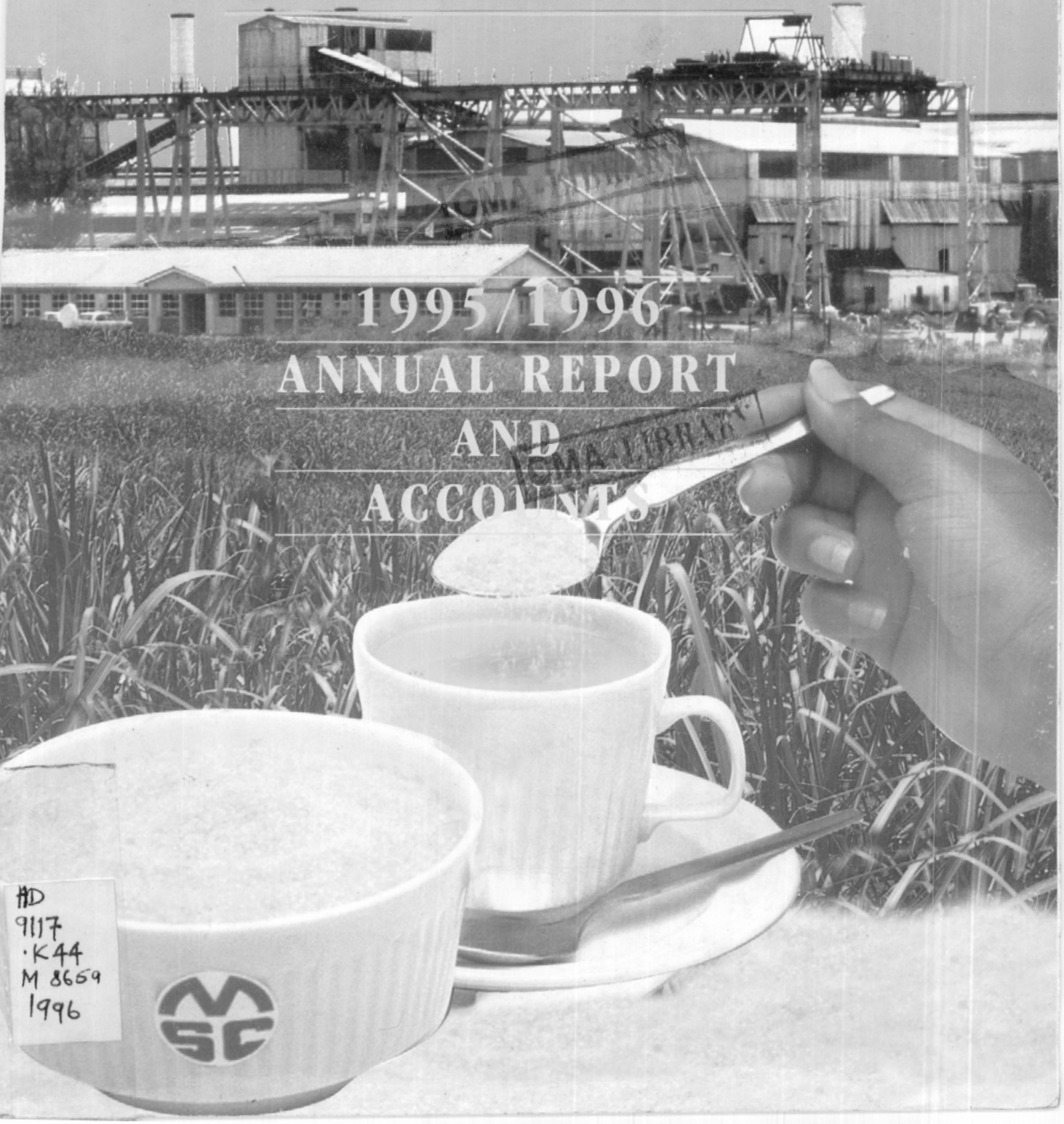
MUMIAS SUGAR COMPANY



1995/1996 ANNUAL REPORT AND ACCOUNTS

Directors on a tour of the ongoing construction aimed at upgrading milling capacity

MUMIAS SUGAR COMPANY

1995/1996 ANNUAL REPORT AND ACCOUNTS

Contents

Notice of Meeting

The twenty fifth Annual General Meeting of the company will be held in the company's Board Room, 3rd Floor Royal Ngao House, Nairobi on Monday 30th June, 1997 at 12.30pm.

