured on properties to the value of Shs 2,891,497,000 (2011: Shs 2,891,497,000) (Note 22).

12 Biological assets

	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
Year ended 30 June 2011			
At start of year	588,245	2,024	590,269
Additions at cost	114,322	-	114,322
Decrease due to harvest	(95,864)	-	(95,864)
Losses arising from changes in fair value less costs to sell of biological assets	(16,443)	(64)	(16,507)
At end of year	**590,260**	**1,960**	**592,220**

Notes (continued)

12 Biological assets (continued)

Year ended 30 June 2012	Cane	Dairy animals	Total
	Shs'000	Shs'000	Shs'000
At start of year	**590,260**	**1,960**	**592,220**
Additions at cost	149,132	-	149,132
Decrease due to harvest	(105,616)	-	(105,616)
Losses arising from changes in fair value less costs to sell of biological assets	(96,750)	70	(96,680)
At end of year	**537,026**	**2,030**	**539,056**

The key assumptions made concerning the future are as follows:

- The valuation is based on a market price of Shs 96,936 per ton of sugar (2011: Shs 106,175).
- Cane at the age of six months and below has no reliably determinable market value and has been stated at cost. Mature cane has been stated at fair value less point of sale costs.
- The estimated sucrose content per ton of mature cane (pol value) at various stages of growth will remain constant at between 8.9% and 10.13% depending on the age of the cane across the sugar belt.

The Company had 34 herds of dairy cattle at 30 June 2012 (2011: 29 herds).

13 Inventories

	2012	2011
	Shs'000	Shs'000
Finished goods	43,446	22,654
Engineering spare parts	537,298	448,938
Sugar in process	15,947	13,107
Goods in transit	50,248	44,589
	646,939	**529,288**

The cost of inventories recognised as an expense and included in the 'cost of sales' amounted to Shs 327,524,000 (2011: Shs 429,107,000).

Engineering spare parts are carried net of provision for obsolete inventories of Shs 123,728,000 (2011: Shs 100,432,000)

Notes (continued)

14 Trade and other receivables

	2012 Shs'000	2011 Shs'000
Trade receivables	59,078	60,213
Less: provision for impairment losses	(37,243)	(39,869)
Net trade receivables	**21,835**	**20,344**
Other receivables and prepayments	187,374	159,057
Less: provision for impairment losses	(73,798)	(42,845)
Net other receivables	**113,576**	**116,212**
	135,411	**136,556**

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

	2012 Shs'000	2011 Shs'000
At start of year	82,714	56,229
Provision in the year	28,327	26,485
At end of year	**111,041**	**82,714**

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

15 Receivables from Outgrowers

	2012 Shs'000	2011 (Restated) Shs'000	2010 (Restated) Shs'000
Billed inputs and services	756,048	515,651	405,125
Unbilled services	72,762	83,575	106,105
Accrued interest	196,354	147,114	139,549
Gross receivables from Outgrowers	**1,025,164**	**746,340**	**651,079**
Less: provision for impairment losses	(443,370)	(404,761)	(382,677)
	581,794	**341,579**	**268,402**

Notes (continued)

15 Receivables from Outgrowers (continued)

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

	2012 Shs'000	2011 Shs'000	2010 Shs'000
At start of year	**404,761**	**382,677**	**57,996**
Provision in the year	38,609	22,084	324,681
At end of year	**443,370**	**404,761**	**382,677**

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

16 Cash and cash equivalents

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

	2012 Shs'000	2011 Shs'000
Cash and bank balances	1,077,253	339,915
Bank overdrafts (Note 22)	(170,268)	-
	906,985	**339,915**

Students from SonySugar Complex School entertain guests at a customer forum with their recital "Sukari Yetu".

Notes (continued)

17 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 1 July 2010, 1 July 2011 and 30 June 2012	17,698	353,970

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

Shareholding composition:	**2012 Shs'000**	**2011 Shs'000**
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	353,970	**353,970**

18 Revaluation reserve

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

Year ended 30 June 2011	**Shs'000**
At start of year	**800,428**
Gain on revaluation of property, plant and equipment	1,638,110
Deferred income tax on revaluation gains	(490,973)
Gain on revaluation of property, plant and equipment, net of tax	1,147,137
Transfer of excess depreciation	(155,540)
Deferred income tax on transfer of excess depreciation	46,661
Total comprehensive income	**1,038,258**
At end of year	**1,838,686**
Year ended 30 June 2012	
At start of year	**1,838,686**
Transfer of excess depreciation	(152,518)
Deferred income tax on transfer of excess depreciation	45,755
At end of year	**1,731,923**

