



Annual Report &
Financial Statements
for the year ended 30th June 2005

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FOMU YA UWAKILISHI

Nambari ya Hisa ya Mwanachama _____

Katibu wa Kampuni
Mumias Sugar Company Limited (MSC)
Private Bag
MUMIAS

Mimi/sisi _____ wa _____

*Nikiwa/Tukiwa *Mwanachama/Wanachama wa Kampuni iliyotajwa hapa juu, namteua: _____

wa _____

Au kumkosesha _____ wa _____

Kama mwakilishi * wangu/wetu *kunipigia/kutupigia kura kwa niaba * yangu/yetu katika Mkutano Mkuu wa kila Mwaka wa kampuni hii utakaofanyika mnamo Ijumaa, Novemba 25, 2005 na kuahirishwa kwokwote baadaye:

*Futa ifaavyo

Sahihi _____

Imetiwa sahihi, leo tarehe _____ Mwezi wa _____ 2005.

Fahamuo

- 1 Anwani inatakiwa iwe iliyotajwa katika rejista ya wanachama
- 2 Katika hali ambayo mwanachama atakuwa shirika, fomu hii ya uwakilishi sharti tolewe pengine chini ya chapa yake ya kawaida au kutiwa sahihi kwa niaba yake na wakili au afisa wa shirika hilo aliyeidhinishwa.
- 3 Mtu aliyeteuliwa mwakilishi hatakiwi tu awe mwanachama wa Kampuni.
- 4 Katika hali ya wamilikaji wa pamoja, sahihi ya mmilikaji yeyote inatosha akini majina ya wamilikaji wote wa pamoja sharti yatajwe.

Kata Hapa

Barua ya kukubaliwa kwa mwenye hisa kuingia katika Mkutano Mkuu wa kila Mwaka wa MSC mnamo 25.11.2005

Tafadhali kamilisha barua hii na ufahamu kuwa barua hii ya kukubaliwa sharti itolewe katika Mkutano Mkuu wa kila Mwaka na wewe au mwakilishi wako kwa ajili ya kuandika huhudhuria. Tafadhali ufahamu kuwa wenye hisa pekee waliosajiliwa au wawakilishi wao waliothibitishwa kwa Kampuni masaa 48 kabla ya mkutano ndiyo watakoruhusiwa katika mkutano.

Jina _____

Sahihi _____

Nambari ya akaunti ya hisa _____

Mkutano Mkuu wa kila Mwaka wa Mumias Sugar Company Limited kufanyika katika Tom Mboya Labour College, Ring Road, Milimani, Kisumu, mnamo Ijumaa, Novemba 25, 2005 saa tano asubuhi.

PROXY FORM

Share Member No. _____

The Company Secretary
Mumias Sugar Company Limited
Private Bag
MUMIAS

I/We _____ of _____

Being a *Member/Members of the above named Company, hereby appoint: _____

of _____

Or failing him _____

of _____

as my/our proxy to vote for me/us on *my/our behalf at the Annual General Meeting of the Company to be held on Friday 25 November 2005 and at any adjournment thereof.

Signature(s) _____

Signed this _____ day of _____ 2005.

Notes

1. The address should be that shown in the register of members.
2. In the case of a member being a corporation, this form of proxy must be executed either under its common seal or signed on its behalf by an attorney or officer of the corporation duly authorised.
3. A person appointed to act as a proxy need not be a member of the Company.
4. In case of joint holders, the signature of any one holder will be sufficient but the names of all joint holders should be stated.

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Shareholders admission letter for MSC AGM on 25.11.2005

Please complete this letter and note that this admission letter must be produced at the Annual General Meeting by you or your proxy in order to record attendance. Kindly note that only the registered shareholders or their proxy notified to the Company not later than 48 hours before the meeting will be admitted to the meeting.

Name _____

Signature _____

Share account number _____

Annual General Meeting (AGM) of Mumias Sugar Company (MSC) to be held at Tom Mboya Labour College, Ring Road Milimani, Kisumu on Friday 25th November 2005 at 11.00 a.m.

FIVE YEAR SUMMMARY REVIEW

	2000/01 Shs'000	2001/02 Shs'000	2002/03 Shs'000	2003/04 Shs'000	2004/05 Shs'000
Turnover	6,659,315	7,847,233	7,628,937	9,792,503	10,080,174
Cane purchases from outgrowers	3,593,048	3,728,832	3,818,128	3,989,035	4,133,632
Profit/(loss) before taxation and exceptional items	1,126,900	183,300	(139,805)	1,445,042	2,073,267
Exceptional items	(441,679)	(39,093)	(105,053)	(306,492)	(229,886)
Profit/(loss) before taxation	685,221	144,207	(244,858)	1,138,550	1,843,381
Taxation	(202,421)	(97,563)	29,250	(347,099)	(553,451)
Profit/(loss) after taxation	482,800	46,644	(215,608)	791,451	1,289,930
Shareholders funds at period end	5,354,095	5,085,736	4,865,654	5,402,105	6,080,035
Return on capital employed	12.80%	2.84%	5.03%	21.08%	30.32%
Number of shares, '000	51,000	510,000	510,000	510,000	510,000
Dividends	362,100	51,000	-	561,000	765,000
Dividends per share, Shs	7.10	0.10	-	1.10	1.50
Earnings/(loss) per share, Shs	9.47	0.09	(0.42)	1.55	2.53
Direct revenue to Government by way of Value Added Tax and Income Tax	1,871,926	1,798,321	1,890,896	2,057,967	2,325,359
Subsidy to farmers	375,456	246,766	311,408	393,535	313,964
Staff costs:					
Management	480,956	494,331	479,375	558,060	651,475
Skilled	344,837	407,823	483,300	625,059	383,760
Unskilled	172,418	203,911	225,728	368,993	222,891
Casual labour	45,377	53,259	36,621	31,247	38,510
Area under cane (Ha)					
Nucleus estate	3,433	3,450	3,502	3,481	3,537
Outgrowers	45,231	47,031	46,755	47,669	51,372
Cane processed (Thousand Tonnes)	1,988	1,961	2,065	2,291	2,348
Sugar produced (Thousand Tonnes)	218	219	237	264	269
Increase/(decrease) in production over previous period	(18.43%)	0.71%	8.07%	11.39%	1.96%
Number of registered farmers at period end	51,274	54,045	53,533	54,741	63,634
Number of employees at period end:					
Permanent	3,240	3,105	2,978	2,789	1,992
Seasonal	14,389	12,637	12,286	10,079	11,207
Category of permanent employees:					
Management	447	459	454	454	427
Skilled	1,609	1,482	1,427	1,522	990
Unskilled	1,184	1,164	1,097	813	575

SHAREHOLDING AND DIRECTORS INFORMATION

FOR THE YEAR ENDED 30 JUNE 2005

SHARE HOLDING INFORMATION

The top ten shareholders on the company's share register as at 31 August 2005 were as follows:

		Number of shares	Percentage holding
1	Permanent Secretary, Treasury	193,999,220	38.04
2	Kenya Commercial Finance Company Ltd	25,500,000	5.00
3	Kanouti Trustees Limited	19,460,192	3.82
4	Karim Jamal	13,948,048	2.73
5	Barclays (Kenya) Nominees Limited A/C 1853	10,419,520	2.04
6	The Jubilee Insurance Company Ltd	10,357,041	2.03
7	Abdul Karim Chaturbhai Popat	5,600,000	1.10
8	Pradeep Patani	4,071,080	0.80
9	Nilesh Velji Shah	3,338,240	0.65
10	Phoenix of East Africa Assurance Company	3,133,930	0.61

DIRECTOR'S SHAREHOLDING

The directors' direct and indirect interests in the ordinary share capital of the company as at 31 August 2005 were as follows:

	Number of shares	Percentage holding
Permanent Secretary Treasury	193,999,220 shares	38.04
Hon. Amos S Wako	350,000 shares	0.07
Dr. Evans Kidero	22,772 shares	-
Mr. Maurice Juma	18,750 shares	-
Mr. E S Osundwa	11,146 shares	-
Dr C W Wangia	7,140 shares	-
Ms. Grace K Ngala	2,000 shares	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

31 RISK MANAGEMENT POLICIES

The financial risk management objectives and policies are as outlined below:

Credit risk

The company's credit risk is primarily attributable to its trade receivables.

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on trade receivables is limited because most customers are required to provide guarantees issued by reputable banks recommended by the company.

Price risk

The Company is exposed to financial risks arising from changes in sugar prices. The Company does not anticipate that sugar prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in sugar prices. The Company reviews its outlook for sugar prices regularly in considering the need for active financial risk management.

Foreign currency risk

The Group incurs foreign currency risks on sales, purchases and borrowings that are denominated in a currency other than Kenya shilling. The currencies giving rise to this risk are primarily Euros, Pounds Sterling, US Dollars and South African rand.

In respect of other monetary assets and liabilities held in currencies other than the Kenya shilling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term balances.

Liquidity Risk

Liquidity risk is the risk that the company will be unable to meet its liabilities when they fall due. The company manages the maturity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when they fall due. Management have arranged for diversified funding sources, both short and long term, to meet the company's obligations as and when they fall due.

32 RELATED PARTY TRANSACTIONS

The company continuously transacts with Mumias Outgrowers Company (MOCO), a farmers representative organ. The processes and dealings between MOCO and about 50,000 outgrower farmers contracted to supply sugar cane to Mumias Sugar Company Limited (MSC) are mostly recorded and maintained by MSC. These are all at arms length with prices negotiated between MSC and MOCO. The inter-company as at 30 June is shown in note 17.

The company operates a company car loan scheme for managerial and supervisory employees. The balance on that scheme was Shs 128,163,000 (2004 – Shs 77,953,000). The cars are registered in joint names of the company and the employees as security for the car loans.

33 CONTINGENT LIABILITIES

	2005 Shs'000	2004 Shs'000
Guarantees in favour of third parties	35,000	22,100

A former customer has filed a claim in respect of breach of contract. A defence has been entered and the case is pending in court. A provision of sh 29,175,000 has been recognised in these financial statements. The directors are of the opinion that the likely liability, if any, should not exceed this provision.

34 INCORPORATION

The company is incorporated in Kenya under the Companies Act.