Agenda

1. To approve the Minutes of the 24th Annual General Meeting.
2. To receive and consider the accounts for the year ended 30th June, 1996 and the report of the Directors and auditors thereon.
3. To note that Deloitte and Touche having expressed their willingness to continue as Auditors will do so by virtue of Section 159(2) (Cap 486) and authorise 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

Corporate Information

DIRECTORS

Mr M K Sang - Chairman
Mr A T Kaminchia - (alternate M S Fazal)
Mr B K Kipkulei - (alternate Mrs C Kimura)
Professor K Mutahi - (alternate Mr E Gichohi)
Mr M Geake - (alternate Mr K Gatabaki)
Hon S A Wako - (alternate Mr D K Ameyo)
Mr B Yates
Mr F M Chahonyo

COMPANY SECRETARY

Mr M J R Guto

MANAGING AGENTS

Booker Tate Limited

ADVOCATES

Kaplan & Stratton
E K Owinyi

AUDITORS

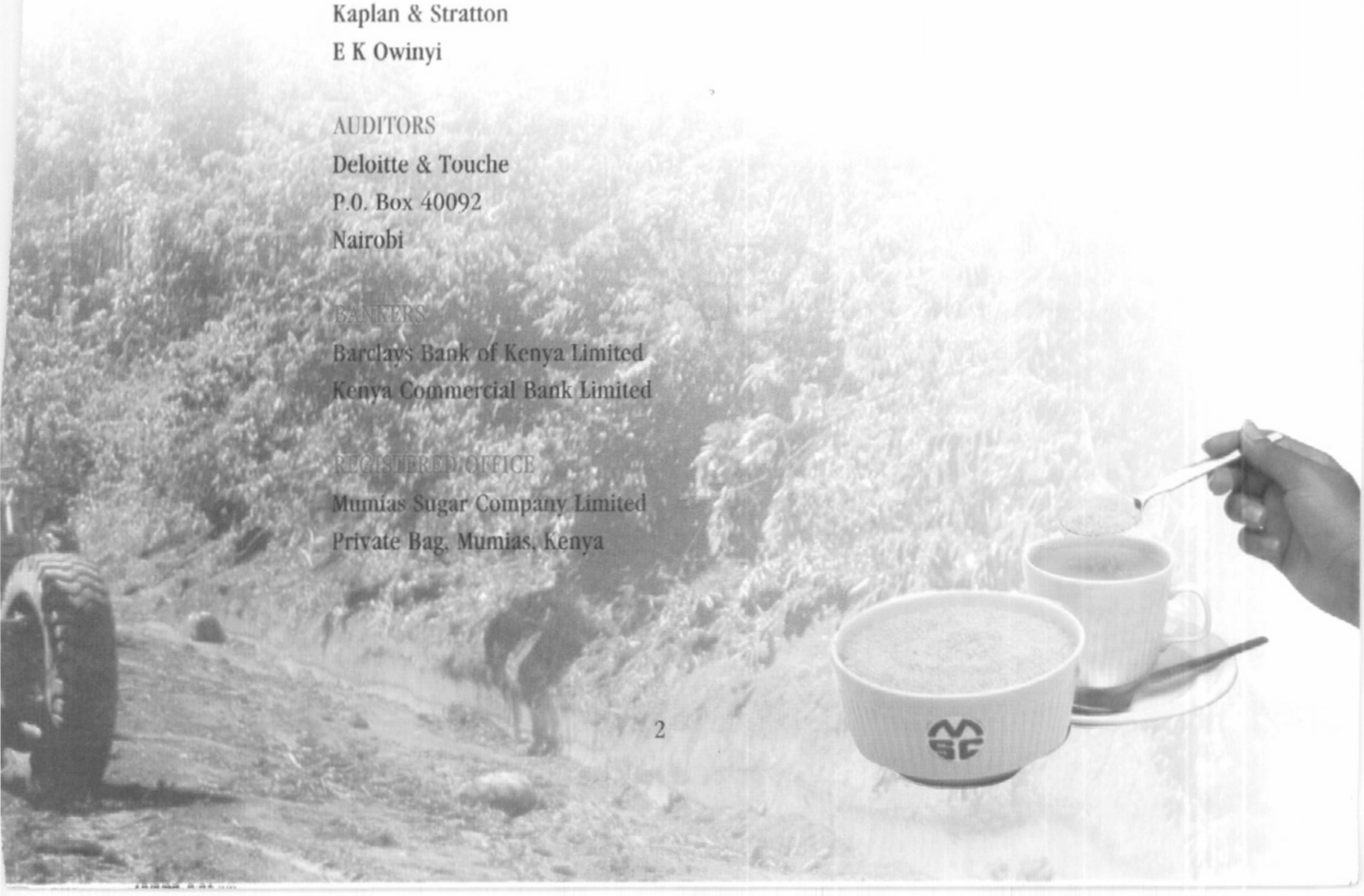
Deloitte & Touche
P.O. Box 40092
Nairobi

BANKERS

Barclays Bank of Kenya Limited
Kenya Commercial Bank Limited

REGISTERED OFFICE

Mumias Sugar Company Limited
Private Bag, Mumias, Kenya



Chairman's Statement

It is my pleasant duty to report on the perfomance of Mumias sugar Company Limited during the year ended 30 June, 1996.

