MUMIAS SUGAR COMPANY LIMITED

ANNUAL REPORT & ACCOUNTS 1994 - 1995

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Notice of Meeting

The twenty fourth Annual General Meeting of the Company will be held in the Company's Board Room in Nairobi on Thursday 27 June 1996 at 12.30 pm.

Agenda

1 To approve the Minutes of the 23rd Annual General Meeting.

2. To receive and consider the accounts for the year ended 30th June 1995 and the report of the Directors and Auditors thereon.

3. To appoint Auditors and authorize the Board to fix their remuneration.

4. To transact any ordinary business of an Annual General Meeting.

By Order of the Board

M J R Guto
COMPANY SECRETARY

Shareholders	No. of Shares in '000	Percentage
Government of the Republic of Kenya	36 090	70.76
Commonwealth Development Corporation	8 760	17.18
Kenya Commercial Finance Company Limited	2 550	5.00
Booker McConnell PLC	2 250	4.41
East Africa Development Bank	1 350	2.65
	51 000	100.00

DIRECTORS (as at 30/6/95)

Mr. M. K. Sang - Chairman
Mr. A. T. Kaminchia (alternate Mr. M. S. Fazal)
Mr. B. K. Kipkulei (alternate Mr. J. J. Nyaga)
Eng. W. P. Wambura (alternate Mr. J. O. Onyango)
Mr. R. Kemoli (alternate Mr. K. Gatabaki)
Mr. Ben Yates
Mr. F. M. Chahonyo
Hon. S. A. Wako (alternate Mr. D. K. Ameyo)

Company Secretary
Mr. M. J. R. Guto

Managing Agents
Booker Tate

Advocates
Kaplan & Stratton
E. K. Owinyi

Auditors
Auditor General (corporations)

Bankers
Barclays Bank of Kenya Limited
Kenya Commercial Bank Limited

Registered Office
Mumias Sugar Company Limited
Private Bag, Mumias, Kenya

Senior management: (as at 30/6/95)

General Manager	Mr. David Carter
Deputy General Manager (Agriculture)	Mr. A. J. S. Oketch
Deputy General Manager (Factory)	Mr. D. S. Eshitemi
Deputy General Manager (Finance)	Mr. F. L. Oyatsi
Agricultural Manager	Mr. J. B. S. Makatiani
Agricultural Service Manager	Mr. J. K. Matete
Factory Manager	Mr. G. C. Scott
Personnel & Training Manager	Mr. J. W .T. Nasirembe

Mr. Michael K. Sang

It is my pleasant duty to report on the performance of Mumias Sugar Company Limited during the year ended 30 June 1995.

Operations

1,738,000 tonnes of cane were crushed (1993/94; 1,774,000) which produced 181,665 tonnes of sugar (1993/94 200,201). Early in the year there was a shortage of mature cane, but better rainfall improved supply in the second half. Cane quality was poorer than in the previous year, and this combined with lower factory efficiency resulted in a reduced rendement of sugar from the cane milled.

Financial performance

Sales revenue increased to Ksh 5,557 million (1993/94 Ksh 5,088 million), whilst profit before tax and exceptional items remained virtually unchanged at Ksh 1,112 million (1993/94 Ksh 1,123 Million).

However, Ksh 449 million of exceptional costs arising from the factory rationalisation project are charged to the P & L account this year, and profit after tax fell to Ksh 432 million (1993/94 Ksh 807 million).

The loan facilities negotiated for the factory rationalisation project were drawn upon to the extent of Ksh 324 million at the year end.

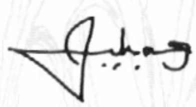
Prospects for the Future

Good rainfall and increased planting two years ago have resulted in an abundant supply of cane for the coming years. The factory rationalisation project will be completed and commissioned during early 1997 giving increased capacity and lower production and maintenance costs.

The Government of Kenya has approved the privatisation of Mumias Sugar Company during 1996/97, with a proportion of shares being made available to cane farmers and employees. Mumias looks forward with confidence to its future as a quoted company.

Acknowledgement

On behalf of the Board of Directors I thank the management and staff of Mumias Sugar Company for their efforts during 1994/95.



