

**MUMIAS SUGAR COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2015**

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<b>Board of directors</b>	Mr D Ameyo - Chairman Mr H Rotich (alternate Mr F Kingori, appointed 24th September 2014) Mr J K Barot (appointed 5th December 2014) Mrs N Kaminchia Nancy Mrs E Kyengo Elizabeth Mr J Mathenge (appointed 5th December 2014) Mr J Opindi Mrs E Koimett (alternate to Mr H Rotich, resigned 24th September 2014) Mr J G Chege (resigned 5th December 2014) Mr F K Kigen (resigned 5th December 2014) Mr N Namenge (resigned 9th March 2014) Mr C Otolo (resigned 31 July 2015)
<b>Company secretary</b>	Ms Diana Barasa Amuhaya Certified Public Secretary (Kenya) Private Bag, Mumias.
<b>Registered office</b>	Mumias Sugar Company Limited Private Bag, Mumias.
<b>Independent auditor</b>	RSM Ashvir Certified Public Accountants 1st Floor, Pacis Centre, Slip Road, off Waiyaki Way, Westlands P.O. Box 349 - 00606 Nairobi, Kenya.
<b>Principal bankers</b>	Kenya Commercial Bank Limited Kencom House P.O. Box 48400 - 00100 Nairobi, Kenya.  Barclays Bank of Kenya Limited Corporate Banking Corporate Service Centre The West End Level 3, Waiyaki Way P.O. Box 30120 - 00100 Nairobi, Kenya.  Ecobank Kenya Limited Ecobank Towers, 15th Floor Muindi Mbingu Street P.O. Box 49584 - 00100 Nairobi, Kenya.  CFC Stanbic Bank Limited CFC Stanbic Centre P.O. Box 72833 - 00200 Nairobi, Kenya.  Equity Bank (Kenya) Limited Equity Centre, 9th Floor Hospital Road, Upper Hill P.O. Box 75104 - 00200 Nairobi, Kenya.
<b>Legal advisers</b>	Hamilton Harrison & Mathews Advocates Mohammed Muigai & Company Advocates Professor Tom Ojenda & Associates Wetangula Adan Makokha & Company Advocates

The directors submit their report together with the audited financial statements for the year ended 30th June 2015, which disclose the state of affairs of the company.

**Incorporation**

The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act. Its shares are listed on the Nairobi Securities Exchange. The address of the registered office is set out on page 1.

**Principal activities**

The principal activities of the company are the production and sale of sugar, ethanol, water and the generation and sale of electricity.

**Results and dividends**

The net loss for the year of Shs 4,644,801,000 (2014: Shs 2,706,595,000) has been transferred to retained earnings. The directors do not recommend the declaration of a dividend for the year.

**Directorate**

The directors who held office during the year and to the date of this report are set out on page 1.

**Auditor**

RSM Ashvir was appointed the company's auditor by the board and has expressed its willingness to continue in office in accordance with the Section 159(2) of the Kenyan Companies Act.

**By order of the board**

.....  
**Company Secretary**

**Nairobi, 28th September 2015**

The Kenyan 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 for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.


The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:


- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

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 as at 30th June 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Having made an assessment of the company's ability to continue as a going concern, the directors believe that the going concern basis is appropriate in preparing the financial statements for the year ended 30th June 2015.

Approved by the board of directors on 28th September 2015 and signed on its behalf by:

  
.....  
Director

  
.....  
Director

RSM Ashvir  
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**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF MUMIAS SUGAR COMPANY LIMITED**

We have audited the accompanying financial statements of Mumias Sugar Company Limited, set out on pages 6 to 49 which comprise the balance sheet as at 30th June 2015, the profit and loss account, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 30th June 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to:

- i) Note 35 of the financial statements which states that the company's financial statements have been prepared on a going concern basis on the assumption that the shareholders' and lenders will continue their support by providing adequate funding.
- ii) Note 17 of the financial statements which states that due to the current performance of the company, the directors have carried out an assessment on the impairment of property plant and equipment as required under International Accounting Standard 36 - Impairment of Assets. Based on this assessment, no further provision for impairment is required beyond that made in the prior year. However, this assessment is based on the successful achievement of the turnaround of the company's operations as stated in Note 35.

Our opinion is not qualified in respect of either of these matters.

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF MUMIAS SUGAR COMPANY LIMITED (CONTINUED)**

**Report on other Legal Requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report was FCPA Ashif Kassam, Practising Certificate No. 1126.

*RSM Ashif*  
Certified Public Accountants  
Nairobi

.....*28<sup>th</sup> September*..... 2015  
396/2015

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2015**

	Note	2015 Shs'000	2014 Shs'000
Revenue	5	5,531,357	13,075,912
Cost of sales		<u>(7,191,569)</u>	<u>(12,227,708)</u>
<b>Gross (loss)/profit</b>		(1,660,212)	848,204
Fair value gain/(loss) on biological assets	22	25,521	(91,547)
Other income		95,166	376,074
Marketing and distribution costs		(388,354)	(929,128)
Administrative expenses		(2,408,415)	(3,058,184)
Impairment of assets	6	(870,247)	(213,088)
Interest income	7 (a)	143,039	264,020
Finance costs	7 (b)	<u>(1,243,755)</u>	<u>(601,397)</u>
<b>Loss before tax</b>	8	(6,307,257)	(3,405,046)
Tax income	9	<u>1,662,456</u>	<u>698,451</u>
<b>Loss for the year</b>		<u><u>(4,644,801)</u></u>	<u><u>(2,706,595)</u></u>
<b>Earnings per share</b>		<b>Shs</b>	<b>Shs</b>
Loss per share - basic and diluted	10	<u><u>(3.04)</u></u>	<u><u>(1.77)</u></u>




STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2015

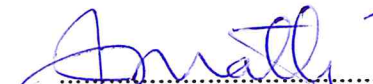
	Note	2015 Shs'000	2014 Shs'000
Loss for the year		<u>(4,644,801)</u>	<u>(2,706,595)</u>
Other comprehensive income			
<u>Items that will not be reclassified subsequently to profit or loss:</u>			
Remeasurement of defined benefit obligations	16	(92,800)	(48,700)
Deferred tax relating to remeasurement of defined benefit obligations		<u>27,840</u>	<u>14,610</u>
		<u>(64,960)</u>	<u>(34,090)</u>
Total comprehensive loss for the year attributable to the owners of the company		<u><u>(4,709,761)</u></u>	<u><u>(2,740,685)</u></u>

BALANCE SHEET AT 30TH JUNE 2015

	Note	2015 Shs'000	2014 Shs'000
<b>EQUITY</b>			
Share capital	12	3,060,000	3,060,000
Revaluation surplus	13	1,955,580	3,071,442
Retained earnings		916,464	4,510,363
<b>Total equity</b>		<u>5,932,044</u>	<u>10,641,805</u>
<b>Non-current liabilities</b>			
Borrowings	14	725,139	494,353
Deferred income tax	15	55,255	1,765,113
Provision for service gratuity	16	4,724	7,838
Deferred grant income	29	45,811	18,828
		<u>830,929</u>	<u>2,286,132</u>
		<u>6,762,973</u>	<u>12,927,937</u>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	17,642,077	18,819,230
Intangible assets	19	110,780	156,172
Non-current staff receivables	20	49,458	108,980
Retirement benefit asset	16	57,700	125,400
		<u>17,860,015</u>	<u>19,209,782</u>
<b>Current assets</b>			
Inventories	21	714,780	1,118,959
Biological assets	22	116,259	157,352
Trade and other receivables	23	1,530,913	2,550,785
Current tax recoverable		158,954	178,454
Assets held for sale	17	3,884	-
Collateral deposit	24	-	306,694
Short term deposit	25	-	9,812
Cash at bank and in hand	27	18,759	31,248
		<u>2,543,549</u>	<u>4,353,304</u>
<b>Current liabilities</b>			
Trade and other payables	28	7,569,979	4,898,879
Borrowings	14	5,569,017	5,245,518
Provision for service gratuity	16	29,093	17,350
Accrued leave	30	31,056	28,101
Unclaimed dividends	11	441,446	445,301
		<u>13,640,591</u>	<u>10,635,149</u>
<b>Net current liabilities</b>		<u>(11,097,042)</u>	<u>(6,281,845)</u>
		<u>6,762,973</u>	<u>12,927,937</u>

The financial statements on pages 6 to 49 were authorised for issue by the board of directors on 28th September 2015 and were signed on its behalf by:

  
 Director

  
 Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2015

	Note	Share capital Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Total Shs'000
<b>At 1st July 2013</b>		3,060,000	3,173,432	7,149,058	13,382,490
<b>Changes in equity in 2014</b>					
Loss for the year		-	-	(2,706,595)	(2,706,595)
Other comprehensive loss for the year		-	-	(34,090)	(34,090)
Transfer on disposal of equipment		-	(17,754)	17,754	-
Deferred tax on transferred on disposal of equipment		-	5,326	(5,326)	-
Transfer of excess depreciation		-	(127,946)	127,946	-
Deferred tax on excess depreciation		-	38,384	(38,384)	-
<b>At 30th June 2014</b>		<u>3,060,000</u>	<u>3,071,442</u>	<u>4,510,363</u>	<u>10,641,805</u>
<b>At 1st July 2014</b>		3,060,000	3,071,442	4,510,363	10,641,805
<b>Changes in equity in 2015</b>					
Loss for the year		-	-	(4,644,801)	(4,644,801)
Other comprehensive loss for the year		-	-	(64,960)	(64,960)
Revaluation adjustment	13	-	(1,115,862)	1,115,862	-
<b>At 30th June 2015</b>		<u>3,060,000</u>	<u>1,955,580</u>	<u>916,464</u>	<u>5,932,044</u>