Mr. M.K. Sang
Chairman

Operations

There was a plentiful supply of mature cane during the year because of good rainfall and better husbandry. 1,876,000 tonnes of cane were crushed (1994/95 1,738,000) which produced 205,236 tonnes of sugar (1994/95 181,665). Cane quality was better than in the previous year giving a higher rendement of sugar from the cane milled. The factory rationalisation project progressed on schedule for commissioning in the second quarter of 1997.

Financial Perfomance

Sales revenue increased to Kshs.6,171 million (1994/95 Kshs 5,557 million), whilst operating profit was marginally lower at Kshs. 1,099 milion (1994/95 1,135 million).

A provision of Kshs 209 million has been made for stock obsolescence in anticipation of the commissioning of the rationalisation project.

Exceptional costs arising from the project were lower at Kshs 231 million (1994/95 Kshs 449 million), but interest payable increased significantly to Kshs.193 million (1994/95 Kshs 68 million) reflecting further drawdown of the rationalisation loan facility. At the year end loans totalled Kshs. 1,034 million (1994/95 kshs 324 million). Profit after taxation increased to Kshs 445 million (1994/95 Kshs 433 million) and proposed dividends have been raised to Kshs 200 million (1994/95 Kshs 155 million).

Prospects for the future

Cane supplly remains abundant and we look forward to the commissioning of the rationalisation project which will provide some additional capacity and greater reliability.

Cheap imported sugar, on which it is suspected no duty is paid, continues to affect sales volumes and prices adversely. It is vital for the future of the Kenyan sugar industry that all imported sugar attracts the gazetted duties and levies in order to provide a fair and competitive market.

Progress on the privatisation of Mumias Sugar Company has been unexpectedly slow but I am confident of a successful outcome. It is Government's intention that funds from the privatisation will be used to finance the proposed Busia Sugar Factory. This will be a big step towards achieving Kenyan self sufficiency in sugar.

Acknowledgements

With the liberalization of sugar marketing, success would not have been possible without the valuable support of our customers. I take this opportunity on behalf of the shareholders, board of directors and staff to thank them for their continued support of MSC. I also extend my gratitude for the continued support from all Government departments involved in sugar matters, the farmers for their continued supply of cane to the factory, and to the staff of Mumias Sugar Company for their hard work and commitment.

Michael K. Arap Sang
Chairman

Directors' Report

The directors present their report together with the audited financial statements of the company for the year ended 30 June 1996.

PRINCIPAL ACTIVITIES

The principal activity of the company remains that of manufacturing and selling sugar.

PRODUCTION

The company produced 205,236 tonnes of sugar during the current financial year (1994/95 - 181,665 tonnes).

	Shs'000
RESULTS	
Profit before taxation	567,647
Taxation	(122,386)
Profit available for appropriation	445,261
Proposed dividend	200,000
Retained profit for the year transferred to revenue reserves	245,261

DIVIDENDS

The directors propose the payment of a dividend of 19.61% amounting to Shs 200,000,000 (1994/95 - Shs 155,000,000).

DIRECTORS

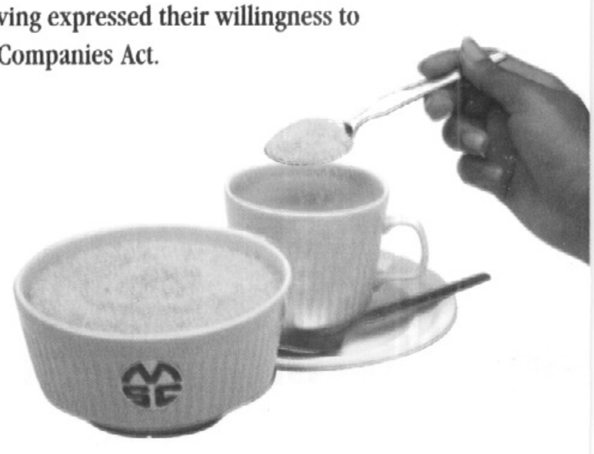
In November 1995 Mrs C Kimura was appointed an alternate Director to Mr B Kipkulei. In December 1995 Mr M Geake was appointed director representing Commonwealth Development Corporation in place of Mr R Kemoli. In April 1996 Professor K Mutahi was appointed as Director representing ministry of Agriculture, Livestock Development and Marketing in place of Eng. W P Wambura. The Directors as at 30th June 1996 are as shown on Page 2.