Michael K. Sang'
CHAIRMAN

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 30th June 1995 which disclose the state of affairs of the company.

1. Principal Activities

The company is a sugar manufacturing concern incorporated under the Companies Act (Cap 486) of the Laws of Kenya

2. Results of the Period

(a) Production

The company produced 181 665 tonnes of sugar during the year, (1993/94: 200 201 tonnes).

(b) Profits	**Kshs. 000's**
Profit before Taxation	662,705
Taxation	230,149
Distributable Profits	432,556
Proposed Dividends	155,000
Transferred to Reserves	277,556

3. Dividends

The Directors recommend payment of a dividend of 15.20% amounting to Kshs. 155 000000 .(1993/94 Kshs. 102,000,000).

4. Directors

In July 1994 Mr. Ben Yates took over as the director represen ting Booker Tate in place of Mr.George Moody Stuart. In August 1994 Mr. F. M. Chahonyo joined the Board to represent Kenya Sugar Authority in place of Mr.J.A.Mudavadi while Mr. M. S. Fazal took over from Mr. R. K. Koech as the alternate director to Mr.A.T.Kaminchia representing Kenya Commercial Finance Company Ltd. The directors as at 30th June 1995 are shown on page 2.

5. Auditors

Notice of an intended resolution to appoint new uditors has been given.

By order of the Board

M.J.R. Guto
COMPANY SECRETARY

Report of the Auditor-General (Corporations) on the Accounts of Mumias Sugar Company for the year ended 30 June 1995

I have examined the accounts of Mumias Sugar Company Limited for the year ended 30 June 1995 in accordance with the Exchequer and Audit Act, (Cap 412). I have obtained all the information and explanations that I have required for the purpose of the audit. Proper books of account have been kept by the Company and the accounts are in agreement therewith and comply with the Companies Act, (Cap 486).

Subject to the reservations set out herebelow, in my opinion, the accounts when read together with the notes thereon, give a true and fair view of the Company's state of affairs as at 30 June 1995 and of its profit and source and application of funds for the year then ended.

1.0 **Factory Rationalisation Programme**

In 1993 several contracts were awarded to various firms for
the supply and installation of various components of the
1.1 Company's factory rationalisation programme. Appropriate
performance bonds were obtained from all the contractors
guaranteeing to make good any defects or deficiencies in the
performance of the individual contracts. One of the firms was
awarded the main programme contract of supplying and
installing the diffuser and cane dewatering mills among other
equipment. The firm, like other contractors offered
performance bonds for various equipment contracted to it.

It is noted that in November 1994 the committee of the Board
of Directors responsible for the programme proposed a contract
1.2 for the same firm to provide an overall performance guarantee
at a fee of Sterling pound 3,000,000 (equivalent of Ksh
240,000,000). In the additional contract which was signed in
November 1994 the firm gave the overall performance
guarantee of the factory rationalisation project. No competitive
tendering was used in awarding of this contract.

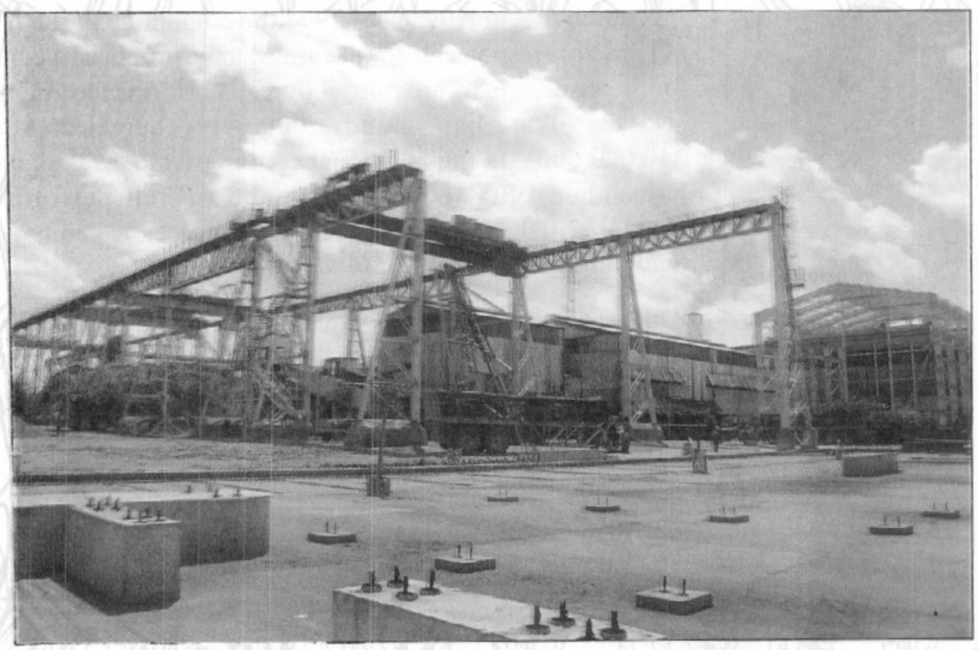
Although the company has explained that the award was based on known past performance of the firm I am unable to confirm that the terms of agreement including the cost of contract at Kshs. 240 million were the most competitive in the market.