Notes (continued)

19 Grants

The balances represent grants from Kenya Sugar Board for purchase of machinery for road maintenance and construction of bridges. They are amortised over the life of the machinery. The movement in the year is as follows:

	2012 Shs'000	2011 Shs'000
At start of year	50,323	56,723
Additional grants received	15,271	-
Amortisation charge	(6,400)	(6,400)
At end of year	**59,194**	**50,323**

20 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 30%). The gross movement on the deferred income tax account is as follows:

	2012 Shs'000	2011 Shs'000
At start of year		
- as previously reported	872,823	240,413
- prior year adjustments (Note 27)	(97,404)	(97,404)
- as restated	**775,419**	**143,009**
(Credit)/ Charge to income statement (Note 10)	(1,038)	141,437
Tax effect of revaluation (Note 18)	-	490,973
At end of year	**774,381**	**775,419**

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

Notes (continued)

20 Deferred income tax (continued)

Year ended 30 June 2012	1 July 2011 (restated) to P/L Shs'000	Charged/ (credited) Shs'000	Charged to equity Shs'000	30 June 2012 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	82,321	31,041	-	113,362
- on revaluation surplus	728,395	-	(45,755)	682,640
Biological assets	177,059	(15,970)	-	161,089
	987,775	**15,071**	**(45,755)**	**957,091**
Deferred income tax assets				
Other temporary differences	(212,356)	29,646	-	(182,710)
Net deferred income tax liability	**775,419**	**44,717**	**(45,755)**	**774,381**

Year ended 30 June 2011	1 July 2010 to P/L Shs'000 (Restated)	Charged/ (credited) Shs'000	Charged to equity Shs'000 (Restated)	30 June 2011 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	87,919	(5,598)	-	82,321
- on revaluation surplus	284,084	(46,662)	490,973	728,395
Biological assets	176,473	586	-	177,059
	548,476	**(51,674)**	**490,973**	**987,775**
Deferred income tax assets				
Tax losses carried forward	(218,771)	218,771-	-	
Other temporary differences	(89,292)	(25,660)	(97,404)	(212,356)
	(308,063)	**193,111**	**(97,404)**	**(212,356)**
Net deferred income tax liability	**240,413**	**141,437**	**393,569**	**775,419**

Notes (continued)

21 Trade and other payables

	2012 Shs'000	2011 Shs'000
Trade payables	366,114	265,120
Other payables and accrued expenses	848,531	760,335
	1,214,645	**1,025,455**

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

22 Borrowings

	2012 Shs'000	2011 Shs'000
KSB (SDF) loan	233,418	404,938
Government of Kenya (GOK)	624,246	604,309
Bank overdraft	170,268	-
	1,027,932	**1,009,247**

- KSB (SDF) loans of Shs 179,943,119 had fallen due for payment at 30 June 2012.
  Interest payable on the loans is 5% p.a.
- KSB (SDF) of Shs 2,476,377 had fallen due for payment at 30 June 2012. Interest payable @ 3% p.a
- KSB (SDF) of Shs 51,000,000 had fallen due for payment at 30 June 2012. Interest payable @ 0% p.a
- GOK loans of Shs 180,318,750 had fallen due for payment at 30 June 2012. Interest payable @ 11% p.a.
- GOK/ODA of Shs 443,925,923 had fallen due for payment at 30 June 2012. Interest payable @ 12% p.a.

The carrying amount of the borrowings approximates to the fair value, as the impact of discounting is not significant.
The total loan due to KSB (SDF) includes Shs 100 million received during the year for financing machinery purchase.
During the year, the company paid a total of Shs 251,582,000 in loan repayments.