AUDITORS

Deloitte & Touche were appointed auditors on Ist July 1996 and, having expressed their willingness to continue in office, do so in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD

M J R Guto
Secretary



Report of the Auditors

TO THE MEMBERS OF MUMIAS SUGAR COMPANY LTD

We have audited the financial statements on pages 7 to 17 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

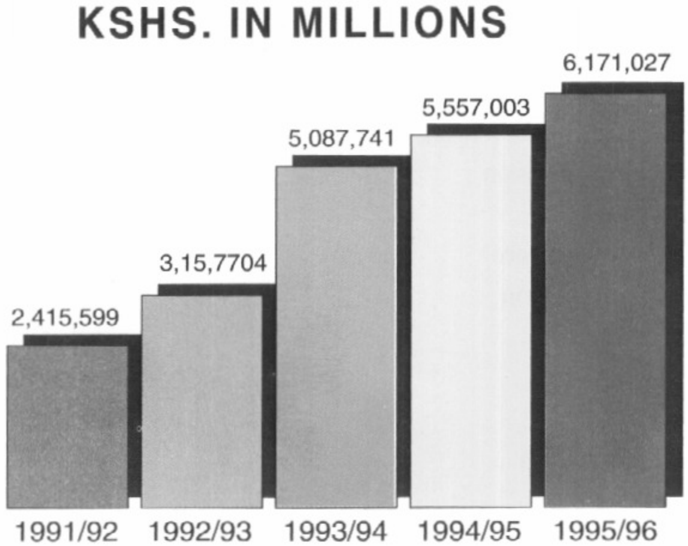
We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, comply with the Companies Act and give a true and fair view of the company's state of affairs at 30 June 1996 and of its profit and cash flows for the year ended on that date.

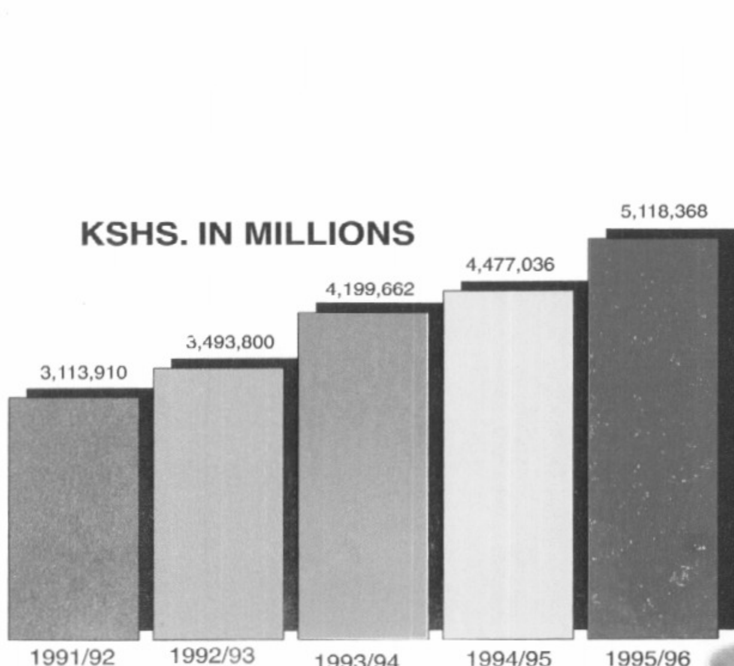
Deloitte & Touche

23rd May, 1997.

Financial highlights



TURNOVER



SHAREHOLDERS FUNDS

Profit and Loss account

FOR THE YEAR ENDED 30 JUNE 1996

	Note	1996 Shs'000	1995 Shs'000
Turnover	2	6,171,027	**5,557,003**
Operating profit before provision for stock obsolescence		1,099,364	**1,135,510**
Provision for stock obsolescence		209,234	**6,661**
Operating profit after provision for stock obsolescence	3	890,130	**1,128,849**
Interest receivable	4	101,307	**50,796**
Interest payable	4	(192,934)	**(67,751)**
Profit before exceptional item		798,503	**1,111,894**
Exceptional item	5	230,856	**449,189**
Profit before taxation		567,647	**662,705**
Taxation	6	122,386	**230,149**
Profit after taxation		445,261	**432,556**
Dividends (gross)	7	200,000	**155,000**
Retained profit for the year	16	245,261	**277,556**
Earnings per share	8	Shs 8.73	**Shs 8.48**