W. K. KEMEI
Auditor-General (Corporations)

24 May, 1996

For the Year Ended 30th June, 1995

	Notes	1995 Kshs '000	1994 Kshs '000
Net Turnover	2	5,557,003	5,087,741
Profit before exceptional item	3	1,111,894	1,122,753
Exceptional item	4	449,189	—
Profit before taxation		662,705	1,122,753
Taxation	5	230,149	315,970
Profit after tax		432,556	806,783
Proposed Dividend	16	155,000	102,000
Retained Profit for the year		277,556	704,783
Statement of Retained Profits			
Transfer to Reserves for the year		277,556	704,783
Reserves as Previously Reported		1,071,631	1,216,848
Less Capitalised Reserves		—	(850,000)
		1,349,187	1,071,631



Expansion project under construction. The project is due for completion in 1997.

As at 30th June, 1995

	Notes	1995 Kshs '000	1994 Kshs '000
Fixed Assets	6	3,858,672	3,099,363
Investment (Unquoted) at Cost	7	169	169
		3,858,841	3,099,532
Current Assets			
Stocks, stores & growing cane	8	1,028,125	931,393
Debtors	9	655,700	1,273,331
Cash		118,889	423
		1,802,714	2,205,147
Current Liabilities			
Creditors and Accruals	10	518,020	667,724
Tax	5	67,866	113,137
Dividends	16	257,000	170,000
Bank Overdrafts (Secured)	11	17,570	154,156
		860,456	1,105,017
Net Current Assets / (Liabilities)		942,258	1,100,130
		4,801,099	**4,199,662**
Financed By:			
Share Capital	12	1,020,000	1,020,000
Revenue Reserve		1,349,187	1,071,631
Capital Reserve		2,107,849	2,108,031
Shareholders Funds		4,477,036	4,199,662
Long Term Loans	13	324,063	—
		4,801,099	**4,199,662**

The notes on pages 4 to 8 form an integral part of these accounts.

M. K. Sang — Chairman

R. Kemoli — Director

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended 30th June, 1995

	1995 Kshs '000	1994 Kshs '000
Source of Funds		
From Operations:		
Net profit before taxation	662,705	1,122,753
Add Charges not represented by Cash payment:		
Depreciation	256,964	216,409
(Profit) / Loss on sale of Fixed Assets	(7,091)	—
Revaluation written (off) / back	(182)	1,079
	912,396	1,340,241
From other sources:		
Sale of Fixed Assets	11,012	1,759
Increase in Creditors	—	130,382
Long Term loans	324,063	—
Inflow of funds	1,247,471	1,472,382
Application of Funds		
Dividends paid	68,000	68,000
Tax paid	275,420	287,063
Purchase of fixed Assets	1,020,191	532,947
Increase in Debtors / Deposits	39,986	166,625
Increase in stocks, stores and growing cane	96,736	356,686
Decrease in Creditors	149,704	—
Outflow of funds	1,650,037	1,411,321
Net Inflow / (Outflow) of funds	**(402,566)**	**61,061**
Movement in Liquid Funds		
Cash	(539,152)	113
Bank Balance	136,586	60,948
	(402,566)	**61,061**

1. Accounting Policies

(a) Basis of Accounting:

The Company prepares its accounts on the historical cost as modified by revaluation of the fixed assets as at 30th June, 1990.