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2015 Shs'000	2014 Shs'000
<b>Cash flows from operating activities</b>			
Loss for the year		(4,644,801)	(2,706,595)
Adjustments for:			
Income tax expense	9	(1,662,456)	(698,451)
Depreciation of property, plant and equipment	17	1,221,817	1,221,463
Amortisation of intangible assets	19	18,641	24,620
(Gain)/loss on disposal of non current assets held for sale		(10)	17,053
Exchange difference on collateral deposit		(12,973)	(4,769)
Foreign exchange losses/(gains) on borrowings		204,640	(77,063)
Loss on disposal of quoted investments		-	594
Loss on impairment of intangible assets		30,359	165,344
Impairment of property, plant and equipment		-	76,327
Increase in provision for service gratuity	16	8,629	9,072
Increase/(decrease) in provision for staff leave pay		2,955	(15,525)
Increase in retirement benefit asset		(25,100)	(40,500)
Interest income		(143,039)	(264,020)
Interest and financial charges		922,396	674,650
<b>Operating loss before working capital changes</b>		<b>(4,078,942)</b>	<b>(1,617,800)</b>
Decrease in:			
Non-current receivables		59,522	48,715
Inventories		404,179	1,344,105
Biological assets		41,093	62,026
Trade and other receivables		1,019,872	1,215,081
Increase in:			
Trade and other payables		2,671,100	54,207
<b>Cash generated from operations</b>		<b>116,824</b>	<b>1,106,334</b>
Interest income		143,039	264,020
Interest and financial charges		(922,396)	(674,650)
Income tax paid		(61)	(730)
<b>Net cash (used in)/generated from operating activities</b>		<b>(662,594)</b>	<b>694,974</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	17	(48,548)	(509,072)
Purchase of intangible assets	19	(3,608)	(30,460)
Proceeds on disposal of non-current assets held for sale		10	1,657
Proceeds on disposal of quoted investments		-	43,512
<b>Net cash used in investing activities</b>		<b>(52,146)</b>	<b>(494,363)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		620,155	1,201,071
Repayments of long-term borrowings		(601,853)	(1,782,615)
Dividends paid		(3,855)	(11,074)
Proceeds from grants		26,983	3,449
<b>Net cash generated from/(used in) financing activities</b>		<b>41,430</b>	<b>(589,169)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(673,310)</b>	<b>(388,558)</b>
<b>Cash and cash equivalents at 1st July</b>		<b>(1,328,839)</b>	<b>(940,281)</b>
<b>Cash and cash equivalents at 30th June</b>	27	<b>(2,002,149)</b>	<b>(1,328,839)</b>

## NOTES

### 1. Summary of significant accounting policies

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

#### a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (Shs'000).

The financial statements comprise a profit and loss account (income statement), statement of comprehensive income, balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognised in the profit and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

#### Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

#### b) New and revised standards

##### i) Adoption of new and revised standards

A number of amendments to standards and one interpretation became effective for the first time in the financial year beginning 1st July 2014 and have been adopted by the company. None of them has had an effect on the company's financial statements.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

b) New and revised standards (continued)

ii) New and revised standards and interpretations which have been issued but are not yet effective

The company has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1st July 2014:

- IFRS 14 Regulatory Deferral Accounts (issued in January 2014, effective for annual accounting periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014, applicable prospectively to annual periods beginning on or after 1 July 2016)
- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014, applicable to annual periods beginning on or after 1 January 2016)
- Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014, applicable to annual periods beginning on or after 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014, effective for annual periods beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments (issued in July 2014, effective for annual periods beginning on or after 1 January 2018)
- Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014, effective for annual periods beginning on or after 1 January 2016)

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

**NOTES (CONTINUED)**

**1. Summary of significant accounting policies (continued)**

**c) Translation of foreign currencies**

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise.

**d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of sugar, molasses, water and ethanol is recognised when all the following conditions are satisfied and are stated net of Value Added Tax (VAT), Sugar Development Levy and excise duty;

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

Sugar Development Levy does not apply to export sugar and molasses sales. Value Added Tax does not apply to export sugar sales as well as sales to exempted entities.

**Sale of electricity**

Revenue from electricity sales is recognised based on kilowatt hours (KWH) of power exported to the national grid and capacity charges as provided for under a Power Purchase Agreement (PPA) with the Kenya Power & Lighting Company Limited.

**Dividend income**

Dividend income from equity securities is recognised when the company's right to receive payment has been established provided that it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably.

**Interest income**

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

**Other income**

All other income earned by the company is recognised in the period in which it is earned.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

e) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

f) Deferred grant income

Grants related to acquisition of equipment are accounted for as deferred income and are recognised through profit or loss on a systematic basis over the useful life of the equipment.

g) Income tax

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit and loss account except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax

Current tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

h) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity.



NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

i) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

j) Provisions for liabilities

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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

k) Post-employment benefit obligations

**Defined contribution**

The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the company pays fixed contributions into a separate fund, and has no legal or constructive obligation 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 or prior periods. The company's contributions are charged to the profit and loss account in the year to which they relate.

**Defined benefit**

The company operates a defined benefit post employment scheme for eligible non unionisable employees. The scheme is funded by contributions from both employer and employee. The assets of the scheme are held and administered independently of the company's assets.

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

**Other post - employment benefits**

The company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

l) Contract gratuity

The company has fixed term service contracts with some of the employees. A contract gratuity of 25% of the basic pay earned over the contract period is paid at the end of the contract. The monetary liability is accrued at the end of each year based on the completed period of service.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

m) Other employee benefits

a) Bonus scheme

The company operates a bonus scheme for its employees. The bonus is recognised upon attainment of set annual performance targets and is recognised in the period in which the services were rendered.

b) Restructuring and rationalisation provisions

Restructuring and rationalisation provisions mainly comprise employee termination payments and are recognised in the period in which the company becomes legally or constructively committed to payment.

c) Staff leave pay

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

n) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment. Freehold land, buildings and plant and machinery are subsequently carried at a revalued amount, based on valuations that are carried out every 5 year by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that it will increase the future economic benefits associated with the item that will flow to the company over those originally assessed and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the following annual rates:

	<u>Rate - %</u>
Land development	2½
Buildings	2½ - 5
Factory plant and machinery	5 - 10
Heavy mobile machinery	12½ - 25
Motor vehicles	20 - 33½
Other equipment and fixtures	12½ - 33½

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately.

**NOTES (CONTINUED)**

**1. Summary of significant accounting policies (continued)**

**n) Property, plant and equipment (continued)**

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

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

**o) Intangible assets**

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 20%.

**p) Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the developmental phase of an internal project) is recognised if and only if, all of the following have been demonstrated.

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measurement reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally - generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets recognition criteria listed above. Where no internally - generated intangible asset can be recognised, development expenditure is charged through profit or loss in the period in which it is incurred.

**q) Impairment of non-financial assets**

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, 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.

**r) Inventories**

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

**NOTES (CONTINUED)**

**1. Summary of significant accounting policies (continued)**

**r) Inventories (continued)**

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

**s) Biological assets**

Biological assets (cane growing) and agricultural produce (harvested cane) at the point of harvest are measured at their fair values less estimated costs to sale.

The fair value of growing cane is determined based on the present value of expected net cash flows (level 3). The fair value of harvested cane is determined based on the prices of cane existing in the market less estimated point of sale costs (level 2).

Immature growing cane is measured at cost.

**t) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be principally recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and the fair value less costs to sell.

**u) Leases**

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

*Company as a lessor*

Rental income from operating leases is recognized on the straight line basis over the term of the relevant lease.

*Company as a lessee*

Rentals payable under operating leases are charged to profit or loss on the straight-line basis over the term of the relevant lease. Any payment required to be made to the lessor by way of penalty, for termination of leases before the expiry of the lease period, is recognised in the year in which termination takes place.

**v) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

w) Financial instruments

Classification

The company classifies its financial instruments into the following categories:

- i) **Loans and receivables**, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- ii) **Financial liabilities**, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

Classification

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables'.
- Borrowings and trade and other liabilities were classified as financial liabilities.

Recognition and measurement

*Financial assets:*

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

*Financial assets:*

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or

The company assesses at each balance sheet whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

w) Financial instruments (continued)

Changes in the carrying values and impairment losses loans and receivables are recognised in the profit and loss account. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

*Financial liabilities:*

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit and loss, which are initially recognised at fair value and the transaction costs expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

Presentation

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with maturities of less than 12 months from the balance sheet date, those which the directors have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Derecognition

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

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

x) Impairment

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

NOTES (CONTINUED)

**2. Significant judgements and key sources of estimation uncertainty**

In the process of applying the accounting policies adopted by the company, the directors make certain judgements and estimates that may affect the amounts recognised in the financial statements. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

**a) Significant judgements made in applying the company's accounting policies**

The judgements made by the directors in the process of applying the company's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

- i) Whether it is probable that future taxable profits will be available against which temporary differences can be utilised.
- ii) Whether assets are impaired. The company's property, plant and equipment and intangible assets are stated at cost less accumulated depreciation/amortization and any impairment losses. The directors have not identified any intangible assets with indefinite useful lives. The assets are depreciated or amortized over their estimated useful lives to their estimated residual values. Both the estimated useful life and the residual value are reviewed at least at each financial year-end. The carrying amount of the company's non-current assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount will not be recovered. The carrying amount of intangible assets not yet available for use is tested annually. If such analysis indicates an excessive carrying amount, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less selling costs, and its value in use. Value in use is measured as the discounted future cash flows of the asset, alternatively the cash-generating unit to which the asset belongs. A call for an impairment test also arises when a non-current asset is classified as being held for sale, at which time it must be re-measured at the lower of its carrying amount and fair value less cost to sell.
- iii) The company's business activities together with factors likely to affect its future development, performance and financial position are set out in Note 35. In addition, Note 3 to the financial statements include the company's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk. The directors have conducted a going concern assessment covering at least twelve months from the date of approval of these financial statements and have reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

**b) Key sources of estimation uncertainty**

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

*i) Retirement benefit obligations*

Assumptions made by the actuary in determining the present value of retirement benefit obligations. The carrying amount of the provision and the key assumptions made in estimating the provision are set out in Note 16.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

b) Key sources of estimation uncertainty (continued)

ii) *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 22.

iii) *Impairment*

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

v) *Contingent liabilities*

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

3. Risk management objectives and policies

a) **Overview**

The company's activities expose it to a variety of financial risks. These activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

- (i) Market risk
- (ii) Liquidity risk

The company's financial risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits. This is achieved by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in markets and emerging best practices.

The company's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimize potential adverse effects of such risks on its financial performance within the options available in the Kenyan market by setting acceptable levels of risks. Financial risk management is carried out by senior management under the supervision of the Board of Directors. Management in conjunction with various committees then identifies, evaluates and addresses risks accordingly.