Balance Sheet

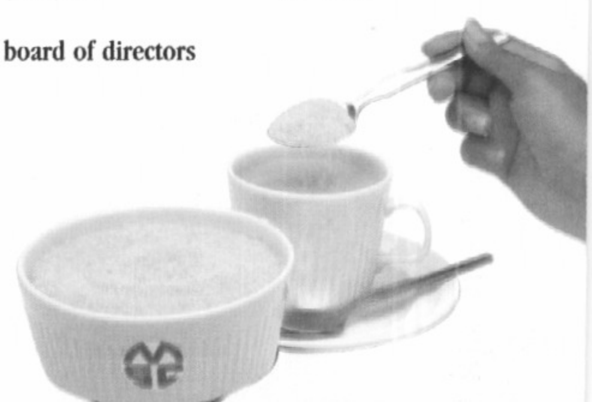
AS AT 30TH JUNE 1996

	Note	1996 Shs'000	1995 Shs'000
FIXED ASSETS	9	5,859,229	3,858,672
TRADE INVESTMENT	10	1	169
		5,859,230	3,858,841
CURRENT ASSETS			
Stocks	11	736,789	1,028,125
Taxation recoverable		86,489	-
Debtors	12	1,018,243	685,044
Deposits, bank and cash balances		297,752	118,889
		2,139,273	1,832,058
CURRENT LIABILITIES			
Creditors and accruals	13	854,350	547,364
Taxation payable		-	67,866
Loans payable within one year	17	637,165	-
Dividends payable		155,000	102,000
Dividend proposed		200,000	155,000
Bank overdrafts (secured)	14	-	17,570
		1,846,515	889,800
NET CURRENT ASSETS		292,758	942,258
		6,151,988	4,801,099
Financed by:			
SHARE CAPITAL	15	1,020,000	1,020,000
RESERVES	16	4,098,368	3,457,036
SHAREHOLDERS'FUNDS		5,118,368	4,477,036
LOANS	17	1,033,620	324,063
		6,151,988	4,801,099

The financial statements on pages 7 to 17 were approved by the board of directors on 30th April,1997 and were signed on its behalf by:

Director .... Mr M K Sang

Director... Mr F M Chahonyo



Cashflow statement

FOR THE YEAR ENDED 30 JUNE 1996

	Note	1996 Sh,000	1995 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18(a)	1,181,544	673,853
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(102,000)	(68,000)
Interest paid		(175,759)	(54,028)
Interest received		87,235	6,145
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(190,524)	(115,883)
TAXATION PAID		(276,741)	(275,420)
INVESTING ACTIVITIES			
Purchase of fixed assets		(1,883,437)	(1,020,191)
Proceeds on sale of fixed assets		18,869	11,012
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,864,568)	(1,009,179)
NET CASH OUTFLOW BEFORE FINANCING		(1,150,289)	(726,629)
FINANCING			
Loans received		1,346,722	324,063
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	18(b)	196,433	(402,566)

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 1996

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The company prepares its financial statements on the historical cost basis of accounting, modified to include the revaluation of certain assets.

TURNOVER

Turnover represents sales to customers during the year net of various taxes and the Kenya Bureau of Standards marking fees.

TAXATION

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

Deferred taxation is provided on timing differences between the accounting and taxation treatment of income and expenditure where, in the opinion of the directors, a significant liability to taxation will crystallise in the foreseeable future.

FIXED ASSETS

Depreciation is calculated to write off the cost or valuation of fixed assets in equal annual instalments over their estimated useful lives. The annual rates generally in use are:

Land development	$2\frac{1}{2}\%$
Buildings	$2\frac{1}{2}$ - 5%
Factory, plant and machinery	5%
Agricultural equipment and machinery	$12\frac{1}{2}\%$ - 25%
Other equipment and fixtures	$12\frac{1}{2}\%$ - $33\frac{1}{3}\%$

STOCKS

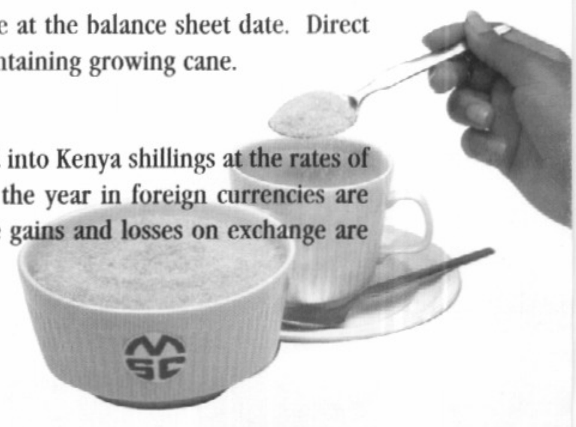
Unsold sugar and molasses are stated at the lower of cost and net realisable value. Cost comprises all estate, factory and packing expenses.

Sugar and molasses in process are valued at half the production cost. Other stocks and stores are stated at the weighted average purchase cost.