(b) Stocks and Stores:

Stocks of finished products are valued at cost while stocks in process are valued at half of their cost. Stores are valued at weighted average cost.

(c) Depreciation:

Depreciation is provided for on assets in use by Straight Line Method at the following annual rates:-

(i) Land development utilities, residential, welfare and industrial buildings........2.5%

(ii) Factory buildings, Plant & Equipment........5%

(iii) Agricultural machinery, other equipment, furniture and fixtures other than tractors........12.5%

(iv) Motor vehicles........20%

(v) Tractors........25%

(vi) Motor Cycles........33.33%

(d) Translation of Foreign Currencies:

Foreign currency balances have been translated at the market rate of exchange at the balance sheet date.

(e) Growing Cane:

This is valued at the direct average cost of growing cane at the balance sheet date.

	1995 Kshs. '000	1994 Kshs '000
2. Turnover		
Net proceeds of sales	5,557,303	5,087,694
Marking Fee (Kenya Bureau of Standards)	(300)	47
	5,557,003	**5,087,741**

3. Profit before Taxation

The profit before tax is arrived at after charging:

	1995 Kshs. '000	1994 Kshs '000
- Depreciation	256,963	216,409
- Auditor's Remuneration	1,044	1,000
- Interest on Loans	—	—
- Interest on Overdrafts	24,032	49,424
- Director's Emoluments	2,347	2,198
- Subsidy to Outgrowers	196,062	229,435

4. Exceptional Item

Factory project expenditure

	1995 Kshs. '000	1994 Kshs '000
Project management	247,160	—
Project administration and office expenses	27,199	—
Overall performance guarantee	124,000	—
Insurance	11,000	—
Bank charges	39,830	—
	449,189	—

5. Taxation

	1995 Kshs. '000	1994 Kshs '000
Tax payable from previous years	113,137	84,230
Tax based on current year profits	230,149	315,970
	343,286	400,200
Less: payment during the year (Including P.I.T.)	(275,420)	(287,063)
	67,866	**113,137**

6. Fixed Assets

	Land Dev. Kshs. '000	Buildings Ksh. '000	Fact. Plant & Machinery Ksh. '000	Agric.Equip & Machinery Ksh. '000	Other Equip & Fixtures Ksh. '000	Work in Progress Ksh. '000	Total Ksh. '000
Cost /Valuation							
As At 1.7.94	116,583	991,524	1,703,460	341,218	326,181	285,965	3,764,932
Additionas	1,309	68,746	165,973	162,384	57,961	563,819	1,020,191
Disposals	—	—	—	(11,296)	(9,979)	—	(21,274)
As at 30.6.95	117,892	1,060,270	1,869,433	492,307	374,163	849,784	4,763,849
Depreciation							
As at 1.7.94	11,325	112,752	276,808	151,440	113,244	—	665,569
Charge for the yr.	2,915	29,707	83,980	79,666	60,695	—	256,964
Disposals	—	—	—	(9,355)	(8,001)	—	(17,356)
As at 30.6.95	14,240	142,459	360,788	221,751	165,938	—	905,177
Net Book Value							
As at 1.7.95	**103,652**	**917,810**	**1,508,645**	**270,556**	**208,225**	**849,784**	**3,858,672**
As at 30.6.94	**105,258**	**878,772**	**1,426,652**	**189,778**	**212,937**	**285,965**	**3,099,363**

The Company has not been granted title to the Nucleus Estate land and therefore no value has been included for this in the Accounts.

The Company undertook a revaluation of all its assets as at 30th June, 1990.

Assets acquired subsequent to this date are stated at cost.

	1995 Kshs '000	1994 Kshs '000
7. Investments		
Cost of 194,596 Shares of Ksh. 20 each in K.G.G.C.U. Ltd. (Valuation Kshs. 3,891,920)	169	169
8. Stocks, Stores and Growing Cane		
This Comprises:		
Stocks	194,123	78,511
Stores	720,911	750,802
Growing Cane (see note below)	113,091	102,080
	1,028,125	**931,393**

Growing Cane

Growing cane ceased to be insured against fire as insurance companies declined to provide cover. No provision has been made in the Accounts for any possible losses on burnt cane which cannot be salvaged.