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



NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Overview (continued)

i) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company is exposed to this risk in several areas including trade and other receivables and cash and cash equivalents. However, the company's credit risk is concentrated mainly in advances issued to farmers in the form of farming inputs and in trade receivables in the form of sugar debtors.

The company gives advances to farmers in the form of farming inputs to facilitate sugarcane crop establishment and to improve the productivity of the growing crop. Advances to farmers are eventually deducted from the value of the cane delivered upon harvesting. The key risk is therefore that the yield from the crop will not be sufficient to cover the advanced credit.

The company counters this risk by placing significant emphasis on the vetting and selection of farmers. This is done with the aid of comprehensive and documented criteria which includes a review of farmers' payment histories. The company also monitors budgeted sales outputs and expected factory crushing capacity and also forecasts of expected environmental conditions to aid it in budgeting for these advances. However the existence of favourable weather conditions will always remain outside the control of the company. Political upheavals and general unrest also pose a risk to the company usually resulting to burning of immature cane. Burning of immature cane reduces the quality of the yield from such cane in addition to raising production costs and waste. While an element of this risk is outside the company's control, it has however sought to mitigate this risk by enhancing security in its nucleus estates. The company does not purchase burnt cane from farmers in order to discourage irresponsible burning of immature cane by farmers in order to readily obtain quick cash.

The company is in the process of expanding its operations to avoid over-reliance on the small holder out-grower system with its significant operational challenges. This is mainly through expanding to other farming areas where it can employ the mechanized plantation farming which is expected to be easier and less costly to manage, result in higher per hectare productivity and reduced operational costs hence making the business more competitive and as a result yield higher returns for the shareholders. The company has also diversified into energy production, ethanol and water to reduce over reliance on sugar sales.

The bulk of the company's revenue relates to sugar sales. The company has a documented credit policy whose management and implementation is overseen by a Credit Committee. The Committee manages limits and controls concentrations of credit risk wherever they are identified. It structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to a debtor or categories of debtors. Such risks are monitored on a regular basis and are subject to regular reviews.

Exposure to credit risk is managed through regular analysis of the ability of credit customers to meet their obligations and by adjusting the limits appropriately. The credit risk on trade receivables is further mitigated by requiring most credit customers to provide guarantees issued by reputable banks recommended by the company.

In measuring credit risk relating to trade receivables, the company therefore reflects three components: The 'probability of default' by the customer or counterparty on its contractual obligations; current exposures to the counterparty and its likely future development, from which the company derive the 'exposure at default'; and the likely recovery ratio on the defaulted obligations.

NOTES (CONTINUED)

3. Risk management objectives and policies

a) Overview (continued)

i) Credit risk (continued)

With regard to impairment of outstanding receivables, it is the company's policy to assess/review all debts over 90 days for impairment and to provide for all debts where a debtor is declared bankrupt or facing financial difficulties. In some cases where an unsecured customer is in arrears the whole amount is provided for.

The credit risk relating to bank balances is limited because the counter parties are banks with high credit ratings assigned by banking regulatory authority.

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

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

**Collateral**

The collateral held for sugar debtors include guarantees from reputable banks recommended by the company. Staff debtors mainly comprise car loans advanced to members of staff. The vehicles are jointly registered in the employee and company's name and hence there is no significant exposure arising from staff receivables. The credit risk on liquid funds is limited because the counterparties are commercial banks with high credit-ratings assigned by international credit-rating agencies. No collateral is held for advances to farmers.

The credit risk exposures are classified in three categories:

**Fully performing**

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

**Past due but not impaired**

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

**Impaired**

Impaired financial assets are those for which the company determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt, or the collateral doesn't sufficiently cover the exposure.

On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

NOTES (CONTINUED)

3. Risk management objectives and policies

a) Overview (continued)

i) Credit risk (continued)

Analysis of credit risk exposure

The company's largest customer accounted for 15% of its current year sales (2014: 24%).

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2015 is made up as follows:

	Fully performing Shs'000	Past due but not impaired Shs'000	Past due and impaired Shs'000	Total Shs'000
<b>31st December 2015</b>				
Trade receivables	9,625	5,053	-	14,678
Receivables from farmers	521,919	303,449	292,661	1,118,029
MOCO receivables	-	-	-	-
Other receivables	138,075	-	-	138,075
Staff receivables	95,206	-	-	95,206
Cash at bank	18,759	-	-	18,759
Gross financial assets	<u>783,584</u>	<u>308,502</u>	<u>292,661</u>	<u>1,384,747</u>

	Fully performing Shs'000	Past due but not impaired Shs'000	Past due and impaired Shs'000	Total Shs'000
<b>31st December 2014</b>				
Trade receivables	226,532	44,957	-	271,489
Receivables from farmers	1,143,233	548,913	-	1,692,146
MOCO receivables	-	-	-	-
Other receivables	210,748	-	-	210,748
Staff receivables	197,015	-	-	197,015
Collateral deposit	306,694	-	-	306,694
Short term deposits	9,812	-	-	9,812
Cash at bank	29,485	-	-	29,485
Gross financial assets	<u>2,123,519</u>	<u>593,870</u>	<u>-</u>	<u>2,717,389</u>

The ageing analysis of past due but not impaired trade receivables is:

	2015 Shs'000	2014 Shs'000
1-3 months	5,053	44,957
Above 3 months	<u>303,449</u>	<u>548,913</u>
	<u>308,502</u>	<u>593,870</u>

NOTES (CONTINUED)

3. Risk management objectives and policies

a) Overview (continued)

i) Credit risk (continued)

Analysis of credit risk exposure (continued)

Impaired receivables are stated net of the provision held against them.

ii) Liquidity risk

This is the risk that the company will encounter difficulties in meeting its financial commitments from its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the company's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements.

The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In addition, all major capital investments are funded by a mixture of equity and long term debt.

The following table analyses the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company may be required to pay. The tables include both interest and principal cash flows and exclude the impact of netting agreements.

	Less than 12 months Shs'000	Between 1-5 years Shs'000	Total Shs'000
<b>Year ended 30th June 2015</b>			
Trade and other payables	6,135,862	-	6,135,862
Payables to outgrowers	1,205,958	-	1,205,958
Borrowings - bank	3,183,577	725,139	3,908,716
- others	2,385,440	-	2,385,440
	<u>12,910,837</u>	<u>725,139</u>	<u>13,635,976</u>
	Less than 12 months Shs'000	Between 1-5 years Shs'000	Total Shs'000
<b>Year ended 30th June 2014</b>			
Trade and other payables	3,790,090	-	3,790,090
Payables to outgrowers	898,767	-	898,767
Borrowings - bank	3,258,080	494,353	3,752,433
- others	1,987,438	-	1,987,438
	<u>9,934,375</u>	<u>494,353</u>	<u>10,428,728</u>

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Overview (continued)

iii) Market risk management

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

i) Interest rate risk

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

At 30 June 2015, an increase/decrease of 3 percentage points on interest rates would have resulted in a decrease/increase in pre-tax loss of Shs 9,286,675 (2014: Shs 8,308,000). The interest rate on the PROPARCO loan and Barclays bank loans are fixed thereby eliminating the interest rate risk. This has not been factored in the sensitivity analysis above.

Currency risk

Currency risk arises on financial instruments denominated in foreign currency. The company has trade receivables, trade payables and borrowings that are denominated in foreign currency.

The significant exposure in respect of each currency is as follows:

	US\$ Shs'000	GBP Shs'000	Euro Shs'000	SAR Shs'000	Total Shs'000
<b>Year ended 30th June 2015</b>					
Trade receivables	138,869	7,949	33,763	37,521	218,102
Trade payables	(144,883)	-	(61,489)	-	(206,372)
Borrowings	(2,618,604)	-	-	-	(2,618,604)
Net exposure	<u>(2,624,618)</u>	<u>7,949</u>	<u>(27,726)</u>	<u>37,521</u>	<u>(2,606,874)</u>
<b>Year ended 30th June 2014</b>					
Trade receivables	73,380	15,956	37,980	25,682	152,998
Trade payables	(271,114)	-	(64,998)	-	(336,112)
Borrowings	(2,615,215)	-	-	-	(2,615,215)
Net exposure	<u>(2,812,949)</u>	<u>15,956</u>	<u>(27,018)</u>	<u>25,682</u>	<u>(2,798,329)</u>

Management considers that an appreciation or depreciation of the United States Dollar, the Sterling Pound, the South African Rand and the Euro against the Kenya Shilling of 10% in the year ending 30th June 2015 are both reasonably possible. If the United States Dollar, the Sterling Pound, the South African Rand and the Euro were to appreciate/depreciate against the Kenya Shilling by the said percentage, with all other factors remaining constant, the post tax loss would be lower/higher by Shs 257,644,315 (2014: Shs 12,423,212).

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Capital management

The company's objectives when managing capital are:

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

The capital structure of the company consists of debt, which includes the borrowings less cash and cash equivalents and equity attributable to equity holders, comprising issued capital, revaluation surplus and retained earnings.

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risk associate with each class of capital. Based on the review, the board considers and analyses and assesses the gearing ratio to determine the appropriate levels. This ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings less cash and cash equivalents.

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

	2015 Shs'000	2014 Shs'000
The gearing ratio at the year-end was as follows:		
Total borrowings	6,294,156	5,739,871
Less: cash and cash equivalents	<u>18,759</u>	<u>41,060</u>
Net debt	6,275,397	5,698,811
Total equity	<u>5,932,044</u>	<u>10,641,805</u>
Total capital resources	<u>12,207,441</u>	<u>16,340,616</u>
Gearing	<u>51.41%</u>	<u>34.88%</u>

4. Segmental information

a) Products and services from which reportable segments derive their revenues

Information reported to the company's chief operating decision maker (the Managing Director) for the purposes of resource allocation and assessment of segment performance is focused on the principal activities of the company.

The company identifies its reportable operating segments on the basis of products as indicated below;

- Sugar segment which primarily produces and sells sugar and molasses.
- Energy segment which generates electricity from bagasse (a by product of sugar production) for sale to Kenya Power & lightning Company Limited.
- Ethanol segment which primarily produces and sells ethanol.
- Water segment which primarily produces and sells bottled drinking water.