Growing cane is valued at the direct average cost of growing cane at the balance sheet date. Direct average cost represents all costs incurred in establishing and maintaining growing cane.

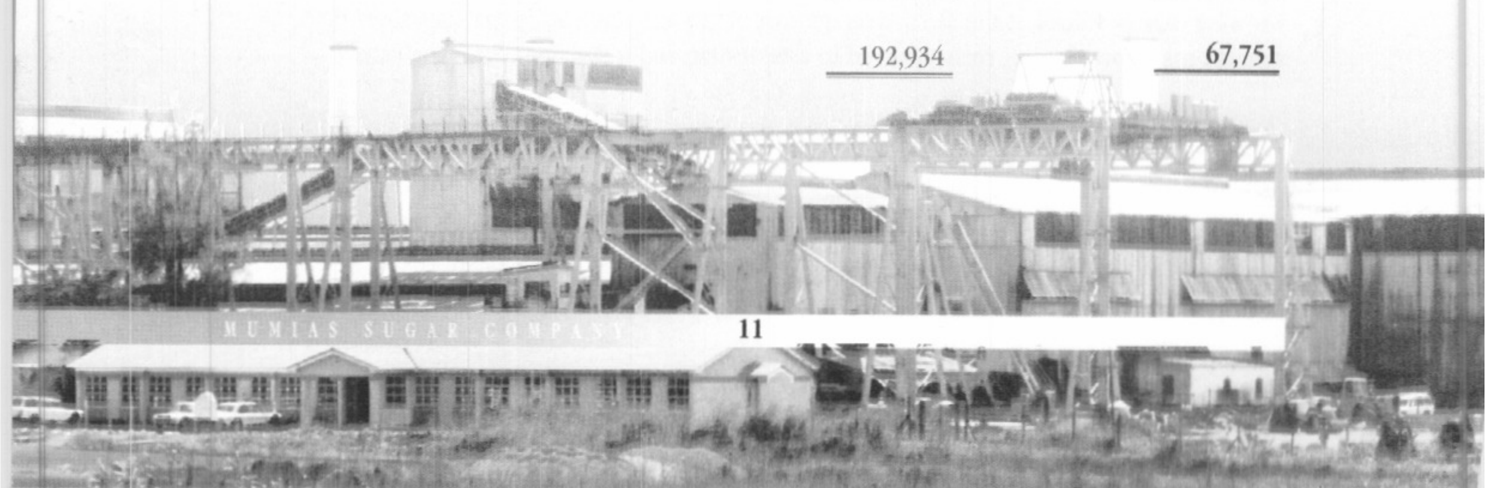
FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rates ruling at the date of the transactions. The gains and losses on exchange are dealt with in the profit and loss account.



Notes to the financial statements *(Continued)*

		1996	1995
		Shs'000	**Sbs'000**
2.	TURNOVER		
	Sales net of taxes	6,171,227	**5,557,303**
	Kenya Bureau of Standards marking fees	(200)	**(300)**
		6,171,027	**5,557,003**
3.	OPERATING PROFIT		
	Operating profit is arrived at after charging:		
	Depreciation	270,301	**256,964**
	Management fees	26,765	**19,018**
	Directors' emoluments - fees	440	**400**
	Auditors' remuneration	1,300	**1,044**
	Subsidy to outgrowers	197,260	**196,062**
4.	INTEREST		
	Interest receivable		
	Deposits	39,693	**6,145**
	Loans and advances	61,614	**44,651**
		101,307	**50,796**
	Interest payable		
	Loans	180,970	**34,886**
	Overdrafts	11,964	**32,865**
		192,934	**67,751**



Notes to the financial statements *(Continued)*

		1996 Shs'000	1995 shs'000
5	EXCEPTIONAL ITEM		
	Factory rationalisation-revenue expenditure		
	Project management	131,135	**246,966**
	Project administration and office expenses	17,431	**27,709**
	Overall performance guarantee	46,253	**124,003**
	Insurance	4,805	**10,859**
	Bank charges	31,232	**39,652**
		230,856	**449,189**
6	TAXATION		
	(a) Current taxation		
	Based on the adjusted profit for the year:		
	Income tax at 35%	122,386	**230,149**

The taxable profit is materially lower than the accounting profit due to excess capital allowances over depreciation and the allowable revenue expenditure on the rationalisation project.

(b) Deferred taxation
At 31 December 1996 the potential deferred tax liability amounted to approximately Shs 695 million.

		1996 Shs'000	1995 Shs'000
7.	DIVIDENDS (gross)		
	Final - proposed	200,000	**155,000**

8. EARNINGS PER SHARE

Earnings per share has been calculated on the profit after taxation ofShs. 445,261,000 (1995 Shs. 432,556,000) and on 51,000,000 issued ordinary shares.