	1995 Kshs '000	1994 Kshs '000
9. Debtors		
This comprises:		
Claims on government for construction and maintenance of roads	753	700
Grants from British government	(8)	(994)
Other Debtors and Deposits	654,955	1,273,625
	655,700	**1,273,331**
10. Creditors and Accruals		
Trade Creditors	185,945	226,274
Outgrowers Farmers for Cane	198,050	307,732
VAT Payable	(29,344)	(22,457)
Accrued Salaries, Wages etc	6,781	6,010
Other Creditors	156,588	150,165
	518,020	**667,724**

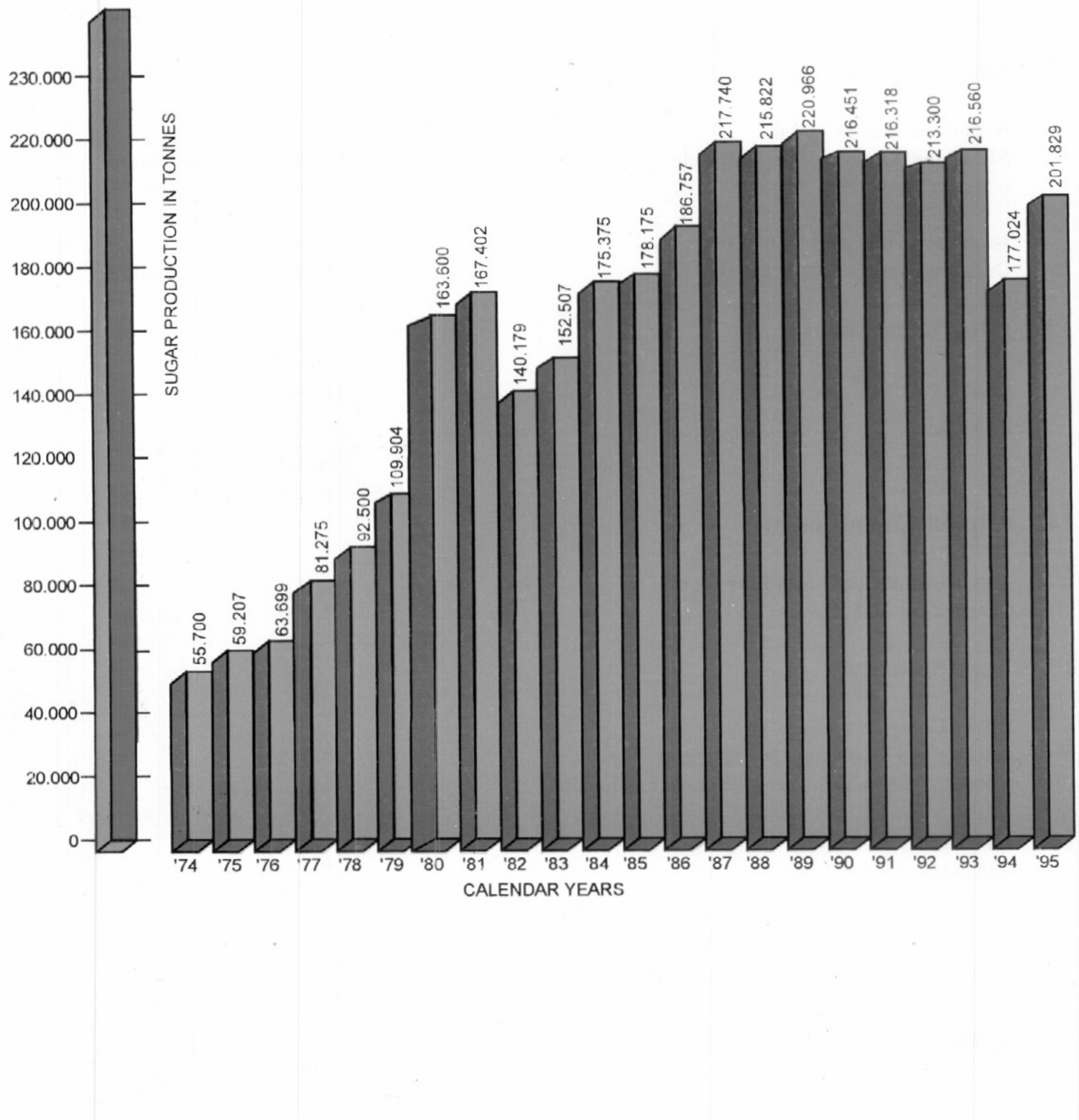
	1995 Kshs '000	1994 Kshs '000
11. Bank Overdraft		
Overdraft utilised	17,570	154,156
Overdraft facility limit	250,000	250,000
12. Share Capital:		
Authorised Share Capital 54,500,000 Ordinary Shares of Kshs. 20 each	1,090,000	1,090,000
Issued and Fully paid 51,000,000 Ordinary Shares of Kshs. 20 each	1,020,000	1,020,000
13. Long Term Loans:		
Stanbic	118,388	—
PTA Bank	205,673	—
	324,063	—
14. Capital Commitments:		
Authorised and contracted for but not provided for in Accounts	3,000	8,200