NOTES (CONTINUED)

4. Segmental information (continued)

b) Segment revenues and results, assets and liabilities

At 30th June 2015	Sugar Shs'000	Energy Shs'000	Ethanol Shs'000	Water Shs'000	Total Shs'000
Revenue from customers	4,681,286	58,802	771,519	19,750	5,531,357
Inter-segment sales	(127,507)	274,719	(147,212)	-	-
	<u>4,553,779</u>	<u>333,521</u>	<u>624,307</u>	<u>19,750</u>	<u>5,531,357</u>
Cost of sales	<u>(6,044,103)</u>	<u>(587,676)</u>	<u>(417,139)</u>	<u>(142,651)</u>	<u>(7,191,569)</u>
Fair value changes on biological assets	<u>25,521</u>	-	-	-	<u>25,521</u>
Loss before tax	(5,800,040)	(411,062)	79,116	(175,271)	(6,307,257)
Finance costs	(972,737)	(155,264)	(115,754)	-	(1,243,755)
Interest income	143,040	-	-	-	143,040
Depreciation and amortization	<u>(3,094,122)</u>	<u>(274,210)</u>	<u>(259,037)</u>	<u>(26,314)</u>	<u>(3,653,683)</u>
Segment EBITDA	<u>(1,590,141)</u>	<u>18,412</u>	<u>453,907</u>	<u>(148,957)</u>	<u>(1,266,779)</u>
Segment assets	<u>10,238,633</u>	<u>5,275,938</u>	<u>4,464,362</u>	<u>424,631</u>	<u>20,403,564</u>
Segment liabilities	<u>12,915,640</u>	<u>93,517</u>	<u>1,457,947</u>	<u>4,416</u>	<u>14,471,520</u>
At 30 June 2014	Sugar Shs'000	Energy Shs'000	Ethanol Shs'000	Water Shs'000	Total Shs'000
Revenue from customers	11,781,326	230,090	1,031,934	32,562	13,075,912
Inter-segment sales	132,815	76,818	(209,633)	-	-
	<u>11,914,141</u>	<u>306,908</u>	<u>822,301</u>	<u>32,562</u>	<u>13,075,912</u>
Cost of sales	<u>(10,766,335)</u>	<u>(652,488)</u>	<u>(644,768)</u>	<u>(164,117)</u>	<u>(12,227,708)</u>
Fair value changes on biological assets	<u>(91,547)</u>	-	-	-	<u>(91,547)</u>
(Loss)/profit before tax	(2,914,068)	(454,119)	155,673	(192,532)	(3,405,046)
Finance costs	(339,565)	(105,576)	(156,256)	-	(601,397)
Finance income	263,322	698	-	-	264,020
Depreciation and amortization	<u>(709,837)</u>	<u>(257,141)</u>	<u>(252,759)</u>	<u>(26,346)</u>	<u>(1,246,083)</u>
Segment EBITDA	<u>(1,854,041)</u>	<u>(92,100)</u>	<u>564,688</u>	<u>(206,686)</u>	<u>(1,588,139)</u>
Segment assets	<u>13,553,039</u>	<u>4,869,670</u>	<u>4,726,151</u>	<u>414,226</u>	<u>23,563,086</u>
Segment liabilities	<u>5,538,040</u>	<u>3,255,835</u>	<u>3,554,081</u>	<u>573,325</u>	<u>12,921,281</u>

NOTES (CONTINUED)

4. Segmental information (continued)

- c) Revenue reported above represents revenue generated from external customers, except for the inter-segment sales identified in year 2015.

Segment liabilities represent long term loans and current liabilities only.

**Information on major customers**

Included in revenue arising from sales of sugar of Shs 4.6 billion (2014: Shs 11.78 billion), is revenue of approximately Shs 838 million (2014: Shs 3.2 billion) which arose from sales to the company's largest customer.

The energy revenue solely relates to sales to Kenya Power & Lighting Company Limited (KPLC). The company has a power purchase agreement with KPLC which stipulates that the power generated by the company shall be purchased by KPLC as per agreed rates and operational parameters.

d) Other information

The accounting policies for the reportable segments are the same as the company's accounting policies described in note 1.

All the assets of the company are located in Kenya.

5. Revenue	2015 Shs'000	2014 Shs'000
Sugar sales	4,650,151	11,740,224
Molasses sales	31,135	41,102
Electricity sales	58,802	230,090
Ethanol sales	771,519	1,031,934
Water sales	19,750	32,562
	<u>5,531,357</u>	<u>13,075,912</u>
Gross sales	7,778,123	17,400,641
Less Value Added Tax	(1,073,130)	(2,392,155)
Sugar Development Levy	(186,006)	(469,609)
Excise Duty	<u>(987,630)</u>	<u>(1,462,965)</u>
Net sales	<u>5,531,357</u>	<u>13,075,912</u>
6. Impairment of assets		
Impairment of receivables	750,108	136,761
Write down of inventories	89,780	-
Impairment of intangible assets	30,359	-
Impairment of property, plant and equipment	-	76,327
	<u>870,247</u>	<u>213,088</u>



NOTES (CONTINUED)

7. Finance costs and income

	2015 Shs'000	2014 Shs'000
<b>a) Interest income:</b>		
On farmers' balances	136,490	251,556
On deposits with financial institutions held to maturity	374	698
On staff loans	6,175	11,068
On collateral deposits held to maturity	-	698
	<u>143,039</u>	<u>264,020</u>

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

(b) Finance Costs

	2015 Shs'000	2014 Shs'000
Interest expense:		
On loans	554,833	435,350
On bank overdrafts	284,168	176,133
Total interest expense	839,001	611,483
Other finance charges	83,395	63,167
Net foreign exchange loss/(gain)	321,359	(73,253)
	<u>1,243,755</u>	<u>601,397</u>

8. Loss before tax expense/income

(a) Items charged

The following items have been charged in arriving at loss before tax expense/income:

Inventories expensed	7,191,569	12,227,708
Employee benefits expense (Note 8(b))	1,950,015	2,453,824
Directors emoluments - fees	4,688	5,000
- Other	73,798	59,878
Operating lease rentals expense	14,251	23,348
Depreciation of property, plant and equipment	1,221,817	1,221,463
Amortisation of intangible assets	18,641	24,620
Loss on disposal of quoted investments	-	594
Loss on disposal of non-current assets held for sale	-	17,053
Auditors' remuneration		
Current year	5,573	6,741
Under provision in prior year	7,786	-
	<u>12,478,138</u>	<u>17,034,127</u>

(b) Employee benefits expense

The following items are included in employee benefits expense:

Salaries and allowances	1,783,148	2,263,017
Net retirement benefit expense (Note 16)	34,100	26,200
Contribution to statutory defined contribution scheme	4,359	6,582
Provident fund	35,624	39,079
Staff insurance	64,458	92,657
Staff gratuity provision	20,341	15,782
Accrued leave	7,985	10,507
	<u>1,950,015</u>	<u>2,453,824</u>

NOTES (CONTINUED)

9. Tax income	2015 Shs'000	2014 Shs'000
Current income tax	19,562	5,378
Deferred tax credit (Note 15)	<u>(1,682,018)</u>	<u>(703,829)</u>
Income tax expense/(credit)	<u><u>(1,662,456)</u></u>	<u><u>(698,451)</u></u>

The tax on the company's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Loss before income tax	<u>(6,307,257)</u>	<u>(3,405,046)</u>
Tax calculated at the statutory tax rate of 30%	(1,892,177)	(1,021,514)
Tax effect of:		
Income not subject to tax and items subject to separate tax rates	-	(101,134)
Expenses not deductible for tax purposes	268,338	240,896
Prior year under provision	144,684	-
Deferred tax losses not recognised	-	183,301
Recognition of previously unrecognised deferred tax assets	<u>(183,301)</u>	<u>-</u>
Income tax expense/(credit)	<u><u>(1,662,456)</u></u>	<u><u>(698,451)</u></u>

10. Loss per share - basic and diluted

Loss per share is calculated by dividing the loss for the year attributable to shareholders by the number of ordinary shares in issue during the year.

	2015 Shs'000	2014 Shs'000
Loss for the year (Shs' 000)	<u>(4,644,801)</u>	<u>(2,706,595)</u>
Number of ordinary shares (thousands) - Note 12	<u>1,530,000</u>	<u>1,530,000</u>
Loss per share - Basic and diluted (Shs)	<u><u>(3.04)</u></u>	<u><u>(1.77)</u></u>

There were no potentially dilutive shares outstanding at either 30 June 2015 or 30 June 2014.

11. Dividends

(a) Dividends per share

The directors do not recommend the payment of a dividend for the year (2014: Nil).

(b) The movement in the dividends payable accounts is as follows:

	2015 Shs'000	2014 Shs'000
At the beginning of year	445,301	456,375
Dividends paid	<u>(3,855)</u>	<u>(11,074)</u>
At the end of year	<u><u>441,446</u></u>	<u><u>445,301</u></u>

The unclaimed dividends relate substantially to shareholders holding smaller number of shares who have not collected their cheques and the amounts have accumulated over time.

NOTES (CONTINUED)

12. Share capital	No. of ordinary shares	Issued and fully paid up capital Shs'000
At 30th June 2015	<u>1,530,000,000</u>	<u>3,060,000</u>
At 30th June 2014	<u>1,530,000,000</u>	<u>3,060,000</u>

The total number of authorised ordinary shares is 2,500,000,000 (2014: 2,500,000,000) with a par value of Shs 2 each.

Issued and fully paid ordinary shares, which have a par value of Shs 2, carry one vote per share and carry a right to dividend.

13. Revaluation surplus

The revaluation surplus arose on the revaluation of freehold land and buildings and machinery and is stated net of deferred income tax. The surplus is not distributable. The movement during the year is a transfer of excess depreciation that was not taken to retained earnings in prior year.