Notes to the financial statements *(Continued)*

9. FIXED ASSETS

	Land development Shs'000	Buildings Shs'000	Factory plant and machinery Shs'000	Agricultural equipment and machinery Shs'000	Other equipment and fixtures Shs'000	Work in progress Shs'000	Total Shs'000
COST OR VALUATION							
At 1st July, 1995	117,892	1,060,269	1,869,434	492,307	374,163	849,784	4,763,849
Additions	785	6,364	101,107	-	20,138	1,755,043	1,883,437
Transfers	1,191	22,687	9,938	(3,052)	11,478	(42,242)	
Disposals	-	-	(19,968)	(49,469)	(3,657)	-	(73,094)
Revaluation surplus /(loss)	-	259,383	(674,474)	(96,235)	-	-	(592,359)
At 30th June 1996	119,868	1,348,703	1,286,037	343,551	321,089	2,562,585	5,981,833
COMPRISING							
Valuation - 1996	-	1,346,799	1,285,768	224,938	250,119	-	3,107,624
Cost	119,868	1,904	269	118,613	70,970	2,562,585	2,874,209
	119,868	1,348,703	1,2 86,037	343-,551	321,089	2,562,585	5,981,833
DEPRECIATION							
At 30th June 1995	14,240	142,459	360,789	221,751	165,938	-	905,177
Charge for the year	2,970	31,265	90,247	87,416	58,403	-	270.301
Disposals	-	-	(7,465)	(46,602)	(3,428)	-	(57,495)
Written back on revaluation	-	(173,611)	(443,357)	(189,454)	(188,957)	-	(995,379)
At 30 June 1996	17,210	113	214	73,111	31,956	-	122,604
NET BOOK VALUE							
At 30th June 1996	102,658	1,348,590	1,293,669	270,440	281,287	2,562,585	5,859,229
At 30th June 1995	103,652	917,810	1,508,645	270,556	208,225	849,784	3,858,672

Of the total hectarage of nucleus land, the company has title to approximately 117 hectares where the factory, administration block and part of the residential estate are located.

The Company's assets were revalued on a depreciated replacement cost basis in June 1996 by Tysons Limited, registered valuers.

Notes to the financial statements *(Continued)*

	1996 Shs'000	1995 Shs'000
10. TRADE INVESTMENT		
194,596 unquoted shares of Shs 20		
each in Kenya Farmers Association (KFA)	1	169

The shares in KFA were written down to a nominal value during the year since no benefit is expected to accrue from them in the foreseeable future.

	1996 Shs'000	1995 Shs'000
11. STOCKS		
Sugar and molasses stocks	7,854	178,376
Sugar in Process	15,965	15,745
Stores	476,371	571,026
Goods in Transit	88,772	149,887
Growing cane (see note below)	147,827	113,091
	736,789	1,028,125

Growing cane

With effect from I st July 1988 Nucleus Estate growing cane ceased to be insured against fire as insurance companies declined to provide cover. No provision has been made in the accounts forany possible losses on burnt cane which cannot be salvaged.

	1996 Shs'000	1995 Sbs'000
12. DEBTORS		
Trade debtors	167,026	2,965
VAT refundable	167,618	29,344
Staff debtors	31,093	23,944
MOCO loan and current account	185,235	255,681
General debtors	252,726	174,624
Sundry debtors and prepayments	214,545	198,486
	1,018,243	685,044

Notes to the financial statements *(Continued)*

	1996 Shs'000	1995 Shs'000
13. CREDITORS		
Trade creditors	382,025	185,945
Outgrowers	130,900	198,050
Prepaid sales	67,450	-
Loan interest accrued	30,897	13,722
Other creditors and accruals	243,078	149,647
	854,350	547,364

14. BANK OVERDRAFTS

All the company's assets, both movable and immovable,are the subject of a floating charge to secure the bank overdrafts.

	1996 Shs'000	1995 Shs'000
1 5. SHARE CAPITAL		
Authorised		
54,500,000 ordinary shares of Shs 20 each	1,090,000	1,090,000
Issued and fully paid		
5 1,000,000 ordinary shares of Shs 20 each	1,020,000	1,020,000

16. RESERVES

	Revaluation Shs'000	Revenue Shs'000	Total Shs'000
At Ist July 1995	2,107,849	1,349,187	3,457,036
Realised on sale of fixed assets, transferred to profit and loss account	(6,949)	-	(6,949)
Transfer of accumulated depreciation on revaluation at 30 June 1996	995,379	-	995,379
Revaluation loss	(592,359)	-	(592,359)
Retained profit for the year	-	245,261	245,261
At 30th June 1996	2,503,920	1,594,448	4,098,368