35 CURRENCY

These financial statements are prepared in Kenya Shillings thousands (Shs '000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

29 OPERATING LEASE ARRANGEMENTS

	2005 Shs'000	2004 Shs'000
The company as lessee:		
Minimum lease payments under operating leases recognised in the income statement	11,412	13,765
At the balance sheet date, the company had outstanding commitments under operating leases, payable as follows:		
Within one year	2,190	3,881
In the second to fifth years inclusive	1,870	3,888
	4,060	7,769

Operating lease payments represent rentals payable by the company for certain of its office premises and storage facilities. Leases are negotiated for an average term of six years and rentals are fixed for an average of one to two years.

30 CAPITAL COMMITMENTS

	2005 Shs'000	2004 Shs'000
Commitments at the year end for which no provision has been made in these financial statements:		
Authorised and contracted for	17,738	11,420
Authorised but not contracted for	816,415	1,068,836
	834,153	1,080,256

The capital commitments relate mainly to expenditure on Phase II of the factory rehabilitation and expansion plan. The company intends to finance these commitments from internally generated funds, bank loans and overdrafts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

28 NOTES TO THE CASH FLOW STATEMENT

	2005 Shs'000	2004 Shs'000
(a) RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS		
Operating profit	2,028,212	1,294,612
Depreciation	401,354	404,114
Amortisation charge	1,643	10,833
Assets impairment charge	23,000	23,000
Profit on disposal of equipment and assets held for sale	(13,691)	(9,915)
Exceptional items	(229,886)	(306,492)
Foreign exchange (losses) /gains	(37,691)	5,924
Fair value loss on biological assets	3,563	27,963
Trade investments written off	-	1
Cash generated from operations before working capital changes	2,176,504	1,450,040
Increase in non-current receivables	(37,800)	(37,118)
(Increase)/decrease in inventories	(103,789)	390,536
Movement in actual costs of biological assets	(47,554)	(53,712)
Decrease/(increase) in trade and other receivables	342,582	(13,200)
(Decrease)/increase in provision for service gratuity	(56,387)	72,026
Movement in deferred grant income	(9,794)	94,000
Increase/(decrease) in trade and other payables	35,097	(696,261)
Decrease in provision for staff leave pay	(13,541)	(83,555)
Cash generated from operations	2,285,318	1,122,756
(b) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Treasury bills	595,587	-
Short term deposits	302,903	806,883
Cash and bank balances	184,643	36,286
Bank overdrafts	(228,835)	(333,189)
	854,298	509,980

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

24 TRADE AND OTHER PAYABLES

	2005 Shs'000	2004 Shs'000
Trade payables	385,572	484,606
Out growers	162,425	106,726
Sugar development levy	-	30,118
Value added tax	-	32,121
Accruals	186,787	190,688
Prepaid sales	126,169	23,877
Other payables	191,972	123,939
	1,052,925	992,075

25 BANK OVERDRAFTS

Bank overdrafts are secured by legal charges and debentures over all of the company's assets. The effective interest rate on bank overdrafts during the year was 14.13% (2004 - 15.61%).

The company had undrawn committed borrowing facilities amounting to Shs 569,298,000 (2004 - Shs 358,594,000). The borrowing facilities consist of term loans, bank overdrafts, guarantees and letters of credit.

26 DIVIDENDS PAYABLE

The dividends payable of Shs 108,019,000 (2004 - Shs 77,364,000) relate substantially to dividends payable to farmer shareholders who had unresolved share certificate issues at the balance sheet date.

27 PROVISION FOR STAFF LEAVE PAY

	2005 Shs'000	2004 Shs'000
Balance at the beginning of the year	54,111	137,666
Write back during the year	(8,112)	(76,106)
Paid during the year	(5,429)	(7,449)
Balance at the end of the year	40,570	54,111

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

22 RETIREMENT BENEFITS OBLIGATIONS

	2005 Shs'000	2004 Shs'000
(a) Provision for service gratuity:		
Balance at the beginning of the year	613,871	541,845
Provision for the year	94,502	266,988
Paid during the year	(150,889)	(194,962)
Balance at the end of the year	557,484	613,871

(b) Staff retirement benefit scheme

Contributions to the company staff retirement benefit scheme are determined by the rules of the scheme and totalled Shs 42,190,000 (2004 – Shs 47,718,000) in the year.

An actuarial valuation was last carried out as at 31 March 2004 by Alexander Forbes Financial Services (E.A.) Ltd. The valuation indicated a past service deficit of Shs 34,030,000, representing a funding level of 95%. While this is above the 80% minimum funding level allowed by the Retirement Benefit Authority, to eliminate the deficit, the actuaries recommended that the employer's rate of contribution to the scheme be maintained at 14.1% of members' salaries per annum.

Valuation method	Projected Unit Method
Principal assumptions:	
- Rate of salary inflation	8%
- Rate of return on investments	10%

The next actuarial valuation is scheduled for 1 April 2007.

(c) Statutory contribution scheme

The company's contributions to the statutory National Social Security Fund scheme are determined by statute and totalled Shs 5,349,000 (2004 – Shs 6,854,000) in the year.

23 DEFERRED GRANT INCOME

	2005 Shs'000	2004 Shs'000
At the beginning of the year	94,000	-
Receipts in the year	-	94,000
Amortisation for the year	(9,794)	-
At the end of the year	84,206	94,000

The deferred grant income represents the unarmortised portion of funds received for purpose of purchase of equipment under a Roads Maintenance Unit package financed by the Kenya Sugar Board. The amortisation for the year is equivalent to the depreciation charge for the equipment purchased under the grant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

20 SHARE CAPITAL

	2005 Shs'000	2004 Shs'000
Authorised: 545,000,000 ordinary shares of Shs 2 each	1,090,000	1,090,000
Issued and fully paid: 510,000,000 ordinary shares of Shs 2 each	1,020,000	1,020,000

21 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

	2005 Shs'000	2004 Shs'000
The net deferred taxation liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	740,990	737,789
Revaluation surpluses	577,069	619,530
Fair value of biological assets	66,190	52,993
Unrealised exchange gains	-	3,428
	1,384,249	1,413,740
Deferred tax assets:		
Provision for service gratuity	(167,245)	(184,161)
Provision for staff leave pay	(12,171)	(16,233)
Unrealised exchange losses	(11,307)	-
General bad debt provision	(26,362)	-
	(217,085)	(200,394)
	1,167,164	1,213,346
The movement on the deferred tax account during the year was as follows:		
Balance at beginning of the year	1,213,346	1,276,911
Net credit to income statement - note 7 (a)	(46,182)	(63,565)
Balance at end of the year	1,167,164	1,213,346

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

17 TRADE AND OTHER RECEIVABLES

	2005 Shs'000	2004 Shs'000
MOCO receivables	741,610	711,844
Trade receivables	242,854	801,471
Other receivables and prepayments	125,345	35,749
Staff accounts	42,129	32,101
Value Added Tax recoverable	31,504	-
Sugar development levy recoverable	6,145	-
Advances to farmers	1,335	1,229
Busia Sugar Company Limited (BSC)	75,177	534
	1,266,099	1,582,928

18 TREASURY BILLS

Redemption value	600,000	-
Less: unearned discount	(4,413)	-
	595,587	-

The treasury bills mature within 90 days of the acquisition date. The effective interest rate on treasury bills was 8.7%.

19 SHORT TERM DEPOSITS

	2005 Shs'000	2004 Shs'000
Barclays Bank of Kenya Limited	302,903	-
Kenya Commercial Bank Limited	-	806,883
	302,903	806,883

The effective interest rate on short term deposits as at 30 June 2005 was 7.6 % (2004 - 1.16%) and they mature within 90 days of the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

16 ASSETS HELD FOR SALE

	Factory plant and equipment Shs'000	Heavy mobile machinery Shs'000	Motor vehicles Shs'000	Other equipment and fixtures Shs'000	Total Shs'000
COST					
At 1 July 2004	303,644	24,177	12,088	5,724	345,633
Transferred from property, plant and equipment (note 10)	-	12,365	28,335	1,358	42,058
Disposals	-	(20,759)	(32,665)	(2,041)	(55,465)
At 30 June 2005	303,644	15,783	7,758	5,041	332,226
DEPRECIATION/IMPAIRMENT					
At 1 July 2004 - depreciation	59,986	24,177	10,673	3,302	98,138
At 1 July 2004 - impairment	91,468	-	-	-	91,468
Transferred from property, plant and equipment (note 10)	-	12,365	28,280	1,358	42,003
Impairment charge for the year	23,000	-	-	-	23,000
Disposals	-	(20,759)	(31,195)	(1,496)	(53,450)
At 30 June 2005	174,454	15,783	7,758	3,164	201,159
NET BOOK VALUE					
At 30 June 2005	129,190	-	-	1,877	131,067
At 30 June 2004	152,190	-	1,415	2,422	156,027

Included in assets held for sale under factory plant and equipment is mill 'B' at a net carrying amount of Shs 116,720,000 (2004 - Shs 139,720,000). The directors are currently undertaking a feasibility study on the viability of upgrading and recommissioning of the mill in order to increase the production capacity. The directors estimate that the value of the mill is not less than its net carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

15 BIOLOGICAL ASSETS

	2005 Sh'000	2004 Sh'000
At 1 July	176,642	150,893
Additions	132,456	107,855
Actual costs of cane harvested during the year	(84,902)	(54,143)
	224,196	204,605
Loss arising from changes in fair value attributable to physical changes	(8,126)	(30,098)
Gain arising from changes in fair value attributable to price changes	4,563	2,135
Net fair value loss during the year	(3,563)	(27,963)
Carrying amount at the end of the year	220,633	176,642

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

- The expected market price of cane will remain constant based on an industry rate of Shs 1,890 per tonne.
- Cane at age of six months and below is assumed to be immature and has no reliably determinable market value. Immature growing cane has been stated at cost.
- The estimated sucrose content per tonne of mature cane (pol value) at various stages of growth will remain constant at between 8.9% and 12.8% depending on the age of the cane across the sugar belt.

With effect from 1 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 financial statements for possible losses in the event of any burnt cane which cannot be salvaged.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

13 NON-CURRENT RECEIVABLES

	2005 Shs'000	2004 Shs'000
Staff accounts	136,001	88,173
Less: receivable within one year (included under note 17)	(42,129)	(32,101)
Receivable after one year (non-current)	93,872	56,072

Included in staff accounts is a balance of Shs 3,467,000 (2004 – Shs 6,938,000) due from officers of the company.

Included in the total staff accounts balance of Shs 136,001,000 (2004 – Shs 88,173,000) are staff car loans amounting to Shs 128,163,000 (2004 – Shs 77,953,000) which are registered in joint names of the company and the employees as disclosed in note 32.