23 Cash generated from operations

	2012 Shs'000	2011 Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Profit before income tax	1,023,613	563,095
Adjustments for:		
Interest income(Note 6)	(144,287)	(34,699)
Interest expense(Note 6)	46,368	69,046
Loss on disposals of property plant & equipment	7,846	-
Loss on revaluation of office equipment (Note 14)	-	34,830
Changes in biological assets(Note 12)	53,164	(1,951)
Depreciation (Note 11)	359,802	281,414
Grant amortization (Note 19)	(6,400)	(6,400)
Changes in working capital:		
-Inventories	(117,651)	(30,782)
-Trade and other debtors	1,144	85,793
-Outgrowers	(240,215)	(105,910)
-Trade and other payables	189,190	(13,069)
Cash generated from operations	**1,172,574**	**874,100**

Notes (continued)

24 Related party transactions

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

i) Key management compensation

Key management includes directors (executive and non-executive) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2012 Shs'000	2011 Shs'000
Salaries and other short-term employment benefits	**31,058**	**29,871**

ii) Directors' remuneration

	2012 Shs'000	2011 Shs'000
Fees for services as director	279	781
Other emoluments included in employee benefits (note 9)	14,736	20,433
Total remuneration of directors of the Company	**15,015**	**21,214**

SonySugar Customers participating at a customer forum event

Notes (continued)

25 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The company also has some open tax items under discussion with the revenue authority. The directors do not believe that any significant additional liability will arise from the resolution of these matters.

A number of litigation cases regarding burnt over-mature cane which the company was unable to harvest and traffic accident cases have been lodged at law courts.

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

	2012 Shs'000	2011 Shs'000
Farmers' cases	160,500	150,000
Staff cases	500	300
	161,000	**150,300**

The directors have made a a provision in the financial statements based on legal advice.

26 Commitments

Capital commitments

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

	2012 Shs'000	2011 Shs'000
Authorized but not contracted	229,800	130,000
Authorized and contracted	764,600	425,000
	994,400	**555,000**

Notes (continued)

27 Prior year adjustments

During the year, misstatements relating to the sufficiency of impairment provision against receivables from Outgrowers were identified in the financial statements. The prior year balances have been restated to correct the misstatements. The effect of the restatements on the previously reported statement of financial position for the year ended 30 June 2010 and 30 June 2011 is as follows:

	Total assets	Total liabilities	Total equity
At 30 June 2010	**Shs'000**	**Shs'000**	**Shs'000**
As previously reported	**3,998,696**	**(2,700,987)**	**(1,297,709)**
Restatements:			
Impairment provision against Receivables from Outgrowers	(324,681)	-	324,681
Deferred income tax	-	97,404	(97,404)
	(324,681)	**97,404**	**227,277**
As restated	**3,674,015**	**(2,603,583)**	**(1,070,432)**
At 30 June 2011			
As previously reported	5,824,352	(2,998,116)	(2,826,236)
Restatements:			
-Impairment provision against receivables from Outgrowers	(324,681)	-	324,681
-Deferred income tax	-	97,404	(97,404)
	(324,681)	**97,404**	**227,277**
As restated	**5,499,671**	**(2,900,712)**	**(2,598,959)**

The impairment provision was estimated based on expenditure on Outgrowers for the last two years and the expected recovery cycle for the expenditure as disclosed under note 3.

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Five year financial performance summary

	30-Jun-12	30-Jun-11 (Restated)	30-Jun-10 (Restated)	30-Jun-09	30-Jun-08
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Statement of comprehensive income					
Revenue	5,886,966	4,953,848	3,498,342	3,023,112	2,757,149
Operating profit	998,056	635,107	269,088	81,673	1,561
Profit/(loss) before income tax	1,023,613	563,095	204,924	23,860	(69,108)
Statement of financial position					
Total assets	6,651,644	5,499,671	3,674,015	3,691,846	3,526,313
Total liabilities	3,399,131	2,900,712	2,603,583	2,530,144	2,540,800
Total equity	3,252,513	2,598,959	1,070,432	1,161,702	985,513
Net working capital	414,897	(135,412)	(777,137)	(600,036)	(1,084,846)

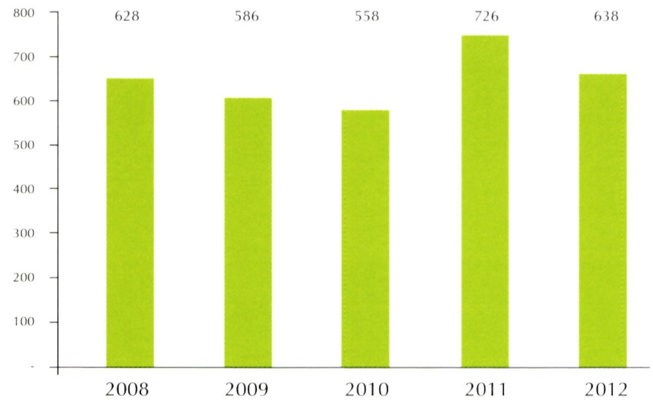
Five year operational performance summary