Notes to the financial statements *(Continued)*

	1996 Shs'000	1995 Shs'000
17. LOANS (SECURED)		
Local financial institution long term loans:		
Interest at 27% per annum	1,194,063	118,388
Foreign currency long term loans:		
US$ 4,059,3 54, interest at I0% per annum	232,624	205,675
US$ 4,161,817, interest at 12% per annum	244,098	-
	1,670,785	324,063
Less: repayable within one year	637,165	-
	1,033,620	324,063

18. NOTES TO THE CASH FLOW STATEMENT

	1996 Shs'000	1995 Shs'000
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	1,099,364	1,135,510
Depreciation	270,301	256,964
Profit on disposal of fixed assets	(3,270)	(7,091)
Revaluation reserve realised on sale of fixed assets	(6,949)	(182)
Provision for stock obsolescence	(209,234)	(6,661)
Factory rationalisation revenue expenditure	(230,856)	(449,189)
Write down of trade investment	168	-
Decrease/(increase) in stocks	291,336	(96,736)
Increase in debtors	(319,127)	(85,364)
Increase/(decrease) in creditors	289,811	(109,398)
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,181,544	673,853

(b) Analysis of changes in cash and cash equivalents

	1996 Shs'000	1995 Shs'000	Change in the year Shs'000
Deposits, bank and cash balances	297,752	118,889	178,863
Bank overdrafts	-	(17,570)	17,570
increase in cash and cash equivalents			196,433

Notes to the financial statements *(Continued)*

	1996 Shs'000	1995 Shs'000
19. CAPITAL COMMITMENTS		
Commitments at the year end for which no provision has been made in these financial statements:		
Contracted for	59,020	33,155
Authorised but not contracted for	3,058,181	2,182,150
	3,117,201	2,215,305

	1996 Shs'000	1995 Shs'000
20. CONTINGENT LIABILITIES		
Guarantees	10,000	15,000
Outstanding letters of credit	574,392	200,000
	584,392	215,000

Transportation of cane to the factory

Five year summary

	30 June 1991/92 KSh'000	30 June 1992/93 KSh'000	30 June 1993/94 KSh'000	30 June 1994/95 KSh'000	30 June 1995/96 KSh'000
Turnover	2,415,599	3,157,704	5,087,741	5,557,003	6,171,027
Payments to cane farmers	877,775	1,289,897	2,147,124	2,428,504	2,739,832
Profit before taxation and exceptional item	640,980	723,730	1,122,753	1,111,894	798,503
Exceptional item	-	-	-	(449,189)	(230,856)
Profit before taxation	640,980	723,730	1,122,753	662,705	567,647
Taxation	(262,492)	(262,904)	(315,970)	(230,149)	(122,386)
Profit after taxation	378,488	460,826	806,783	432,556	445,261
Shareholders funds at period end	3,113,910	3,493,800	4,199,662	4,477,036	5,118,368
Return on capital employed	20.58%	20.71%	26.73%	14.80%	11.05%
Number of shares, '000	8,500	8,500	29,750	51,000	51,000
Dividends	68,000	68,000	102,000	155,000	200,000
Dividends per share, KShs	8.00	8.00	3.43	3.04	3.92

Offloading of quality cane

Five year summary *(Continued)*

	1991/92	1992/93	1993/94	1994/95	1995/96
	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000
Direct revenue to Government by way of Value Added Tax and Income Tax	490,015	759,217	440,230	391,813	630,318
Subsidy to farmers	119,829	134,351	229,435	196,062	197,260
Staff costs:					
Management	65,055	77,223	97,168	131,104	156,592
Skilled	88,362	114,641	121,192	170,827	276,911
Unskilled	99,300	105,623	126,554	316,145	361,109
Casual labour	14,079	20,030	34,574	37,646	45,144
Area under cane (Ha)					
Nucleus estate	3,402	3,345	3,370	3,455	3,467
Outgrowers	32,974	35,123	40,362	40,195	40,380
Cane crushed (Thousand Tonnes)	1,819	1,977	1,774	1,738	1,876
Sugar produced (Tonnes)	212,297	221,800	200,201	181,665	205,236
Increase/(decrease) in production over previous period	(2.41%)	4.47%	(9.7%)	(9.26%)	12.97%
Number of registered farmers at period end	35,252	35,477	41,273	43,434	44,198
Number of employees at period end:					
Permanent	5,081	5,111	5,073	5,032	4,925
Seasonal	9,970	12,607	9,455	11,834	12,235
Category of permanent employees:					
Management	429	461	462	483	443
Skilled	1,464	1,529	1,497	1,849	2,177
Unskilled	3,188	3,121	3,114	2,700	2,305