14. Borrowings

Summary of borrowing arrangements	2015 Shs'000	2014 Shs'000
PROPARCO	1,501,620	1,308,309
Commercial Bank of Africa Limited	340,963	299,348
Ecobank Kenya Limited	1,116,984	1,139,815
CFC Stanbic Bank Limited	-	368,861
Kenya Commercial Bank Limited	375,076	494,353
Kenya Sugar Board	883,820	679,129
Cooperative Bank of Kenya Limited	<u>54,785</u>	<u>80,157</u>
Total loans	4,273,248	4,369,972
Bank overdrafts	<u>2,020,908</u>	<u>1,369,899</u>
Total borrowings	<u>6,294,156</u>	<u>5,739,871</u>

The borrowings are repayable as follows:

On demand or within 1 year	5,569,017	5,245,518
Long term - 1 to 5 years	<u>725,139</u>	<u>494,353</u>
Total borrowings	<u>6,294,156</u>	<u>5,739,871</u>

Analysis of borrowings by currency At 30 June 2015	Borrowings in US\$	Shillings Equivalent Shs '000	Borrowings in Shs Shs '000	Total Borrowings Shs '000
PROPARCO	15,223,327	1,501,620	-	1,501,620
Commercial Bank of Africa Limited	-	-	340,963	340,963
Ecobank Kenya Limited	9,774,675	964,168	152,816	1,116,984
Kenya Commercial Bank Limited	-	-	375,076	375,076
Kenya Sugar Board	-	-	883,820	883,820
Cooperative Bank of Kenya Limited	-	-	<u>54,785</u>	<u>54,785</u>
Bank overdraft	<u>24,998,002</u>	<u>2,465,788</u>	<u>1,807,460</u>	<u>4,273,248</u>
	<u>3,019</u>	<u>297,840</u>	<u>1,723,068</u>	<u>2,020,908</u>
	<u>25,001,021</u>	<u>2,763,628</u>	<u>3,530,528</u>	<u>6,294,156</u>

NOTES (CONTINUED)

14. Borrowings (continued)

	Borrowings in US\$	Shillings Equivalent Shs '000	Borrowings in Shs Shs '000	Total Borrowings Shs '000
<b>At 30 June 2014</b>				
PROPARCO				
Commercial Bank of Africa Limited	17,567,377	1,308,309	-	1,308,309
Ecobank Kenya Limited	-	-	299,348	299,348
CFC Stanbic Bank Limited	9,737,085	778,436	361,379	1,139,815
Kenya Commercial Bank Limited	2,986,858	264,855	104,007	368,862
Kenya Sugar Board	-	-	494,353	494,353
Cooperative Bank of Kenya Limited	-	-	679,128	679,128
			80,157	80,157
Bank overdraft	30,291,320	2,351,600	2,018,372	4,369,972
	3,008,380	263,615	1,106,284	1,369,899
	<u>33,299,700</u>	<u>2,615,215</u>	<u>3,124,656</u>	<u>5,739,871</u>

The company obtained a US\$ 10 million and Shs 800 million syndicate loan facility from a consortium of Ecobank Limited, Commercial Bank of Africa Limited and Bank of Africa Limited for part financing of the Ethanol Distillery Project. The loan continues to accrue interest at an average rate of 5.55% and 13.36% respectively. The loan is repayable by quarterly instalments over a period of 6 years and is secured by a fixed charge over the Ethanol plant.

At the close of the financial year, the company had undrawn committed banking facilities amounting to Shs Nil (2014: Shs Nil). The banking facilities consist of bank overdrafts, guarantees and letters of credit. The banking facilities are secured by legal charges over L.R. Mumias Sugar Scheme/2 and fixed and floating debentures over all of the company's assets shared out on a parri passu basis by Kenya Commercial Bank Limited, and CFC Stanbic Bank Limited, with Barclays Bank of Kenya Limited.

During the year, the company defaulted on principal and interest repayments on all the loans and facilities. Consequently, the company engaged the lenders to restructure the loans.

NOTES (CONTINUED)

15. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2014: 30%).

Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the profit and loss account and in other comprehensive income (restated) are attributable to the following items:

Year ended 30th June 2015	At 1st July 2014 Shs'000	(Credited)/ charged to profit or loss Shs'000	(Credited)/ charged to other comprehensive income Shs'000	At 30th June 2015 Shs'000
<b>Deferred income tax liabilities</b>				
Property, plant and equipment on historical cost basis	3,462,115	162,302	-	3,624,417
on revaluation surplus	1,316,332	(478,226)	-	838,106
Unrealized exchange gains	186,127	86,786	-	272,913
Defined benefits obligation	37,620	7,530	(27,840)	17,310
	<u>5,002,194</u>	<u>(221,608)</u>	<u>(27,840)</u>	<u>4,752,746</u>
<b>Deferred income tax assets</b>				
Provision for service gratuity	(7,556)	(2,589)	-	(10,145)
Provision for staff leave pay	(8,430)	(887)	-	(9,317)
Provision for legal fees	-	(17,610)	-	(17,610)
Fair value adjustments - biological assets	(119,545)	84,667	-	(34,878)
General doubtful debts provision	(140,422)	-	-	(140,422)
General provision for writedown of inventories	(26,476)	-	-	(26,476)
Tax losses	(2,934,652)	(1,523,991)	-	(4,458,643)
	<u>(3,237,081)</u>	<u>(1,460,410)</u>	<u>-</u>	<u>(4,697,491)</u>
<b>Net deferred tax liability/(asset)</b>	<u>1,765,113</u>	<u>(1,682,018)</u>	<u>(27,840)</u>	<u>55,255</u>

NOTES (CONTINUED)

15. Deferred income tax (continued)

Year ended 30th June 2014	At 1st July 2013 Shs'000	(Credited) /charged to profit or loss Shs'000	(Credited) /charged to other comprehensive income Shs'000	At 30th June 2014 Shs'000
<b>Deferred income tax liabilities</b>				
Property, plant and equipment on historical cost basis	3,625,810	(163,695)	-	3,462,115
on revaluation surplus	1,360,042	-	(43,710)	1,316,332
Unrealized exchange gains	56,183	129,944	-	186,127
Defined benefit obligation	69,180	(31,560)	-	37,620
	<u>5,111,215</u>	<u>(65,311)</u>	<u>(43,710)</u>	<u>5,002,194</u>
<b>Deferred income tax assets</b>				
Provision for service gratuity	(4,835)	(2,721)	-	(7,556)
Provision for staff leave pay	(13,088)	4,658	-	(8,430)
Fair value adjustments - biological assets	(92,081)	(27,464)	-	(119,545)
General doubtful debts provision	(86,196)	(54,226)	-	(140,422)
General provision for stock impairment	(4,770)	(21,706)	-	(26,476)
Tax losses	(2,397,593)	(537,059)	-	(2,934,652)
	<u>(2,598,563)</u>	<u>(638,518)</u>	<u>-</u>	<u>(3,237,081)</u>
<b>Net deferred tax liability/(asset)</b>	<u>2,512,652</u>	<u>(703,829)</u>	<u>(43,710)</u>	<u>1,765,113</u>

Under the Kenyan Income Tax Act, tax losses are allowable as a deduction only in the nine years succeeding the year in which they occurred. The tax losses of Shs 14,862,142,519 carried forward will expire as follows:

Arising in:	Tax losses	Expiring:
2010 and prior periods	611,074,757	30th June 2015
2011	-	Not applicable
2012	6,257,348,137	30th June 2021
2013	1,122,053,102	30th June 2022
2014	2,388,566,939	30th June 2023
2015	<u>4,483,099,584</u>	30th June 2024
Tax losses carried forward	<u>14,862,142,519</u>	

The deferred tax asset has been recognised based on the projected future taxable profits that will be available against which the deductible temporary differences and tax losses can be utilised.

NOTES (CONTINUED)

16. Retirement benefits obligations	2015 Shs'000	2014 Shs'000
<b>(a) Provision for Service Gratuity</b>		
At the beginning of the year	25,188	16,116
Provision for the year (Note 8)	20,341	15,782
Paid during the year	<u>(11,712)</u>	<u>(6,710)</u>
At the end of the year	<u>33,817</u>	<u>25,188</u>
<b>Maturity Analysis</b>		
Within one year	29,093	17,350
After one year	<u>4,724</u>	<u>7,838</u>
	<u>33,817</u>	<u>25,188</u>

**(b) Staff Retirement Defined Benefit Scheme Recognition**

Mumias Sugar Company Limited Staff Retirement Benefits Scheme is established under trust and operates on a defined benefits basis. The Scheme is sponsored by Mumias Sugar Company Limited, and registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Authority Act, 1997 and the Regulations under the Act require the Scheme to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortised over a period not exceeding 6 years.

The Scheme is managed by a Board of Trustees. The Board of Trustees is responsible for the overall operation of the Scheme including making sure benefits are paid to beneficiaries on time.

The employer pays a fixed 10.7% of the pensionable salary while the employees contribute 5% of their pensionable salaries per annum. The scheme is funded and hence the assets under the scheme are used to meet benefit payments as and when they arise. The timing of the benefit payments from the scheme are unknown as the scheme comprises active members, pensioners and deferred pensioners.

Under the scheme, the employees are entitled to post retirement annual pension of 1/60ths of the final pensionable salary for each year of pensionable service subject to a maximum of 60% of final pensionable pay. An employee may with the company's consent retire at or after the age of 50 years and receive an annual pension but will be reduced for early payment. In case of early retirement due to ill health, the employee is entitled to annual pension based on the salary at the date of leaving and prospective service to retirement.