The effective interest rate on staff loans during the year was 5% (2004 - 5%).

14 INVENTORIES

	2005 Shs'000	2004 Shs'000
Sugar and molasses	245,073	317
Sugar in process	2,424	3,037
	247,497	3,354
Mechanical and electrical spares	504,598	582,238
Fertilisers, chemicals and fuels	67,131	164,197
Other consumables	36,870	55,880
Goods in transit	88,636	35,274
	944,732	840,943

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Fully depreciated plant and equipment

	Cost/valuation		Normal annual depreciation charge	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Factory plant and machinery	102,798	40,658	4,416	1,815
Heavy mobile machinery	195,081	111,654	36,957	22,784
Motor vehicles	136,897	129,331	28,081	27,535
Other equipment and fixtures	245,643	182,109	53,309	45,325
	680,419	463,752	122,763	97,459

11 INTANGIBLE ASSETS

	Willow software Shs'000	Other software Shs'000	Total Shs'000
COST			
At 1 July 2004	29,910	18,299	48,209
Additions	-	88	88
At 30 June 2005	29,910	18,387	48,297
AMORTISATION			
At 1 July 2004	29,910	14,764	44,674
Charge for the year	-	1,643	1,643
At 30 June 2005	29,910	16,407	46,317
NET BOOK VALUE			
At 30 June 2005	-	1,980	1,980
At 30 June 2004	-	3,535	3,535

As at 30 June 2005, intangible assets with a cost of Shs 43,367,000 (2004 – Shs 43,286,000) were fully amortised. The normal annual amortisation charge on these assets would have been Shs 14,454,000 (2004 – Shs 14,427,000).

12 PREPAID OPERATING LEASE RENTALS

The company owns 4,413.82 hectares of leasehold land. The value of the land is not reflected as prepaid operating lease rentals as the land was allocated by the Government of Kenya at no purchase consideration.

10 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
COST OR VALUATION								
At 1 July 2004	490,000	1,759,986	4,060,066	262,039	222,685	409,744	3,799	7,208,319
Additions	-	-	28,523	71,811	58,392	25,916	484,804	669,446
Transferred to current assets (note 16)	-	-	-	(12,365)	(28,335)	(1,358)	-	(42,058)
Transfers from capital work in progress	-	77,431	-	-	-	-	(77,431)	-
Disposals	-	-	-	-	-	(290)	-	(290)
Reclassifications	-	-	-	-	5,500	(5,500)	-	-
At 30 June 2005	490,000	1,837,417	4,088,589	321,485	258,242	428,512	411,172	7,835,417
COMPRISING								
Cost	-	153,590	151,427	313,374	248,624	382,453	411,172	1,661,000
Valuation - 1996	-	-	-	8,111	9,618	46,059	-	63,788
Valuation - 2001	490,000	1,683,467	3,937,162	-	-	-	-	6,110,629
	490,000	1,837,417	4,088,589	321,485	258,242	428,512	411,172	7,835,417
DEPRECIATION								
At 1 July 2004	36,750	190,640	788,792	217,967	185,822	300,327	-	1,720,298
Charge for the year	12,250	64,546	252,831	21,742	22,374	27,611	-	401,354
Transferred to current assets (note 16)	-	-	-	(12,365)	(28,280)	(1,358)	-	(42,003)
Disposals	-	-	-	-	-	(290)	-	(290)
At 30 June 2005	49,000	255,186	1,041,623	227,344	179,916	326,290	-	2,079,359
NET BOOK VALUE								
At 30 June 2005	441,000	1,582,231	3,046,966	94,141	78,326	102,222	411,172	5,756,058
At 30 June 2004	453,250	1,569,346	3,271,274	44,072	36,863	109,417	3,799	5,488,021
NET BOOK VALUE (Cost basis)								
At 30 June 2005	387,227	741,827	2,091,840	93,711	76,430	93,037	411,172	3,895,244
At 30 June 2004	397,984	696,490	2,211,257	43,611	34,132	98,704	3,799	3,485,977

Property and factory plant and machinery were last valued on 30 June 2001, by Tysons Limited, Registered Valuers and Estate Agents, on a depreciated replacement cost basis.

Included in factory plant and heavy mobile machinery are assets with an original cost and carrying value of Shs 89,540,000 (2004 - Shs 15,900,000) acquired under a Road Maintenance Unit package financed by the Kenya Sugar Board.

The balance on capital Work In Progress represents factory expansion works that were on going as at balance sheet date. These were completed subsequent to year end.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

7 TAXATION (Continued)

	2005 Shs'000	2004 Shs'000
(b) Reconciliation of expected tax based on accounting profit to tax charge		
Accounting profit before taxation	1,843,381	1,138,550
Tax at the applicable rate of 30%	553,014	341,565
Tax effect of expenses not deductible for tax purposes	26,846	23,792
Tax effect of income not taxable	(7,046)	(953)
Prior year underprovision of deferred tax	(697)	-
Prior year overprovision of current tax	(18,666)	(17,305)
	553,451	347,099

8 EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2005	2004
Earnings for purposes of basic and diluted earnings per share (Sh'000)	1,289,930	791,451
Number of ordinary shares (thousands)	510,000	510,000
Earnings per share Basic & diluted (Shs)	2.53	1.55

There were no potential dilutive shares outstanding at either 30 June 2005 or 30 June 2004.

9 PROPOSED DIVIDEND

At the annual general meeting to be held on 12 November 2005, a second and final dividend is to be proposed in respect of 2005 of Shs 0.90 per share (2004 – Shs 0.60) amounting to a total of Shs 459,000,000 (2004 – 306,000,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

5 FINANCE INCOME - NET

	2005 Shs'000	2004 Shs'000
Interest income:		
On MOCO current account	40,291	150,915
On advances to farmers	(516)	1,652
On short term deposits	42,682	4,632
On staff loans	4,871	2,375
	87,328	159,574
Interest expense:		
On bank overdrafts	(4,582)	(15,068)
Net foreign exchange (losses)/gains	(37,691)	5,924
	45,055	150,430
6 EXCEPTIONAL ITEMS		
Tax back charges and penalties	902	13,741
Staff rationalisation expenses	228,984	292,751
	229,886	306,492

Staff rationalisation costs represent expenditure incurred during the year following a decision to reduce the number of employees in a mutually agreed early retirement scheme.

7 TAXATION

	2005 Shs'000	2004 Shs'000
(a) Taxation charge		
Current taxation based on the adjusted profit for the year at 30% - current year	618,299	427,969
- prior year over-provision	(18,666)	(17,305)
Total current tax charge	599,633	410,664
Deferred tax credit - current year	(45,485)	(63,565)
- prior year under-provision	(697)	-
Total deferred tax credit (note 21)	(46,182)	(63,565)
	553,451	347,099

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

3 OPERATING PROFIT

	2005 Shs'000	2004 Shs'000
Operating profit is arrived at after:		
charging:		
Staff costs (note 4)	1,173,977	1,472,046
Subsidy to out-growers	313,964	393,535
Depreciation of property, plant and equipment (note 10)	401,354	404,114
Amortisation of intangible assets (note 11)	1,643	10,833
Impairment loss on equipment held for sale (note 16)	23,000	23,000
Operating lease rentals (note 29)	11,412	13,765
Management fees	-	24,875
Directors' emoluments - fees	2,142	2,088
- other	42,272	41,400
Auditors' remuneration	3,600	3,300
Provision for bad and doubtful debts	144,018	4,737
and crediting:		
Profit on disposal of equipment and assets held for sale	13,691	9,915
Bad debts recoveries	-	3,346

4 STAFF COSTS

Salaries and allowances	931,515	1,119,534
Production bonus	95,476	96,001
Pension - defined benefit scheme	42,190	47,718
Pension - statutory defined contribution scheme	5,349	6,854
Pension administration fee	4,156	-
Group life insurance cover	8,901	11,057
Staff gratuity provision	94,502	266,988
Write back of leave pay	(8,112)	(76,106)
	1,173,977	1,472,046
The number of employees at 30 June comprised:		
	Number	Number
Permanent employees	1,992	2,789
Registered seasonal employees	-	9,966
Factory casuals	613	113
	2,605	12,868

The hiring of registered seasonal employees for cane harvesting was discontinued at the end of the year. Cane harvesting has now been outsourced.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

1 ACCOUNTING POLICIES (continued)

Service gratuity

Unionisable employees who resign or whose services are terminated after five years of continuous service with the company are entitled to fifteen days gratuity payment for each completed year of service. Unionisable employees whose termination of service is occasioned by retirement, medical grounds or death are entitled to thirty (2004-twenty-four) days gratuity payment for each completed year of service.

Gratuity payments are based on the employee's salary at the time of resignation or termination of service, as provided for in the trade union agreement with the company. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity.

The service gratuity is provided for in the financial statements as it accrues to each employee.

Provision for staff leave pay

A provision is made to recognise staff entitlements in respect of annual leave not taken as at the end of the financial year.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 (a) REVENUE FROM SALE OF SUGAR

	2005 Shs'000	2004 Shs'000
Gross sales	12,511,512	12,134,937
Less: taxes and discounts		
Value added tax	(1,725,726)	(1,647,303)
Sugar development levy	(705,612)	(695,131)
	(2,431,338)	(2,342,434)
Net sales	10,080,174	9,792,503
(b) RECONCILIATION OF REVENUE FROM SALE OF SUGAR TO OPERATING INCOME		
Revenue from sale of sugar	10,080,174	9,792,503
Fair value adjustment on biological assets	(3,563)	(27,963)
Operating income	10,076,611	9,764,540

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

1 ACCOUNTING POLICIES (continued)

Rental income from operating leases is recognised on the straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged to income 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.

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 are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts of recovery have been exhausted. Financial instruments (Continued)

Trade payables

Trade payables are stated at their nominal value.

Investments

Unquoted investments are stated at cost less provision for impairment where, in the opinion of the directors, there is a permanent diminution in value. Such diminution is charged to the income statement in the year in which it is identified.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its 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 in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Retirement benefits obligations

Defined benefits scheme

The company operates a defined retirement benefits pension scheme for eligible non-unionisable employees. The assets of the scheme are held and administered independently of the company's assets. The scheme is funded by contributions from both the company and the employees. The company's contributions to the scheme are charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme every three years. The last actuarial valuation was carried out as at 31 March 2004. All actuarial gains and losses are spread forward over the average remaining service lives of employees.