	30-Jun-12	30-Jun-11	30-Jun-10	30-Jun-09	30-Jun-08
Milled cane (tons)	637,547	725,727	558,054	586,051	628,227
Sugar sold (tons)	63,514	73,882	51,189	62,250	55,638
Rendement (%)	10.13	10.23	9.08	9.68	9.70

Performance Highlights 2008-2012

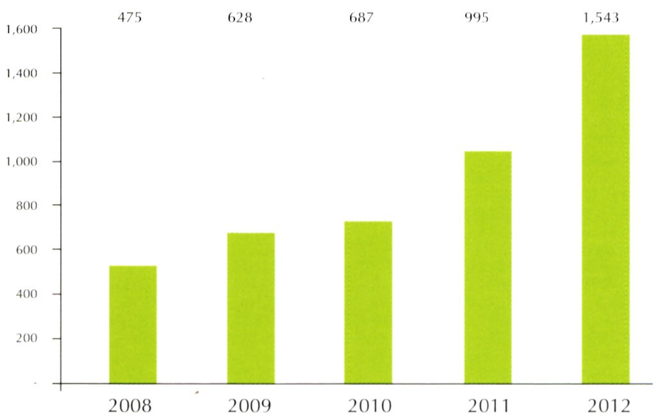
Appendix 1

Cane Milled ('000' Tons)

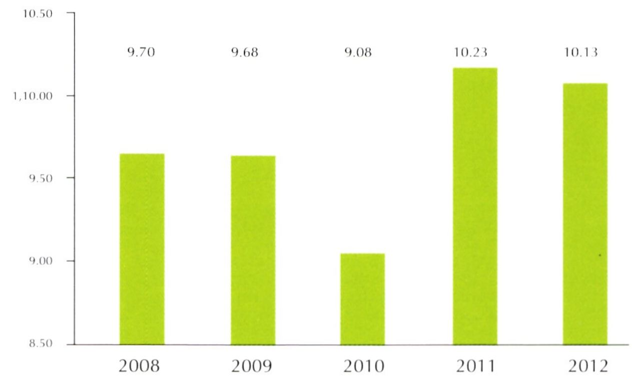


Sugar Produced (Tons)

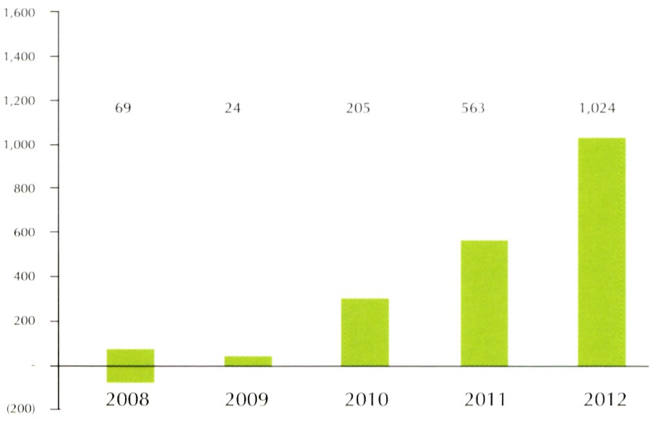
Taxes-VAT, SDL & Corporation Tax (Kshs. Millions)



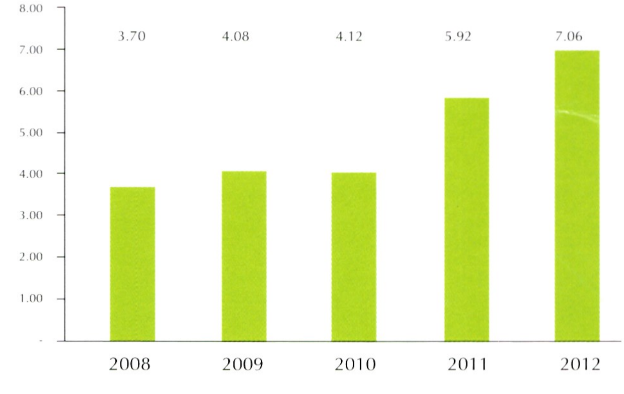
Rendement (%)



Profit Before Tax (Kshs. Millions)



Gross Turnover (Kshs. billions)



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