A full actuarial valuation was last carried out as at 30 June 2015 by Alexander Forbes Financial Services (E.A.) Limited. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2015	2014
Discount rate (% p.a)	13.75%	13.00%
Mortality (pre- retirement)	A1949-1952	A1949-1952
Mortality (post- retirement)	n/a	n/a
Retirement age	55 years	55 years
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Future salary increases (% p.a)	7.5%	7.5%

NOTES (CONTINUED)

16. Retirement benefits obligations (continued)

(b) Staff Retirement Defined Benefit Scheme Recognition (continued)

The amount recognised in comprehensive income in respect of these defined benefit plan are as follows:

	2015 Shs'000	2014 Shs'000
Service cost:		
Current service cost	50,900	44,300
Net interest (credit)/charge	<u>(16,800)</u>	<u>(18,100)</u>
Component of defined benefit costs recognised in profit or loss (Note 8)	<u>34,100</u>	<u>26,200</u>
Actuarial (gain)/loss obligation on remeasurement	(3,500)	80,900
Return on plan assets (excluding amounts in interest cost)	<u>96,300</u>	<u>(32,200)</u>
Total loss/(gain) recognised in other comprehensive income	<u>92,800</u>	<u>48,700</u>
Total	<u>126,900</u>	<u>74,900</u>

The movement in the present value of funded obligation was as follows:

	2015 Shs'000	2014 Shs'000
Present value of funded obligations	1,804,200	1,708,400
Fair value of scheme assets	(1,919,700)	(1,833,800)
Effect of asset ceiling	<u>57,800</u>	<u>-</u>
Defined benefit asset	<u>(57,700)</u>	<u>(125,400)</u>

The amount recognised in other comprehensive income in respect of these defined benefit plans are as follows:

	2015 Shs'000	2014 Shs'000
Opening defined benefit obligation	1,708,400	1,487,900
Current service cost (net of employee contributions)	50,900	44,300
Employee contributions	28,200	33,900
Interest costs	214,600	183,300
Actuarial/(gains)/ losses	(3,500)	80,900
Benefits paid	<u>(194,400)</u>	<u>(121,900)</u>
Closing defined benefit obligation	<u>1,804,200</u>	<u>1,708,400</u>



NOTES (CONTINUED)

16. Retirement benefits obligations (continued)

(b) Staff Retirement Defined Benefit Scheme Recognition (continued)

Movements in the fair value of the plan assets in the current and previous period were as follows:

	2015 Shs'000	2014 Shs'000
Opening fair value of plan assets	1,833,800	1,621,500
Return on plan assets	192,900	233,600
Employee contributions	28,200	33,900
Employer contributions	59,200	66,700
Benefits paid	(194,400)	(121,900)
Closing fair value of plan assets	<u>1,919,700</u>	<u>1,833,800</u>

The major categories of plan assets at the end of the reporting period are shown below:

Fair value of plan assets	2015 Shs'000	2014 Shs'000	2015 %	2014 %
Cash and cash equivalents	105,879	93,357	5.52	5.09
Equity instruments	602,140	599,094	31.37	32.67
Government securities	765,567	745,122	39.88	40.63
Corporate Bonds	115,707	156,594	6.03	8.54
Property	78,339	78,338	4.08	4.27
Offshore investments	157,908	134,929	8.23	7.36
Other investments	94,179	26,366	4.91	1.44
	<u>1,919,719</u>	<u>1,833,800</u>	<u>100</u>	<u>100</u>

Contributions to the company staff retirement defined benefit scheme are determined by the rules of the scheme and totalled Shs 59,200,000 (2014: Shs 66,700,000) in the year.

NOTES (CONTINUED)

17. Property, plant and equipment

	Land development Shs'000	Buildings Shs'000	Factory plant and machinery Shs'000	Heavy mobile machinery Shs'000	Motor vehicles Shs'000	Other equipment and fixtures Shs'000	Capital work- in-progress Shs'000	Total Shs'000
<b>At 1st July 2013</b>								
Cost or valuation	1,385,474	3,621,148	15,082,621	430,503	344,136	932,358	486,810	22,283,050
Accumulated depreciation	(77,437)	(294,239)	(1,354,934)	(89,648)	(265,726)	(585,984)	-	(2,667,968)
Net carrying amount	1,308,037	3,326,909	13,727,687	340,855	78,410	346,374	486,810	19,615,082
<b>Year ended 30th June 2014</b>								
Opening carrying amount	1,308,037	3,326,909	13,727,687	340,855	78,410	346,374	486,810	19,615,082
Additions	11,997	-	47,597	73,858	12,722	24,338	338,560	509,072
Transfer to non current assets held for sale	-	-	-	(7,134)	-	-	-	(7,134)
Transfer from capital work in progress	-	4,830	-	-	-	-	(4,830)	-
Depreciation charge	(39,222)	(156,241)	(837,839)	(64,471)	(30,336)	(93,354)	-	(1,221,463)
Impairment loss	-	-	(76,327)	-	-	-	-	(76,327)
Closing carrying amount	1,280,812	3,175,498	12,861,118	343,108	60,796	277,358	820,540	18,819,230
<b>At 30th June 2014</b>								
Cost or valuation	1,397,471	3,625,978	15,130,218	497,227	356,858	956,696	820,540	22,784,988
Accumulated depreciation and impairment	(116,659)	(450,480)	(2,269,100)	(154,119)	(296,062)	(679,338)	-	(3,965,758)
Net carrying amount	1,280,812	3,175,498	12,861,118	343,108	60,796	277,358	820,540	18,819,230
<b>Year ended 30th June 2015</b>								
Opening carrying amount	1,280,812	3,175,498	12,861,118	343,108	60,796	277,358	820,540	18,819,230
Additions	-	-	10,542	-	-	3,930	34,076	48,548
Transfers from capital work in progress	-	-	8,526	-	-	-	(8,526)	-
Transferred to assets held for sale	-	-	-	(3,884)	-	-	-	(3,884)
Depreciation charge	(39,272)	(156,433)	(840,353)	(73,060)	(27,990)	(84,709)	-	(1,221,817)
Closing carrying amount	1,241,540	3,019,065	12,039,833	266,164	32,806	196,579	846,090	17,642,077
<b>At 30th June 2015</b>								
Cost or valuation	1,397,471	3,625,978	15,149,286	493,343	356,858	960,626	846,090	22,829,652
Accumulated depreciation and impairment	(155,931)	(606,913)	(3,109,453)	(227,179)	(324,052)	(764,047)	-	(5,187,575)
Net carrying amount (valuation basis)	1,241,540	3,019,065	12,039,833	266,164	32,806	196,579	846,090	17,642,077
Net carrying amount (cost basis)	640,268	1,188,710	11,744,469	200,728	31,887	196,250	846,090	14,848,402

NOTES (CONTINUED)

17. Property, plant and equipment (continued)

Land developments, buildings, factory, plant and machinery were last revalued on 30 June 2012, by Tysons Limited, Registered Valuers and Estate Agents. Land developments were revalued based on open market value while the basis for the other assets was depreciated replacement cost.

The balance on capital work in progress mainly represents expenditure on incomplete works on the new office block, cane buying centres and factory machinery that were in progress at the end of the reporting period. The transfers from capital work in progress mainly relate to the expenditure incurred in factory equipment that was capitalised during the year at a cost of Shs 8.5 million (2014: Shs 4.8 million).

During the year, due to the poor performance of the company, the directors have carried out a review to ascertain impairment in the carrying amount of plant and equipment. Based on the assessment, the directors have resolved that no further impairment is required in addition to the impairment loss of Shs 76,327,000 which was recognised in 2014 in respect of the water plant. The assumptions are based on the premise that the company will operate on a crushing capacity of 330 tonnes of sugarcane per hour with effect from 2016.

All property, plant and equipment have been charged to secure banking facilities as disclosed on note 14.

Fully depreciated property, plant and equipment

	Cost/valuation		Normal annual depreciation charge	
	2015 Shs'000	2014 Shs'000	2015 Shs'000	2014 Shs'000
Motor vehicles	250,514	223,909	50,103	44,782
Other equipment and fixtures	451,444	421,382	56,430	52,673
	<u>701,958</u>	<u>645,291</u>	<u>106,533</u>	<u>97,455</u>

Details of the fair value hierarchy for the company's property plant and equipment held at fair value as at 30th June 2015 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Land developments	-	1,241,540	-	1,241,540
Buildings	-	3,019,065	-	3,019,065
Factory plant and machinery	-	12,039,833	-	12,039,833
Heavy mobile machinery	-	266,164	-	266,164
At the end of year	<u>-</u>	<u>16,566,602</u>	<u>-</u>	<u>16,566,602</u>
At 30 June 2014				
	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Land developments	-	1,280,812	-	1,280,812
Buildings	-	3,175,498	-	3,175,498
Factory plant and machinery	-	12,861,118	-	12,861,118
Heavy mobile machinery	-	343,108	-	343,108
At the end of year	<u>-</u>	<u>17,660,536</u>	<u>-</u>	<u>17,660,536</u>

NOTES (CONTINUED)

18. Leasehold land

The company owns 4,413.82 hectares of leasehold land. The land has been charged to secure banking facilities granted to the company as disclosed in Note 14. The development was last valued on 30 June 2012, by Tysons Limited, Registered Valuers and Estate Agents, on open market basis at Shs 790,000,000. The value of the land is not reflected in the balance sheet as the land was allocated to the company by the Government of Kenya at no purchase consideration. In doing this, the company has applied the alternative recognition method allowed by IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' and accounted for both asset and grant at a nil amount.

19. Intangible assets

	Computer Software Shs'000	Development Shs'000	Capital Work-in- Progress Shs'000	Total Shs'000
<b>COST OR VALUATION</b>				
At 1 July 2013	265,359	165,344	106,927	537,630
Additions	4,109	-	26,351	30,460
Provision for impairment	-	(165,344)	-	(195,703)
At 30 June 2014	269,468	-	133,278	372,387
At 1 July 2014	269,468	-	133,278	402,746
Additions	727	-	2,881	3,608
Transfer from capital work in progress	899	-	(899)	-
Provision for impairment	-	-	(30,359)	(30,359)
At 30 June 2015	271,094	-	104,901	375,995
<b>AMORTISATION</b>				
At 1 July 2013	221,954	-	-	221,954
Charge for the year	24,620	-	-	24,620
At 30 June 2014	246,574	-	-	246,574
At 1 July 2014	246,574	-	-	246,574
Charge for the year	18,641	-	-	18,641
At 30 June 2015	265,215	-	-	265,215
<b>NET CARRYING AMOUNT</b>				
At 30 June 2015	5,879	-	104,901	110,780
At 30 June 2014	22,894	-	133,278	156,172

Intangible assets represent computer software and development costs. Capital work in progress relates to an ongoing software upgrade.

Development costs represent consultancy, sensitization and environmental impact assessment costs incurred on the development of the Tana Delta Integrated Sugar Project in conjunction with Tana and Athi River Development Authority (TARDA). A full provision for impairment has been made for these costs. All expenditure incurred on the research phase of this project was expensed when incurred.