Defined contribution scheme

The company contributes to the statutory National Social Security Fund. This is a defined contribution scheme for which the company's obligation is limited to a specified contribution per employee per month. Currently, the contribution is limited to a maximum of Shs 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

1 ACCOUNTING POLICIES (continued)

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

The carrying values of property, plant and equipment are reviewed annually and adjusted for impairment where it is considered necessary.

Leasehold land

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

Intangible assets

Intangible assets comprise the cost of acquired computer software programmes. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, generally not exceeding three years. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary. Intangible assets are not revalued.

Inventories

The fair value of harvested cane is determined based on prices of existing cane in the market less point-of-sale costs. However, the majority of harvested cane is purchased from outgrowers hence the fair value of own cane is immaterial to the overall value of finished sugar and molasses inventories.

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

Sugar in process is stated at half the production cost of finished sugar.

Spares, fertilisers, chemicals and other consumable stores are stated at cost net of provisions for obsolescence where applicable. Cost is calculated on the weighted average cost basis and includes the direct purchase cost, insurance, freight and other incidental costs.

Biological assets

The biological assets (mill and seed cane plantations) and agricultural produce (harvested cane) have been stated at their fair values less estimated point-of-sale costs.

The fair value of growing cane is determined based on the present value of expected net cash flows. The fair value of harvested cane is determined based on the prices of existing cane in the market less point-of-sale costs.

Immature growing cane is valued at cost.

Assets held for sale

Assets held for sale are stated at the lower of cost and net realisable value and comprise items of plant and equipment, which have been put out of use in preparation for their eventual disposal. Accordingly, these items are reclassified from property, plant and equipment to current assets. Upon reclassification, no further depreciation is charged on these items.

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 the lessee. All other leases are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis of accounting as modified to include the revaluation of certain assets.

Revenue recognition

Income from bought and processed cane is recognised upon delivery or collection of product by customers during the year, and is stated net of value added tax, sugar development levy and discounts, except that sugar development levy does not apply to molasses sales.

Other income

Other income earned by the company is recognised as it accrues.

Deferred grant income

Grants related to equipment are presented as deferred income and recognised in the income statement on a systematic basis over the useful life of the equipment, estimated at 8 years.

Taxation

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

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Property, plant and equipment

Property, plant and equipment are stated at cost or at professionally revalued amounts less accumulated depreciation. The basis of valuation is depreciated replacement cost.

Property, plant and equipment are revalued at periodic intervals, usually after every five years.

Increases in the carrying amount arising on revaluations are credited to revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the income statement.

Depreciation is calculated on the straight-line method to write off the cost or the revalued amount of each asset to its estimated residual value over its estimated useful life. The annual rates used are:

Land developments	2.5%
Buildings	2.5% - 5%
Factory plant and machinery	5% - 10%
Heavy mobile machinery	12.5% - 25%
Motor vehicles	20% - 33 1/3%
Other equipment and fixtures	12.5% - 33 1/3%

The annual depreciation on the revaluation surplus element of property, plant and equipment is transferred from revaluation surplus to retained earnings.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 Shs'000	2004 Shs'000
OPERATING ACTIVITIES			
Cash generated from operations	28(a)	2,285,318	1,122,756
Interest paid		(4,582)	(15,068)
Interest received		87,328	159,574
Taxation paid		(788,303)	(5,920)
Net cash generated from operating activities		1,579,761	1,261,342
INVESTING ACTIVITIES			
Additions to plant and equipment		(669,446)	(115,159)
Additions to intangible assets		(88)	(1,076)
Proceeds from disposal of equipment and assets held for sale		15,706	13,972
Net cash used in investing activities		(653,828)	(102,263)
FINANCING ACTIVITIES			
Dividends paid		(581,615)	(224,529)
INCREASE IN CASH AND CASH EQUIVALENTS		344,318	934,550
BALANCE AT BEGINNING OF THE YEAR		509,980	(424,570)
BALANCE AT END OF THE YEAR	28(b)	854,298	509,980

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

	Share capital Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Dividends proposed Shs '000	Total Shs '000
At 1 July 2003	1,020,000	1,483,952	2,361,702	-	4,865,654
Net profit for the year	-	-	791,451	-	791,451
Interim dividend declared - 2004	-	-	(255,000)	-	(255,000)
Final proposed dividend - 2004	-	-	(306,000)	306,000	-
Transfer of excess depreciation	-	(144,809)	144,809	-	-
Deferred tax on excess depreciation	-	43,443	(43,443)	-	-
Surplus realised on disposal	-	(102)	102	-	-
Deferred tax on realised surplus	-	30	(30)	-	-
At 30 June 2004	1,020,000	1,382,514	2,693,591	306,000	5,402,105
At 1 July 2004	1,020,000	1,382,514	2,693,591	306,000	5,402,105
Net profit for the year	-	-	1,289,930	-	1,289,930
Final dividend declared - 2004	-	-	-	(306,000)	(306,000)
Interim dividend declared - 2005	-	-	(306,000)	-	(306,000)
Final proposed dividend - 2005	-	-	(459,000)	459,000	-
Transfer of excess depreciation	-	(141,537)	141,537	-	-
Deferred tax on excess depreciation	-	42,461	(42,461)	-	-
At 30 June 2005	1,020,000	1,283,438	3,317,597	459,000	6,080,035

The revaluation surplus represents the net cumulative surplus arising from revaluation of property, plant and equipment. The revaluation surplus is non-distributable.

BALANCE SHEET

30 JUNE 2005

	Note	2005 Shs'000	2004 Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	10	5,756,058	5,488,021
Intangible assets	11	1,980	3,535
Non-current receivables	13	93,872	56,072
Prepaid operating lease rentals	12	-	-
		5,851,910	5,547,628
Current assets			
Inventories	14	944,732	840,943
Biological assets	15	220,633	176,642
Assets held for sale	16	131,067	156,027
Trade and other receivables	17	1,266,099	1,582,928
Treasury bills	18	595,587	-
Short term deposits	19	302,903	806,883
Cash and bank balances		184,643	36,286
		3,645,664	3,599,709
Total assets		9,497,574	9,147,337
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	1,020,000	1,020,000
Revaluation surplus		1,283,438	1,382,514
Retained earnings		3,317,597	2,693,591
Dividend proposed (gross)	9	459,000	306,000
Shareholders' equity		6,080,035	5,402,105
Non current liabilities			
Deferred income taxes	21	1,167,164	1,213,346
Provision for service gratuity	22	557,484	613,871
Deferred grant income	23	84,206	94,000
		1,808,854	1,921,217
Current liabilities			
Trade and other payables	24	1,052,925	992,075
Bank overdrafts	25	228,835	333,189
Dividends payable (gross)	26	108,019	77,634
Provision for staff leave pay	27	40,570	54,111
Taxation payable		178,336	367,006
		1,608,685	1,824,015
Total equity and liabilities		9,497,574	9,147,337

The financial statements on pages 30 to 52 were approved by the board of directors on 26 August 2005 and were signed on its behalf by:

Johh V Bosse	} Directors
James G Chege	

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 Shs'000	2004 Shs'000
REVENUE FROM SALE OF SUGAR	2(a)	10,080,174	9,792,503
FAIR VALUE OF CANE HARVESTED		287,328	178,636
CANE PROCESSING AND TRANSPORT INCOME		495,190	325,551
INCOME FROM BOUGHT AND PROCESSED CANE		9,297,656	9,288,316
FAIR VALUE LOSS ON BIOLOGICAL ASSETS	15	(3,563)	(27,963)
OPERATING INCOME	2(b)	10,076,611	9,764,540
COST OF SALES		(6,291,458)	(6,705,505)
GROSS PROFIT		3,785,153	3,059,035
OTHER OPERATING INCOME		78,097	58,439
MARKETING AND DISTRIBUTION COSTS		(617,608)	(618,959)
ADMINISTRATIVE EXPENSES		(780,337)	(570,985)
OTHER OPERATING EXPENSES		(437,093)	(632,918)
OPERATING PROFIT	3	2,028,212	1,294,612
FINANCE INCOME - NET	5	45,055	150,430
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS		2,073,267	1,445,042
EXCEPTIONAL ITEMS	6	(229,886)	(306,492)
PROFIT BEFORE TAXATION		1,843,381	1,138,550
TAXATION CHARGE	7	(553,451)	(347,099)
NET PROFIT FOR THE YEAR		1,289,930	791,451
EARNINGS PER SHARE - BASIC & DILUTED	8	Shs 2.53	Shs 1.55
DIVIDENDS PER SHARE	9	Shs 1.50	Shs 1.10

Board of Directors



Ms. Grace Ngala
Director

MS GRACE NGALA (age 55)

Ms Ngala obtained a BA degree from the University of Nairobi and an MA degree from the University of Connecticut, USA. Prior to joining MSC Board, Madam Ngala served as a Director on the Boards of National Housing Corporation and Kenya Women Finance Trust. Madam Ngala is also a member of the Professional Business Women Association.



Mr. Alinoor Hassan
Director

MR ALINOOR HASSAN (age 41)

Mr. Hassan is a holder of a Bachelor of Economics and Sociology degree from Egerton University and Masters of Science degree in Environmental Management from Wageningen University in the Netherlands. He is currently studying for a PhD degree at Kenyatta University. He has also worked as a Liaison Officer with International Commission of Jurists (Kenya Chapter) and as a Field Assistant with United Nations High Commissioner for Refugees (UNHCR). He currently works as a part time lecturer at Modern Management Institute.



Mr. Maurice Juma
Director

MR MAURICE JUMA (age 57)

Mr. Juma holds a Diploma in Statistics from the University of Dar-es-salaam. He was a career banker having worked for Central Bank of Kenya for 27 years from where he retired as a Senior Research Officer. During his long stay at Central Bank, Mr. Juma worked as a member of the joint IMF and CBK Committee on Balance of Payment Review Committee.



Mr. Edwin Osundwa
Director

MR. EDWIN OSUNDWA (age 58)

Mr. Osundwa is a graduate of Economics from Makerere University and a holder of a Master of Economics degree from York University, Toronto, Canada. Mr. Osundwa has worked as a Permanent Secretary in the Ministry of Planning and National Development. Prior to his retirement, Mr. Osundwa was the Permanent Secretary, Ministry of Local Government.