15. Loan Security

All the Company's assets, both movable and immovable are subject to a floating charge to secure overdrafts and loans.

	1995 Kshs '000	1994 Kshs '000
16. Dividend:		
(a) Dividend b/f. 1.7.94	170,000	136,000
(b) Proposed Dividend at the rate of 15.2% Issued Share Capital as at 30th June, 1995.	155,000	102,000
	325,000	238,000
(c) Dividends paid during the year	(68,000)	(68,000)
	257,000	170,000

TWENTY ONE YEARS SUGAR PRODUCTION SUMMARY GRAPH



Kshs. '000	30th June 1990/91	30th June 1991/2	30th June 1992/93	30th June 1993/94	30th June 1994/95
Turnover	1,960,305	2,415,599	3,157,704	5,087,741	5,557,003
Payment to cane farmers	798,234	924,661	1,233,468	2,147,124	1,192,668
Profit before taxation and exception item	393,081	640,980	723,730	1,122,753	1,111,894
Exceptional item	—	—	—	—	(449,189)
Profit before taxation	393,081	640,980	723,730	1,122,753	662,705
Taxation	(169,278)	(262,492)	(262,904)	(315,970)	(230,149)
Profit after taxation	223,803	378,488	460,826	806,783	432,556
Shareholders funds at period end	2,806,689	3,113,910	3,493,800	4,199,662	4,477,036
After Tax Profit as a percentage of Equity	7.97%	12.15%	13.19%	19.21%	9.55%
Dividends	42,500	68,000	68,000	102,000	155,000
Dividends as a % of Equity	1.51%	2.18%	1.95%	2.43%	3.47%
Direct Revenue to Government by way of Value Added Tax and Income Tax	386,584	490,015	759,217	440,230	391,813
Subsidy to Farmers	102,587	119,829	134,351	229,435	196,062
Staff Costs:					
Management	58,107	65,055	77,223	97,168	131,104
Skilled	75,068	88,362	114,641	121,192	288,512
Unskilled	79,722	99,300	105,623	126,554	288,513
Area Under Cane (Ha)					
Nucleus Estate	3,401	3,402	3,345	3,370	3,455
Outgrowers	32,035	32,974	35,123	40,362	40,195
Cane Crushed (Thousand Tonnes)	1,884	1,819	1,977	1,774	1,738
Sugar Produced (Tonnes)	217,530	212,297	221,800	200,201	181,665
Increase/(Decrease) in Production over Previous Period	(0.7%)	(2.41%)	(4.47%)	(9.74%)	(9.26%)
No. of Registered Farmers at Period End	33,361	35,252	35,477	41,273	43,434
No. of Employees at Period End:					
Permanent	5,209	5,081	5,111	5,073	5,032
Seasonal	9,186	9,970	12,607	9,455	11,834
Category of permanent employees:					
Management	368	429	461	462	483
Skilled	1,307	1,464	1,529	1,497	1,849
Unskilled	3,534	3,188	3,121	3,114	2,700

Mumias Sugar Company attaches great importance to the welfare of the employees

Cover page

(i) View of the giant Mumias Sugar Factory

(ii) Research is vital for the future of the company pilot scheme