NOTES (CONTINUED)

19. Intangible assets (continued)

The amounts incurred are to be converted to equity in a company to be incorporated to run the project and in which it is envisaged that Mumias Sugar Company Limited will have the majority shareholding. The company is in the process of identifying suitable investors and financiers for the project. In the meantime the directors have made a decision to make a provision for impairment of the asset until when funds are available to revive the project.

At 30 June 2015, intangible assets with a cost of Shs 220,151,000 (2014: Shs 209,982,000) were fully amortised. The normal annual amortisation charge on these assets would have been Shs 73,376,000 (2014: Shs 69,987,000).

20. Non-current staff receivables

	2015 Shs'000	2014 Shs'000
Staff receivables	126,995	197,015
Less: receivable within one year (Note 23)	<u>(77,537)</u>	<u>(88,035)</u>
Receivable after one year	<u>49,458</u>	<u>108,980</u>

The company operates a staff car loan scheme for employees whereby eligible employees are given loans to acquire cars for their personal use. The loans are repayable within a maximum period of 60 months.

Included in the staff receivables balances are staff car loans amounting to Shs 91,529,000 (2014: Shs 193,966,000) which are secured by the vehicles acquired through the loans. The effective interest rate on staff loans was 5%.

21. Inventories

	2015 Shs'000	2014 Shs'000
Sugar and molasses	8,666	108,357
Sugar in process	113,795	148,109
Ethanol	20,947	10,786
Water	<u>1,914</u>	<u>4,216</u>
	145,322	271,468
Mechanical and electrical spares	566,058	844,976
Fertilisers, chemicals and fuels	764	764
Other consumables	<u>2,636</u>	<u>1,751</u>
	<u>714,780</u>	<u>1,118,959</u>

Write down of inventories recognised as an expense during the year amounted to Shs 270,156,000 (2014: Shs 157,692,000).

22. Biological assets

	2015 Shs'000	2014 Shs'000
At beginning of the year	157,352	219,378
Additions at cost	97,724	216,729
Decrease due to harvest at cost	(164,338)	(186,138)
Decrease due to impairment	<u>-</u>	<u>(1,070)</u>
	90,738	248,899
Gain/(loss) arising from changes in fair value attributable to physical changes	25,521	(62,197)
Loss arising from changes in fair value attributable to price changes	<u>-</u>	<u>(29,350)</u>
Fair value gain/(loss) during the year	<u>25,521</u>	<u>(91,547)</u>
Carrying amount at the end of the year	<u>116,259</u>	<u>157,352</u>

NOTES (CONTINUED)

22. Biological assets (continued)

Significant assumptions made in determining the fair values of biological assets and agricultural produce are:-

- The valuation is based on a market price of Shs 3,275 per tonne of sugar cane (June 2014: Shs 3,275).
- Cost of cane at the age of six months and below approximate fair value. Mature cane has been stated at fair value less point of sale costs.
- The estimated sucrose content per tonne of mature cane (pol value) at various stages of growth will remain constant at between 8.9% and 13.1% depending on the age of the cane across the sugar belt.

As at 30 June 2015, 62.0% (2014: 50.3%) of the Nucleus Estate land under cane cover measuring 2,093.41 ha (2014: 1,685 ha) was under mature cane. The remaining 38.0% (2014: 50.3%) estate land measuring 1,283.29 ha (2014: 1,667 ha) was under immature cane.

During the year, 115,842 tonnes (2014: 132,077 tonnes) of cane were harvested from the estate with a fair value less estimated point of sales of Shs 235,065,585 (2014: Shs 313,319,880).

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

The company expects to harvest most of the cane held at the end of the year within the next twelve months and thus the biological assets have been presented as current assets.

As at 30 June 2015, the company had lodged insurance claims of Shs 17,159,000 (2014: Shs 37,605,607) with the insurers for loss arising from cane fires in the Nucleus estates. The settlement of these claims remained contingent at year end and therefore have not been recorded in these financial statements.

23. Trade and other receivables

	Gross Amount Shs'000	Provision for impairment Shs'000	Net 2015 Shs'000	Net 2014 Shs'000
Receivables from farmers	2,373,879	(1,255,850)	1,118,029	1,692,146
MOCO receivables	799,048	(799,048)	-	-
Trade receivables	316,464	(301,786)	14,678	271,489
Other receivables and prepayments	555,215	(416,507)	138,708	243,076
Advance payments to suppliers	229,830	(16,080)	213,750	256,039
Staff receivables (Note 20)	77,537	(31,789)	45,748	88,035
As at 30th June	<u>4,351,973</u>	<u>(2,821,060)</u>	<u>1,530,913</u>	<u>2,550,785</u>

Included in trade receivables is Shs 112,020,998 (2014: Shs 61,479,324 ) that relates to the sale of electricity to Kenya Power and Lighting Company Limited in the normal course of trade.

Receivables from farmers relates to cost of farm inputs supplied to farmers on credit. The cane planted acts as collateral and amounts are recovered on purchase of cane from the farmers.

The directors have made provisions for the amounts deemed not recoverable from Mumias Outgrowers Company Organisation (MOCO) due to its inability to meet its obligations as they fall due.

The interest receivable from MOCO has been disputed by MOCO (Note 34).

NOTES (CONTINUED)

24. Collateral deposit	2015 Shs'000	2014 Shs'000
At the beginning of year	306,694	301,925
Interest earned	6,676	803
Interest received	(6,676)	(803)
Loan repayment	(319,667)	-
Currency translation gains	12,973	4,769
At the end of the year	<u>-</u>	<u>306,694</u>

This is a term deposit which represents a 10% advance collateral deposit on the PROPARCO Loan Facility (Note 14) that the company was required to place in a Debt Reserve Bank Account with a receiving bank (Barclays Bank of Kenya Limited). The deposit amounted to US Dollars 3.5 million. The deposit earns interest at a rate of LIBOR minus 0.25%. The amount was discharged during the year.

25. Short term deposits	2015 Shs'000	2014 Shs'000
At amortised cost		
Maturing within 90 days		
Barclays Bank of Kenya Limited	<u>-</u>	<u>9,812</u>
Effective interest rates:		
	%	%
Barclays Bank of Kenya Limited	<u>-</u>	<u>0.45</u>

26. Quoted investments - At fair value through profit or loss	2015 Shs'000	2014 Shs'000
At the beginning of year	-	44,106
Proceeds on disposal	-	(43,512)
Loss on disposal	-	(594)
At the end of year	<u>-</u>	<u>-</u>

27. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

Cash at bank and in hand	18,759	31,248
Short-term bank deposits	-	9,812
Bank overdraft (Note 14)	(2,020,908)	(1,369,899)
	<u>(2,002,149)</u>	<u>(1,328,839)</u>

NOTES (CONTINUED)

	2015 Shs'000	2014 Shs'000
<b>28. Trade and other payables</b>		
Trade payables	1,528,853	1,136,112
Outgrowers	1,205,958	898,767
Prepaid sales	228,159	210,022
Accruals	1,754,384	652,601
Other payables	<u>2,852,625</u>	<u>2,001,377</u>
	<u>7,569,979</u>	<u>4,898,879</u>
<b>29. Deferred grant income</b>		
At the beginning of the year	18,828	15,379
Received during the year	<u>26,983</u>	<u>3,449</u>
At the end of the year	<u>45,811</u>	<u>18,828</u>
<b>30. Accrued leave</b>		
At the beginning of the year	28,101	43,626
Provision for the year (Note 8)	7,985	10,507
Paid in the year	<u>(5,030)</u>	<u>(26,032)</u>
At the end of the year	<u>31,056</u>	<u>28,101</u>
<b>31. Operating lease arrangements</b>		
<b>The company as lessee:</b>		
Minimum lease payments under operating leases recognised through profit or loss	<u>14,251</u>	<u>23,348</u>
At the end of the reporting period, the company had outstanding commitments under operating leases, payable as follows		
Within one year	9,864	11,220
In the second to fifth years inclusive	<u>2,230</u>	<u>25,201</u>
	<u>12,094</u>	<u>36,421</u>

Operating lease payments represent rentals payable by the company for certain of its office premises, storage facilities and cane farming. The leases are cancellable with no penalty when the company gives three months notice to vacate the premises.

**The company as a lessor:**

Property rental income earned during the year amounted to Shs 16,899,000 (2014: Shs 13,398,000). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables.

	2015 Shs'000	2014 Shs'000
Within one year	<u>16,899</u>	<u>13,397</u>



NOTES (CONTINUED)

32. Related party transactions

The company operates a company car loan scheme for managerial and supervisory employees. The cars are registered in joint names of the company and the employees as security for the car loans. The interest income earned on staff loans in the year amounted to Shs 6,175,000 (2014: Shs 11,068,000). The distribution of the loans is as follows:

(a) Staff loans

	2015 Shs'000	2014 Shs'000
Due from directors	6,674	3,050
Due from key management	76,212	22,365
Due from other staff	44,109	171,600
	<u>126,995</u>	<u>197,015</u>

(b) Key management compensation

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

Salaries and other benefits	<u>108,698</u>	<u>68,703</u>
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(c) Directors' remuneration

Fees for services as directors	4,688	5,000
Other emoluments	73,798	59,878
	<u>78,486</u>	<u>64,878</u>

33. Capital commitments

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

	2015 Shs'000	2014 Shs'000
Authorised and contracted for	<u>9,608</u>	<u>86,916</u>

- i) The capital commitments relate primarily to purchase of heavy mobile machinery and upgrading of factory facilities.