Mr. Francis Kigen
Director

MR FRANCIS KIPKOECH ARAP KIGEN (age 59)

Mr. Kigen is a graduate of University of Nairobi where he obtained a BA (Hons) degree before proceeding for a Master of Education Degree at the University of Malaya, Kuala Lumpur in Malaysia. He has worked as a Director of Kenya Bureau of Standards, as alternate Director Esso Kenya Limited, Human Resources/Public Affairs Manager Esso Kenya Limited. He has also worked as a Training Manager, British American Insurance Company and as Director of Kenya Institute of Personnel Management.



Mr. Meshack Guto
Company Secretary

MR MESHACK GUTO (age 49)

Mr. Guto has an LLB from the University of Nairobi and is an advocate of the High Court of Kenya. He is also a Certified Public Secretary - CPS(K). He has served as the Chief Legal Officer at Mumias Sugar Company for 20 years prior to his retirement in June 2005.



Mrs Esther Koimett
Alternate Director

MRS ESTHER KOIMETT (age 49)

Mrs. Koimett is a holder of an MBA and Bachelor of Commerce degree from the University of Nairobi. She has held various senior positions in government and the parastatal sector. She has been a Permanent Secretary, Ministry of Tourism and Information. She has also been the Managing Director of Postbank. She is currently the Investment Secretary, Ministry of Finance.



Mr. Apollo Mboya
Alternate Director

MR APOLLO MBOYA (age 36)

Mr. Mboya has a BA from Lucknow University, an LLB from Bombay University, Diploma in Law from Kenya School of Law and is a Certified Public Secretary. He is also an advocate of the High Court of Kenya. He has worked a Legal Specialist at UNDP. He is currently a Senior State Counsel at the Attorney General chambers

Board of Directors



Mr. John Bosse
Chairman

MR JOHN BOSSE (age 60)

Mr. Bosse is an Associate of the Chartered Institute of Bankers (ACIB-UK). He has had a long banking career with Kenya Commercial Bank where he rose to be the Chief Operating Officer of Kenya Commercial Finance Corporation. He also served as Chief Executive of Development Bank of Kenya for over 17 years before his retirement.



Dr. Evans Kidero
Managing Director

DR EVANS KIDERO (age 48)

Dr. Kidero is a Pharmacy graduate from the University of Nairobi and holds an MBA from United States International University. He has over 23 years experience in the Manufacturing and Media sectors where he held several senior management positions and rose to become Managing Director of GlaxoSmithKline and Nation Newspapers Division. He is the Vice-Chairman of the Kenya Sugar Board.



Mr. James Chege
Director

MR JAMES G. CHEGE (age 51)

Mr. Chege is an Accountant by profession with a Bachelor of Commerce degree from University of Nairobi and an MBA from Cornell University, Ithaca USA. Prior to becoming the Head of Corporate Banking at Kenya Commercial Bank, Mr. Chege worked as the Managing Director of KCFC which is a wholly owned subsidiary of KCB. He is currently Director, Bank Restructuring and Privatisation Project in the Ministry of Finance funded by the World Bank.



Mr. Joseph Kinyua
Director

MR JOSEPH KINYUA (age 54)

Mr. Kinyua holds a Master of Arts degree in Economics. He has worked in various senior positions in the Central Bank of Kenya, IMF and Ministry of Finance. He is currently the Permanent Secretary, Treasury. He serves on several company Boards.



Mr. Kungu Gatabaki
Director

MR KUNGU GATABAKI (age 60)

Mr. Gatabaki is a graduate in Economics, Project Finance and Management from Legon and Bradford Universities. He worked for CDC (formerly Commonwealth Development Corporation) for 30 years and acquired wide experience in project finance, portfolio management and corporate board practices. He is the Chairman of Housing Finance Company, Grain Bulk Handlers Ltd and Shelter Afrique among various other company Boards.



Hon. Amos Wako
Director

HON AMOS WAKO (age 59)

Hon. Wako was awarded a Bachelor of Law degree from the University of Dar es Salaam and Master of Law and Bachelor of Science (Economics) Honours degrees by the University of London. He is an advocate of the High Court of Kenya and a Fellow of the Chartered Institute of Arbitrators. He was a partner at Kaplan and Stratton Advocates and is currently the Attorney General of Kenya.



Dr. Caleb Wangia
Director

DR CALEB WANGIA (age 59)

Dr. Caleb Wangia is a holder of a BSc Agriculture (Makerere University), MSc Agricultural Economics (University of Nairobi) and Ph.D Agricultural Economics (Alberta University, Canada). He has lectured at Nairobi, JKUAT and Egerton Universities. Wide experience in agricultural input supply with Hoechst, Ciba Geigy, Pfizer Corporation. He has also worked in the NGO sector with FAO and Winrock International. He is currently the Regional Director East Africa with Citizens Network for Foreign Affairs.

Corporate Information

DIRECTORS

Mr J V Bosse - Chairman
Dr E Kidero - Managing Director
Mr J Kinyua (alternate Mrs E Koimett)
Hon S A Wako (alternate Mr A Mboya)
Mr J G Chege
Mr K Gatabaki
Dr C W Wangia
Ms G K Ngala
Mr M R Juma
Mr E S Osundwa
Mr F K Kigen
Mr A Hassan

BOARD COMMITTEES

Board Audit Committee

Mr J G Chege - Chairman
Mr K Gatabaki
Mrs E Koimett
Mr A Hassan

Board Human Resource and Strategy Committee

Mr K Gatabaki - Chairman
Dr E Kidero
Ms G K Ngala
Mr E S Osundwa
Mrs E Koimett

Board Tender Committee

Mr M R Juma - Chairman
Dr C W Wangia
Mr J G Chege
Mr F K Kigen

COMPANY SECRETARY

Mr M J R Guto
Certified Public Secretary (Kenya)
Private Bag,
Mumias

REGISTERED OFFICE

Mumias Sugar Company Limited
Private Bag,
Mumias

ADVOCATES

E K Owinyi & Company
Hamilton Harrison & Mathews
Wetangula & Company Advocates

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii", Ring Road, Westlands
P O Box 40092 - 00100
Nairobi

BANKERS

Kenya Commercial Limited
Barclays Bank of Kenya Limited
The Co-operative Bank of Kenya Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUMIAS SUGAR COMPANY LIMITED

We have audited the financial statements on pages 30 to 52 for the year ended 30 June 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 25, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those 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. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 30 June 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

DELOITTE & TOUCHE

26 August 2005

Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenya Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

John Bosse
DIRECTOR
26 August 2005

James G Chege
DIRECTOR

Report of the Directors for the year ended 30 June 2005 (continued)

DIRECTORS

The directors who served during the year are shown on page 27.

Mr. Alnoor Hassan was elected a Director at the Annual General Meeting held on 12 November 2004.

In accordance with article 113, four Directors (Mr. John Bosse, Dr. Caleb Wangia, Hon. Amos Wako and Mr. Kungu Gatabaki) will retire by rotation and being eligible, offer themselves for re-election.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

M J R GUTO
Secretary
26 August 2005

- Evaluate and approve the external auditors' plans, scope of findings and reports
- Evaluate the effectiveness of the internal auditing function, including its purpose, activities, scope, adequacy and costs, and approve the annual internal audit plan
- Evaluate policies, procedures and systems introduced by management, thus ensuring that these are functioning effectively
- Review and approve the activities, scope, adequacy and effectiveness of the company's risk management and regulatory procedures
- Evaluate legal matters, which may affect the financial statements
- Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal control or auditing matters.

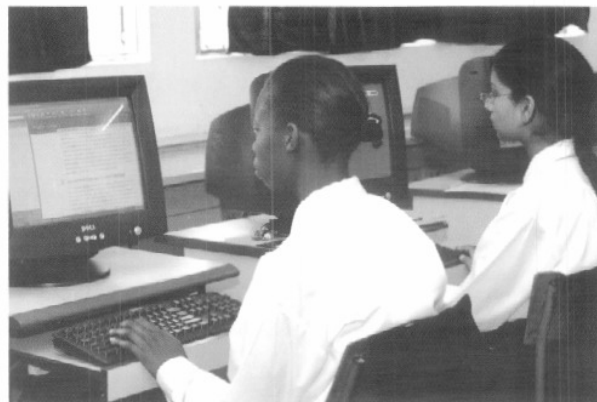
Board Tender Committee (BTC)

MSC is a highly capital intensive company. BTC has the responsibility of ensuring that procurement practices are aligned so as to deliver value to expenditure incurred on the agreed business strategy.

BTC is composed of at least four non-executive directors. The Managing Director and the Head of Finance are ex-officio members of the Committee. The Company Secretary acts as secretary to the Committee.

The deliberations on procurement as defined in the procurement manuals are normally driven to deliver value to the business by conforming to the following:

- Accountability
- Efficiency & effectiveness
- Integrity
- Fairness
- Responsibility
- Transparency



Booker Academy students in a computer class.

Risk Management

The Board recognises that managing risk to ensure optimal mix between risk and return is an integral part of achieving corporate goals. The Board has put in place procedures for identifying risks and implementing risk-mitigating activities to ensure the risk of failure to achieve business objectives is reduced, if not eliminated. As key risk management initiative, the Company is putting in place a comprehensive system of setting and implementing objectives, measuring performance against objectives and implementing corrective activities to ensure that objectives are achieved.

Internal Controls

The Board has a collective responsibility for the Company's system of internal control and for reviewing their effectiveness. Executive Management have the responsibility for establishing and implementing appropriate systems and controls in the running of the Business of the Company and providing assurance to the Board that they have done so. The system of internal control in place has defined operational procedures and financial controls to ensure that assets are safeguarded, transactions are appropriately authorised and recorded properly and that material errors and irregularities are either prevented or detected within a reasonable period of time. In reviewing the effectiveness of the systems of internal control and risk management, the Board takes into account the results of the work carried out to audit and review activities of the Company. The Board has reviewed the Company's system of internal control and is satisfied that the system is effective.

Report of the Directors for the year ended 30 June 2005 (continued)

DIRECTORS

The directors who served during the year are shown on page 27.

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BY ORDER OF THE BOARD

M J R GUTO
Secretary
26 August 2005

Report of the Directors for the year ended 30 June 2005

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2005.

PRINCIPAL ACTIVITIES

The principal activities of the company remain those of cultivation and manufacturing of sugar as well as providing support to sugar cane out-growers.

RESULTS

	Shs'000
Profit before taxation	1,843,381
Taxation charge	(553,451)
Net profit for the year transferred to retained earnings	<u>1,289,930</u>

DIVIDENDS

An interim dividend of Shs 0.60 per share (2004 - Sh 0.50), totalling Shs 306 million (2004 - Sh 255 million) was paid during the year. The directors recommend a second and final dividend of Shs 0.90 per share (2004 - Sh 0.60) totalling Shs 459 million (2004 - Sh 306 million), bringing the total dividend to Shs 1.50 per share (2004 - Sh 1.10) amounting to Shs 765 million (2004 - Sh 561 million) in respect of the year.

PRODUCTION

The following are the comparative statistics of sugar production and cane processed for the last five years:

	Sugar production (tonnes)	Cane processed (tonnes)
2005	269,184	2,348,019
2004	264,802	2,290,427
2003	237,084	2,064,893
2002	219,375	1,961,185
2001	217,834	1,988,285

NUCLEUS ESTATE AND OUTGROWERS

The company's nucleus estate under cane, measuring approximately 3,503 (2004 - 3,481) hectares, provides an average of about 7% of the total cane processed annually.

At 30 June 2005, there were 63,634 (2004 - 54,741) registered outgrowers, with 51,732 (2004 - 47,669) hectares of land under cane.

Conduct of Business

The conduct of Company's Business is being developed to be driven within a process framework underpinned by defined processes, objectives, policy statements, written procedures and control guidelines. The Company is pursuing ISO 9001:2000 Certification that will be achieved shortly.

The Board has established management structures with clearly defined roles, responsibilities and reporting lines.

Performance Reporting

The Business performance of the Company is reported regularly to its Management and the Board. Performance trends, forecasts, as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies that are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include, segregating of duties, the regular reconciliation of accounts and valuation of assets.

Health, Safety and Employee Welfare

The welfare of our staff, clients, contractors, suppliers and members of the public is an essential principle of the Company that strives to provide all the employees with safe working conditions at the workplace and a safe environment for our clients, contractors and members of the public.

The Company maintains the policy of equal opportunity of employment for all qualified persons and strives to provide all employees with fair equitable terms of employment.

Corporate Social Responsibility

The Company plays a vital and integral role as a good corporate citizen in the community it operates in. The Company sponsors several charities, schools, health institutions and social events by continuously providing budgetary provisions to fund these requirements.

Directors' Shareholding

The Directors' direct and indirect interest in the ordinary share capital of the Company is shown on page 53.



Girls in music and dance.

- Evaluate and approve the external auditors' plans, scope of findings and reports
- Evaluate the effectiveness of the internal auditing function, including its purpose, activities, scope, adequacy and costs, and approve the annual internal audit plan
- Evaluate policies, procedures and systems introduced by management, thus ensuring that these are functioning effectively
- Review and approve the activities, scope, adequacy and effectiveness of the company's risk management and regulatory procedures
- Evaluate legal matters, which may affect the financial statements
- Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal control or auditing matters.

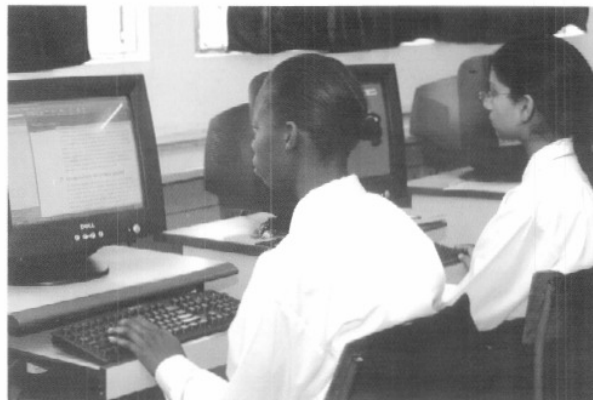
Board Tender Committee (BTC)

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BTC is composed of at least four non-executive directors. The Managing Director and the Head of Finance are ex-officio members of the Committee. The Company Secretary acts as secretary to the Committee.

The deliberations on procurement as defined in the procurement manuals are normally driven to deliver value to the business by conforming to the following:

- Accountability
- Efficiency & effectiveness
- Integrity
- Fairness
- Responsibility
- Transparency



Booker Academy students in a computer class.

Risk Management

The Board recognises that managing risk to ensure optimal mix between risk and return is an integral part of achieving corporate goals. The Board has put in place procedures for identifying risks and implementing risk-mitigating activities to ensure the risk of failure to achieve business objectives is reduced, if not eliminated. As key risk management initiative, the Company is putting in place a comprehensive system of setting and implementing objectives, measuring performance against objectives and implementing corrective activities to ensure that objectives are achieved.

Internal Controls

The Board has a collective responsibility for the Company's system of internal control and for reviewing their effectiveness. Executive Management have the responsibility for establishing and implementing appropriate systems and controls in the running of the Business of the Company and providing assurance to the Board that they have done so. The system of internal control in place has defined operational procedures and financial controls to ensure that assets are safeguarded, transactions are appropriately authorised and recorded properly and that material errors and irregularities are either prevented or detected within a reasonable period of time. In reviewing the effectiveness of the systems of internal control and risk management, the Board takes into account the results of the work carried out to audit and review activities of the Company. The Board has reviewed the Company's system of internal control and is satisfied that the system is effective.

The responsibilities of the Committee are to:

- Review with the MD the priority needs for the Board and Company;
- Assist the Board in determining the company's vision and mission, providing strategic direction to the company, approval of strategic plans and implementation of values in support thereof
- Responsible for Information Technology (IT) governance for the Board by ensuring that:
 - IT strategy is aligned to the Business
 - IT Investment delivers value to the Business
 - IT performance is measured
 - IT related risks are managed
 - IT resources and sourcing is effectively managed
- Evaluate the performance of the Board, sub-committees of the Board, Directors and the Chairman
- Make recommendations to the Board in respect to appointment of new directors
- Determine, approve and develop the company's general policy on remuneration as well as specific policy on executive remuneration
- Review and approve remuneration packages of executive directors including bonus incentive schemes and increments
- Appraise the performance of the Managing Director

- Review the general levels of remuneration for directors of the board as well as its committees
- Regularly review the company's code of ethics and the effectiveness of ethic management principles
- Evaluate cases of unethical behaviour of senior managers and executives of the company
- Review employment equity, skills development and succession planning.

Board Audit Committee (BAC)

The scope of this committee includes risk management, as well as compliance with the regulatory requirements. The Chief Internal Auditor is an ex-officio member while the Company Secretary is the secretary of the Committee.

The main responsibilities of the committee are to:

- Review and recommend to the board, the company's annual reports, interim and preliminary reports, as well as filing of Regulatory requirement by NSE and CMA
- Review and make recommendations to the board relating to the viability of the company as a going concern
- Recommend appointment of external auditors
- Receive the external auditors' reports



New classrooms built at Booker Academy.

Corporate Governance

The Directors of Mumias Sugar Company recognize the need to conduct Business with integrity and in accordance with highest standard of governance practices. Your Board determines the Company Policy and Strategy, monitors the attainment of Business Objectives and ensures that the company meets its obligations for shareholders. The Directors are also responsible for overseeing the company's internal control systems that are designed to safeguard your assets and to ensure reliability of the financial information used within the Business.

The Board of Directors

Mumias Sugar Company consists of eleven non-executive directors and the Managing Director. Most of the non-executive Directors are independent.

The full Board meets at least four times a year. The Directors have access to timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

The Board has delegated authority for conduct of day-to-day business to the Managing Director. The Board retains responsibility for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues and monitoring the performance of Executive Management.

The Board has adopted a charter. In terms of the Board Charter, the Board among other responsibilities:-

- Determines the company's vision and mission, provides strategic direction to the company and is responsible for the approval of strategic plans and the implementation of values in support thereof
- Approves the annual business plan and budget proposed by management
- Retains full and effective control over the company and monitors management with regard to the implementation of the approved annual budget and business plan
- Appoints the managing director, who reports to the Board and ensures that succession is planned
- Approves the company's financial statements, interim reports and preliminary reports, returns required by Market Regulators,

and is responsible for the integrity and reasonable presentation thereof

- Assesses the viability of the company on a going concern basis
- Determines the company's communication policy
- Determines director selection, orientation and evaluation
- Ensures that the company has appropriate risk management, internal control and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders
- Defines levels of delegation in respect of specific matters, with required authority to board sub-committees and management
- Monitors non-financial aspects pertaining to the business of the company
- Considers and, if appropriate, declares the payment of dividends to shareholders
- Regularly evaluates its own performance and effectiveness.

The Board and its committees are supplied with full and timely information, which enables them to discharge their responsibilities. All directors have access to the company secretary and to independent professional advice in appropriate circumstances at the company's expense. Directors' interests in other boards and contracts are regularly declared and recorded.

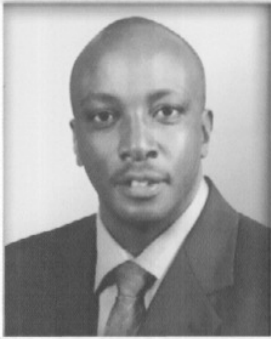
Board Committees

The Board has three standing committees that meet regularly under the Terms of Reference (TOR) set by the Board.

Board Human Resource & Strategy Committee (BHRSC)

The scope of BHRSC includes strategy formulation, review and intellectual capital imports into MSC. The Committee ensures that MSC is competitive in the Market place. The Managing Director (MD) is a member of the Committee, while the Company Secretary acts as secretary to the Committee.

Management



Mr. Peter Kebati
Head of Finance



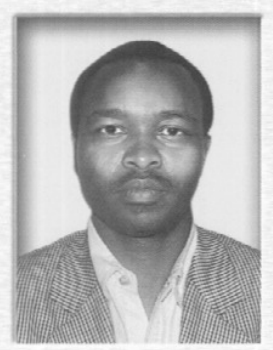
Dr. Evans Kidero
Managing Director



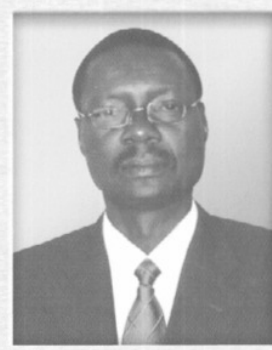
Mr. Aggrey Wanjala
Head of Agriculture



Mr. Edwin Muruka
Head of Human Resources



Mr. Wesley Koech
Head of Information Technology



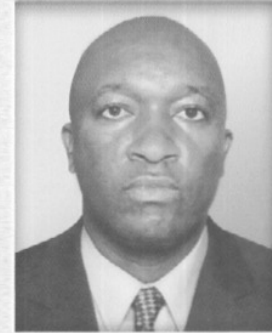
Mr. Dickson Mutoka
Head of Sales and Marketing



Mr. Nashon Aseka
Head of Projects and Business
Development



Mr. James Luchacha
Head of Factory Operations



Mr. Evans Kaiga
Chief Internal Auditor

Ripoti ya Meneja Mkurugenzi (kuendelea)

Kama sehemu ya wajibu wake katika jamii, mnamo 2004, kampuni ilianzisha mpango wa miaka 4 wa kutoa karo ya masomo kwa wanafunzi 20 bora wa mtihani wa KCPE katika kanda inayokuzwa miwa ambao wameamua kusajiliwa kwenye shule ya sekondari ya Booker. Mpango huu unahusisha wanafunzi 10 ambao wazazi wameajiriwa na MSC na wengine 10 kutoka eneo linalokuzwa miwa.