34. Contingent liabilities

	2015 Shs'000	2014 Shs'000
Pending claims	<u>5,850,376</u>	<u>5,503,258</u>
Guarantees	<u>23,500</u>	<u>36,303</u>

**NOTES (CONTINUED)**

**34. Contingent liabilities (continued)**

The company had a number of pending claims and litigation cases at end of the year. These include the following:

- i) Mumias Sugar Company Limited (MSC) and Mumias Outgrowers Company Organisation (MOCO) have a dispute where MOCO has made a claim of Shs 3,723,008,000 in respect of cane development funds and interest overcharge. The dispute was taken to arbitration but the arbitration process was suspended after a judicial review. All amounts due from MOCO in respect of accountancy fees, outstanding loans and advances, subsidies to farmers and accrued interest have been fully provided for as indicated in Note 23.
- ii) Mumias Sugar Company Limited (MSC) and the Kenya Sugar Cane Growers Association (KESGA) have a dispute in respect of which KESGA has made a claim of Shs 899,462,000 from MSC for unlawfully and deliberately refusing to pay sugarcane farmers according to the simplified sugarcane pricing formula thereby causing a loss to the farmers.
- iii) Mumias Sugar Company Limited (MSC) and Dubai Bank Kenya Limited (DBKL) have a dispute in which DBKL has instituted winding-up proceedings against MSC over a Shs 91,249,000 debt accruing from a guarantee the sugar firm gave to the bank over imported sugar.
- iv) Mumias Sugar Company Limited (MSC) has disputed an amount of Shs 162,693,000 (US\$ 1,856,666) demanded by Peeraj General Trading Company relating to contract variations on the ethanol distiller project.
- v) Mumias Sugar Company Limited (MSC) has disputed an electricity bill of Shs 953,515,760 demanded by Kenya Power & Lighting Limited relating to back feed energy consumption that had not been billed.

The directors, having taken necessary professional consultations, are of the opinion that the above claims are unlikely to succeed or lead to any material financial loss to the company. Therefore no provision have been made in these financial statements in respect of the above claims.

**35. Going concern - business plan to restore the company's profitability and solvency**

During the year ended 30 June 2015, the company incurred a loss of KShs 4,664,801,000 (2014: KShs 2,706,595,000) and the company's current liabilities exceeded its current assets by KShs 11.1 billion (2014: Shs 6.3 billion). The board have carefully developed a turnaround strategy which has been reviewed and approved by the lenders with full support and goodwill of the government. The board plans to return the company back to profitability through various strategies, key of which are:

- i) Re-capitalization of the company.
- ii) Debt restructuring.
- iii) Leadership and Governance priority - a restructured board, a revised company structure to foster teamwork and enhance efficiencies; new and refreshed executive team to improve and inculcate a positive corporate culture of performance management.
- iv) Collaboratively engage farmers and possible review of farming models to enhance cane availability sustainably.
- v) Re-engineering the route to market sales model with more focus on direct retail sales and higher brand mix.

**NOTES (CONTINUED)**

**35. Going concern - business plan to restore the company's profitability and solvency (continued)**

The board has executed some of the short term plans with some success factor as indicated here below:

- i) The Government has already released Kshs 1.0 billion that was largely used to clear farmer's debts and put the factory back to operations, consequently increasing farmers goodwill and factory performance.
- ii) A new organisation structure is in place with top management including a Chief Executive Officer who is very experienced and accomplished international sugar expert.
- iii) The factory underwent successful maintenance in July and August 2015 and is now back in operation with better recoveries and staff morale increased.
- iv) A close review of the issues ailing the company through various forensic audits and change of some unhealthy partnerships. Management is pursuing recovery of lost company property.
- v) A strengthened internal control environment administered by a risk and compliance department.

The government's vigilance on illegally imported and counterfeit sugar has improved sugar price stability and competitiveness. Mumias sugar Company has fulfilled all the preconditions for Common Market for Eastern and Southern Africa (COMESA) whose safeguards are due to expire next year, giving it a competitive edge.

Besides the operational efficiencies, the company plans a major drive to regain its market share through additional investment to increase the capacity of the branded product packaging plant and therefore improve the existing brand mix.

The board is confident that the growing stakeholder's goodwill and commitment and the rapid response program in place, the company is on its path to profitability and growth.

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

MANUFACTURING ACCOUNT		2015	2014
		Shs'000	Shs'000
<b>Sales</b>			
Gross sugar sales		5,609,942	14,163,407
Gross molasses sales		36,117	47,678
Gross electricity sales		68,606	257,701
Gross ethanol sales		2,037,848	2,889,224
Gross water sales		25,610	42,631
<b>Total gross sales</b>		<b>7,778,123</b>	<b>17,400,641</b>
Value Added Tax		(1,073,130)	(2,392,155)
Sugar Development Levy		(186,006)	(469,609)
Excise Duty		(987,630)	(1,462,965)
<b>NET SALES</b>		<b>5,531,357</b>	<b>13,075,912</b>
<b>COST OF SALES</b>			
Cane purchases	II	(3,359,895)	(6,795,841)
Factory production - sugar	II	(869,200)	(1,333,483)
Factory production - energy	II	(464,193)	(401,307)
Factory production - ethanol	II	(284,896)	(435,589)
Factory production - water	II	(138,325)	(101,940)
Factory engineering	III	(909,496)	(1,008,460)
Production overheads	III	(1,040,332)	(1,197,850)
Decrease in the value of product inventories		(125,232)	(953,238)
		<b>(7,191,569)</b>	<b>(12,227,708)</b>
<b>GROSS (LOSS)/PROFIT</b>		<b>(1,660,212)</b>	<b>848,204</b>
OTHER OPERATING INCOME	III	95,166	376,074
MARKETING AND DISTRIBUTION COSTS	III	(388,354)	(929,128)
ADMINISTRATIVE EXPENSES	IV	(2,408,415)	(3,058,184)
IMPAIRMENT		(870,247)	(213,088)
FINANCE INCOME		143,039	264,020
FINANCE COSTS		(1,243,755)	(601,397)
<b>Loss before tax</b>		<b>(6,332,778)</b>	<b>(3,313,499)</b>
Reconciliation of results at fair valuation of biological			
<b>PROFIT BEFORE TAXATION AS ABOVE</b>		<b>(6,332,778)</b>	<b>(3,313,499)</b>
Gain/(Loss) Arising from Changes in Fair Value of Biological Assets		25,521	(91,547)
<b>PROFIT BEFORE TAX AS PER INCOME STATEMENT</b>		<b>(6,307,257)</b>	<b>(3,405,046)</b>

MANUFACTURING ACCOUNT

	2015 Shs'000	2014 Shs'000
<b>CANE PURCHASES</b>		
Registered outgrowers cane	3,021,825	6,382,030
Nucleus estate cane	<u>338,070</u>	<u>413,811</u>
	<u>3,359,895</u>	<u>6,795,841</u>
<b>FACTORY PRODUCTION - SUGAR</b>		
Depreciation of factory plant and buildings	241,528	186,592
Staff costs	96,940	103,269
Packaging material	112,078	244,908
Spares	40,999	230,175
Fuels	4,461	76,245
Other costs	316,030	419,370
Factory chemicals	<u>57,164</u>	<u>72,924</u>
	<u>869,200</u>	<u>1,333,483</u>
<b>FACTORY PRODUCTION - ENERGY</b>		
Depreciation of factory plant and building	274,210	273,471
Fuels	-	5,288
Other costs	159,614	8,072
Factory chemicals	28,077	2,112
Plant and equipment repairs	-	17,460
Mechanical, electrical & instrument spares	<u>2,292</u>	<u>94,904</u>
	<u>464,193</u>	<u>401,307</u>
<b>FACTORY PRODUCTION - ETHANOL</b>		
Depreciation of factory plant and building	259,017	258,961
Factory chemicals	10,319	12,961
Fuels	-	87,542
Mechanical, electrical & instrument spares	16	4,916
Staff costs	14,322	40,546
Other costs	<u>1,222</u>	<u>30,663</u>
	<u>284,896</u>	<u>435,589</u>
<b>FACTORY PRODUCTION - WATER</b>		
Depreciation of factory plant and building	22,941	22,116
Packaging materials	1,798	32,796
Other costs	21,122	42,842
Mechanical, electrical & instrument spares	1,842	4,186
Factory chemicals	335	-
Staff costs	<u>90,287</u>	<u>-</u>
	<u>138,325</u>	<u>101,940</u>

**MANUFACTURING ACCOUNT**

<b>FACTORY ENGINEERING</b>	<b>2015</b>	<b>2014</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Mechanical, electrical & instrument spares	288,081	219,099
Staff costs	287,858	355,016
Plant and equipment repairs	85,972	36,628
Other costs	93,144	213,506
Depreciation	154,441	184,211
	<u>909,496</u>	<u>1,008,460</u>
<b>PRODUCTION OVERHEADS</b>		
Cane establishment and development other costs	92,995	94,911
Cane establishment and development staff costs	279,418	324,015
Factory administration – staff costs	164,431	23,954
Factory administration – Other costs	87,686	100,766
Harvesting and transport staff costs	119,347	143,173
Harvesting and transport other costs	249,821	511,031
Ethanol Plant administration - staff costs	46,634	-
	<u>1,040,332</u>	<u>1,197,850</u>
<b>OTHER OPERATING INCOME</b>		
Guest house	16,157	33,528
Sundry income	23,681	247,514
Rent receivable	16,899	13,397
Seed cane sales	38,429	81,635
	<u>95,166</u>	<u>376,074</u>
<b>MARKETING AND DISTRIBUTION COSTS</b>		
Road haulage	150,187	393,265
Staff costs	118,071	133,017
Advertising and promotion	35,153	116,356
Other costs	66,363	117,904
Rail haulage	-	37
CSR	3,575	8,396
Storage costs	-	145,316
Depreciation	15,005	14,837
	<u>388,354</u>	<u>929,128</u>

SCHEDULE OF OPERATING EXPENDITURE

ADMINISTRATIVE EXPENSES	2015 Shs'000	2014 Shs'000
Staff costs	652,579	804,109
Other costs	344,729	1,113,915
Tax penalties	619,198	200,388
Legal and professional fees	124,550	108,456
Medical services	56,484	80,346
Travelling	38,584	68,642
Security	67,967	58,525
Publications and listing	15,690	19,139
Directors' emoluments	33,635	29,981
Amortisation of intangible assets	18,642	17,044
Software licences and support	-	12,407
Insurance	123,868	93,095
Bank charges	15,478	38,786
Staff training and recruitment costs	3,422	18,501
Telephone and communications	21,913	18,996
Auditors' remuneration		
Current year	5,573	6,741
Under provision in prior year	7,786	-
Stationery	3,642	4,506
Donations	-	8,225
Depreciation	254,675	296,112
Sports and community services	-	33,247
Residential estate services	-	9,376
Loss on disposal of quoted investments	-	594
Loss on disposal of non-current assets held for sale	-	17,053
	<u>2,408,415</u>	<u>3,058,184</u>