Kulikuwa na ujenzi wa madaraja 3 maeneo ya Chwele, Ekwaba na Lusumu. Ujenzi huo umerahisisha uchukuzi wa miwa na kuwasaidia wakulima kupata faida kwa kuwapunguzia mwendo.

Matarajio Ya Baadaye

Bei ya sukari kwenye masoko ya kimataifa imekuwa thabiti huku tani moja ikiuzwa kwa bei ya wastani ya dola 280.0. Inatarajiwa kwamba, bei hii itapanda zaidi kipindi cha mwaka wa 2005/06 kutokana na mahitaji na matumizi makubwa ya Ethanol kufuatia kuongezeka kwa bei za mafuta.

Kiwango cha sukari iliyoagizwa kutoka mataifa ya COMESA inaonekana tayari imeuzwa huku kukiwa na mahitaji makuu ya sukari inayotengenezwa nchini, haswa ya Mumias.

Kutokana na matarajio ya uchumi kustawi, mahitaji ya kimataifa ya sukari na kumalizika kwa mkataba wa Comesa mwaka wa 2008, sekta ya sukari inakabiliwa na changa moto ya kujikakamua zaidi, kubuni mbinu mpya na kuangazia mahitaji ya wateja wake. MSC imebuni mikakati kabambe ambayo itasaidia kukabiliana na changamoto mpya kwenye vitengo vya biashara. Kampuni italenga kubuni mbinu mpya za kutafuta nafasi mpya za biashara na kuboresha usimamizi wa gharama. Katika kutekeleza mipango hiyo, ajenda kuu itakuwa kumtosheleza mteja.



A sugar cane farm.

Mwisho

Kwa niaba ya wasimamizi, ningependa kushukuru Halmashauri kwa kutoa mwongozo na mwelekeo bora wakati wa kipindi chote cha mwaka, wakulima wetu waaminifu, wateja, wafanyakazi na washika dau wengine kutokana na mchango wao ambao umetufanya kupata matokeo ya kibiashara ya kujivunia. Mchango wenu thamani kubwa uliosababisha tufanikiwe mwaka jana. Kama sehemu ya kundi la MSC, ninaamini tutashirikiana pamoja ili kupata matokeo bora zaidi mwaka ujao.

Asanteni.

Dkt. Evans Kidero

Meneja Mkurugenzi

Agosti 26, 2005

muda wa siku 30 baada ya kuuza miwa yao kama ilivyofafanuliwa kwenye kifungu cha sheria za sukari. Hata hivyo, malipo kwa kila mkulima yalipungua kutoka Shilingi 48,544 hadi Shilingi 42,045 ikilinganishwa na mwaka uliotangulia. Hii ilisababishwa na visa vingi vya moto na kuathiri karibu Hekta 8165 za mashamba. Ili kuzuia uharibifu na hasara zaidi kwa mkulima, kampuni iliamua kununua na kulipia miwa ambayo haikuwa imeungua sana au iliyokatwa kabla ya muda wake kutimia.

Usimamizi Wa Wafanyakazi

Uimarishaji wa hali ya wafanyakazi ni jambo muhimu linalozingatiwa ili kufanikisha wito na matazamia ya kampuni ya sukari ya Mumias.

Wafanyakazi ndio msingi wa ufanisi wetu na tutazidi kuzindua njia mwafaka za kuwahamasisha ambazo zitasababisha ushindani katika shughuli zetu. Tumekuwa tukivutia na kuwahifadhi wafanyakazi wenye tajriba na ujuzi wa hali ya juu kwa kutumia mbinu za kisasa za uteuzi na uajiri.

Uhusiano Kikazi

Kampuni inazidi kudumisha na kuzingatia uhusiano bora wa kikazi kupitia njia thabiti za mazungumzo, kutatua matatizo wakati ufao na kusisitiza sera za uwazi. Uhusiano ambao umekuwa ukidumishwa baina yetu na chama kinachowakilisha maslahi ya wafanyakazi utazidi kutiliwa maanani na kuimarishwa.

Wasimamizi wanatambua mchango wa kila mfanyakazi ambao umesababisha kampuni kupata ufanisi na wakati huo kutimiza mahitaji ya wateja wetu. Mchango wa kila mfanyakazi katika ufanisi wetu kibiashara utazidi kutambuliwa.

Mafunzo Ya Wafanya Kazi Na Maendeleo

Wakati wa kipindi cha mwaka, mafunzo muhimu kwa wafanya kazi binafsi na mipango ya maendeleo kwenye kampuni iliandaliwa na kufaulu. Ufanisi ulioshuhudiwa unaashiria faida zilizotokana na mbinu hizo.

Kutokana na kuanzishwa kwa mpango wa kuwatuza wafanya kazi wenye huduma bora, mipango ya mafunzo ya kuimarisha utendaji kazi ilipewa kipa umbele. Wafanya kazi wetu walijiongezea maarifa na ujuzi katika harakati za kujiandaa kukabiliana na majukumu makuu na changa moto zinazoenda sambamba na malengo ya kampuni. Kutokana na mipango huu, tunatayarisha mifumo ya malipo na tuzo kwa kuthibitisha tuko katika kiwango cha kipekee. Nia yetu ni kuhakikisha mfanya kazi anapata donge kulingana na utendaji kazi wake, uwezo wake na malipo yanayolipwa wafanya kazi wa kiwango chake nchini.

Wajibu Kwa Jamii

Kampuni ya MSC imejitahidi kushirikiana na jamii kwenye maeneo inakohudumu. Hadi wakati huu, kampuni ilikuwa imejihusisha na miradi mbali mbali ya kijamii.



Road safety signs on Kakamega-Mumias road.

Ripoti ya Meneja Mkurugenzi (kuendelea)

kipindi cha mwaka uliotangulia yalikuwa Metriki tani 275,000. Hii inaonyesha kwamba, kulikuwa na kiwango cha ukuaji cha asilimia 3.1 katika kipindi hiki cha mwaka. Mauzo bora yalitokana na juhudi kubwa za kampuni kupitia mbinu mbali mbali ambazo zilinuia kudumisha nafasi yake kwenye masoko na kubuniwa kwa njia mwafaka za uhifadhi. (Store Keeping Units (SKUs))

Nina furaha kuripoti kwamba, wakati wa kipindi hiki cha mwaka, kampuni ilifaulu kuuza kwenye masoko ya nje tani 10,000 za sukari chini ya mkataba wa European Union Sugar Protocol na tani zingine 10,000 chini ya mkataba wa European Union Special Preferential Sugar Protocol.

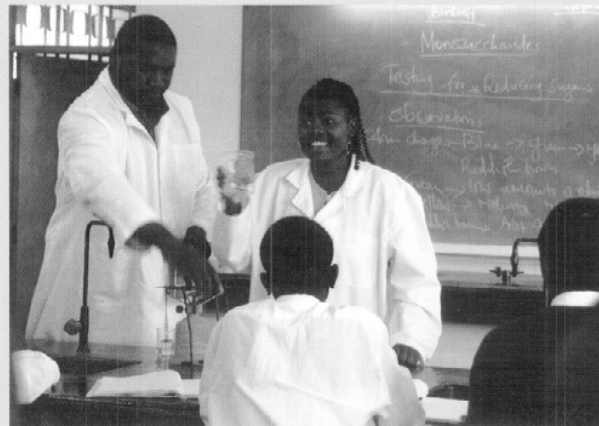
Wakati huo huo, kampuni ya sukari ya Mumias iliidhinisha utekelezaji wa shughuli zake kwa kufuata kanuni za hati ya ISO 9001:2000 kama njia mojawapo ya kuhakikisha kwamba bidhaa zake zinapatikana kila mara na kuafikiana na mahitaji ya wateja na kanuni zinazohitajika. Nina furaha kuripoti kwamba, Halmashauri inayosimamia ubora wa bidhaa (KBS) ilifanya ukaguzi wakati wa kipindi cha kufunga mwaka. Tuna hakika tutapata cheti cha ISO mwezi ujao.

Shughuli Katika Kiwanda

Kiwanda kiliandikisha rekodi ya kusafisha Metriki tani 269,184 za sukari kwa mwaka wakati wa kipindi hiki na kuweka rekodi ya tani 2,348,019 za miwa. Hii iliwakilisha ongezeko la ukuaji la asilimia 2.5 na 1.7 mtawalia ikilinganishwa na mwaka uliotangulia. Sukari iliyosafishwa ilikuwa ya juu zaidi kuwahi kutokea katika historia ya kampuni hii.

Ufanisi huu ulitokana na kuimarishwa kwa huduma za usafirishaji hadi kiwandani, matumizi, kutegemewa, uzingatiaji wa kila mara wa wakati (OTE) na uzingatiaji wa wakati kiwandani FTE zilizorekodiwa kila wakati kwa silimia 84.91 na asilimia 92.47 mtawalia.

Matokeo haya yalipatikana ingawa kulikuwa na athari kali zlizotokana na thamani duni ya miwa wakati wa miezi ya kiangazi ya Januari, Februari na Machi. Isitoshe hakukuwepo na mbinu bora za kukabiliana na kuenea kwa visa vya moto vilivyoharibu miwa. Hali hii ilisababisha uvunaji na usafirishaji bila mpango. Hatimaye, kiwango kikubwa cha miwa kikaharibikia kiwandani na kusababisha hasara ya karibu tani 12,000 za sukari.



Students at a chemistry class.

Mradi wa upanuzi wa 380TCH ulikamilika chini ya muda uliotarajiwa bila kugharimu pesa zaidi. Mbali na mradi wa 380 TCH, mpango mwingine unaojulikana kama Factory Capex ulitekelezwa na kufaulu. Baadhi ya vifaa vilivyounuliwa na kuzinduliwa ni pamoja na Wheel Loaders 2, mtambo wa kisasa wa Air Compressor, tangi la kuhifadhi maji na mtambo wa kisasa wa kupambana na moto.

Kampuni iliandikisha mkataba wa kandarasi wa kusambaza nguvu za umeme na kampuni ya KPLC na wakati huo kupata leseni kutoka kwa Halmashauri ya Kudhibiti Umeme (Electricity Regulatory Board-RB) Kampuni ilianza kusambaza nguvu za umeme Julai 20, 2005 kwa malipo ya dola 0.04/kwh.

Shughuli Za Kilimo

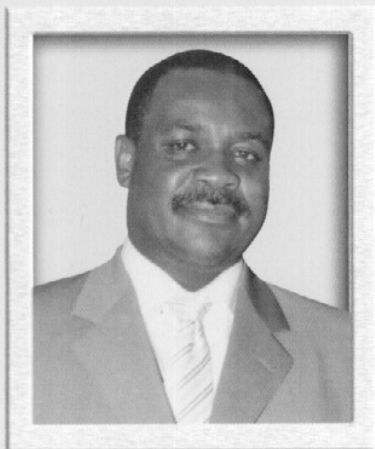
Kampuni ya MSC ilidhibiti jumla ya kilomita 1677 za barabara ikilinganishwa na kilomita 1457 za hapo awali na kuwakilisha ongezeko la asilimia 15. Ongezeko hili lilisababishwa na kununuliwa kwa mashini mpya kwa gharama ya milioni 94 baada ya kupokea msaada kutoka kwa Kenya Sugar Board.

Madaraja 3 yalijengwa kwenye mito huko Chwele, Ekwaba na Lusumu na kurahisisha shughuli za uchukuaji.

Zaidi ya Hekta 3,642 za ardhi zilipandwa miwa ili kutosheleza mahitaji ya kiwanda kilichopanuliwa.

Malipo kwa wakulima yalitolewa kwa muda uliopangwa. Wakulima 26,026 walilipwa jumla ya Shilingi milioni 1,094,284,149 kwa

Ripoti ya Meneja Mkurugenzi



Dkt. E Kidero
Mkurugenzi

Nina furaha kuripoti kwamba, kampuni ya sukari ya Mumias (MSC) imepata matokeo ya kufana sana kwa kipindi cha mwaka wa 2004/05.

Ripoti Ya Kifedha

Kampuni ilishuhudia ongezeko kwenye nyanja zote wakati wa kipindi hiki kinachozungumziwa.

Faida ya jumla baada ya ushuru ilikuwa milioni 1,289, hili likiwa ni ongezeko la asilimia 63 ikilinganishwa na mwaka wa 2004 la milioni 791 na kuashiria ukuaji thabiti kwenye maeneo mengi ya kibiashara.

Mapato kwa kipindi cha mwaka wa 2004/2005 ya milioni 10,080 yalikuwa asilimia 4 zaidi ya bajeti. Faida iliyotokana na shughuli za kibiashara kabla ya ushuru ya milioni 1843 ilikuwa asilimia 41 zaidi

ikilinganishwa na bajeti, na asilimia 61 zaidi ya faida ya shughuli za kibiashara ya milioni 1,138 ya mwaka uliyopita.

Gharama za uendeshaji zilizidhibitiwa vyema na kutozidi bajeti kwa mwaka wa pili mfululizo ingawa gharama ya maisha ilipanda kwa asilimia 14.

Faida iliyopatikana kutokana na shughuli za biashara, iliongezeka kutoka asilimia 11 mnamo 2003/04 hadi asilimia 16 mwaka huu huku faida inayotokana na mtaji uliowekwa ikiongezeka kutoka asilimia 21 hadi asilimia 30.

Mafanikio katika shughuli za biashara yalipatikana kutokana na mauzo ya juu na bei ya kufana na mbinu bora za kudhibiti gharama za matumizi.

Kampuni imekuwa ikishuhudia gharama kutokana na shughuli za ukarabati, kubuni mbinu zaidi za kuleta mapato na wakati huo kuridhisha wateja wake.

Matumizi ya mtaji kwa kipindi cha mwaka wa 2005 yalikuwa shilingi milioni 669 huku miradi iliyotekelezwa ikiwa ni pamoja na ukarabati wa kiwanda, kupanua uwezo wake hadi 380TCH, ujenzi wa ukuta na milango. Hali hiyo imekipa kiwanda sura ya kipekee na kuimarisha usalama.

Uvumishaji Na Mauzo

Jumla ya mauzo ilikuwa metriki tani 269,000 bila kuhesabu Metriki tani 10,000 ambazo bado zilikuwa zikisafirishwa kuelekea nchini Finland wakati wa mwisho wa kipindi cha mwaka. Mauzo kwa



Booker Academy administration block

Managing Director's Report (continued)

Industrial Relations

The Company continued to enjoy harmonious industrial relations with open dialogue and active feedback at all levels made possible by our open-door policy. The existing partnership with our union will continue to be nurtured and improved.

Management recognizes with appreciation the contribution of all staff to the performance culture, which has enabled positive responsiveness to the needs of our esteemed customers. The invaluable role and contribution of each employee to our business achievements will always be recognized.

Manpower Planning and Development

During the year, several crucial training and development initiatives were successfully undertaken both at individual and corporate levels. The sterling performance witnessed is indeed a reflection of the value obtained from such initiatives.

With the introduction/implementation of the performance management system and performance-based employee rewards, competency-based training programs took the center stage. Our staff updated and enhanced their competencies in various techniques in preparation for higher responsibilities and challenges commensurate with our corporate objectives. In line with this, we are in the process of re-engineering our pay and reward systems to ensure that we are among the best in class, creating a clear link between an individual's performance, potential and market rates.

Corporate Social Responsibility

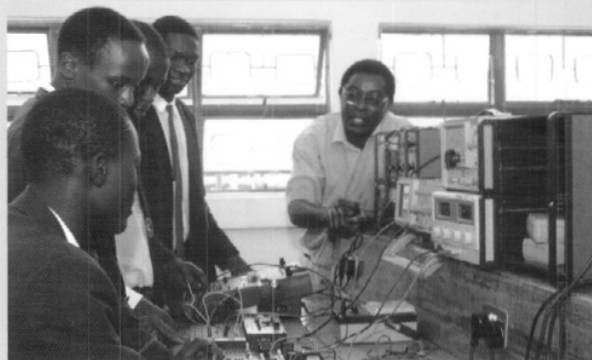
MSC is committed to making an impact on the communities amongst whom it operates. To this end, the company was involved in various social and community projects during the year.

As part of its corporate responsibility, the company in 2004 decided to initiate a 4-year secondary school bursary for the top twenty KCPE candidates from the MSC sugar belt who opt to join Booker Academy - Secondary section. This sponsorship targets top ten candidates whose parents are employed by MSC and another top ten candidates from the cane zone.

Three bridges shortening distances between outgrower fields were constructed across rivers Chwele, Ekwaba and Lusumu as a way of assisting farmers earn maximum benefits from their cane as a result of transport distances reducing.

Looking Into The Future

World sugar prices have remained firm with the average price per ton at US\$280. It is expected that prices will rise further in 2005/6 due to strong demand and increased Ethanol use amid



Booker Academy students attending a science class.

high oil prices.

Imported sugar from the COMESA quota seems to have been sold off against a backdrop of a very strong demand for locally produced sugar especially the MSC Brand.

In the midst of the expected economic growth, the world sugar demands and the 2008 expiry of the Comesa reprieve, the sugar industry will be challenged to be more proactive, innovative and focused in their customers needs. MSC has developed appropriate strategies that will enable her take the lead in facing the challenges ahead. Clearly defined goals and strategy frameworks in key areas of business will be the key focus. Key pillars will be co-generation, dynamic strategy into new opportunities and effective cost management. In all these, customer satisfaction will be top on the agenda.

Conclusion

On behalf of the management, I wish to thank the Board for its untiring guidance and direction during the year, our loyal farmers, customers, staff and other stakeholders for their continued support and contributions to our business success. Your contribution to the realisation of the past year's results is indeed invaluable. As part of the MSC team, I trust that we shall together toil to achieve even better results in the coming year.

Thank you.

Dr. Evans Kidero
Managing Director
26 August 2005

Managing Director's Report (continued)

I am glad to report that during the year, the company successfully exported 10,000 tonnes of sugar under the European Union Sugar Protocol and an additional 10,000 tonnes were in transit under the European Union Special Preferential Sugar Protocol.

MSC undertook to implement the ISO 9001:2000 Quality Management System as a commitment to always provide products that are consistent and meet both customer and regulatory requirements. I am glad to report that Kenya Bureau of Standards conducted the pre-certification audit at the close of the financial year and we are confident of achieving ISO Certification within the coming month.

Factory Operations

The factory achieved a new record production of 269,184 MT sugar per annum during the year with record cane throughput of 2,348,019 tonnes of cane representing a 1.7% and 2.5% growth respectively over the previous year. The sugar produced was the highest in the history of the company.

This was mainly because of improved factory availability, utilization and reliability. Overall Time Efficiency (OTE) and Factory Time Efficiency (FTE) recorded all-time highs of 84.91% and 92.47% respectively.

These results were achieved despite a major setback in the year caused by poor cane quality in the dry months of January, February and March due to uncontrolled cane fires resulting in uncontrolled harvesting and transport of cane with the overall result of high cane staleness in mill cane during that period. This factor resulted in a production opportunity loss during the period of about 12,000 tonnes of sugar through reduced throughput and poor sugar recoveries.

The 380TCH expansion project was successfully completed on time and below budget. Outside the 380 TCH Project, the Factory Capital expenditure was also carried out satisfactory. Some of the equipment that were purchased and launched were 2 wheel loaders, a modern instrument Air Compressor, Domestic Overhead storage water tanks and a modern Fire Engine.

A contract for supply of electricity to the National Grid was signed with KPLC and a license obtained from the Electricity Regulatory Board. Power export commenced on the 20th July 2005 at 2 MW, priced at US\$ 0.04/kwh.

Agricultural Operations

MSC maintained a total of 1,677 km of roads, up from 1,457 km in the previous year representing a 15% improvement mainly attributed to the purchase of new roads equipment from the Kshs.94 million grant from Kenya Sugar Board.

Three bridges shortening distances between outgrower fields were constructed across rivers Chwele, Ekwaba and Lusumu.

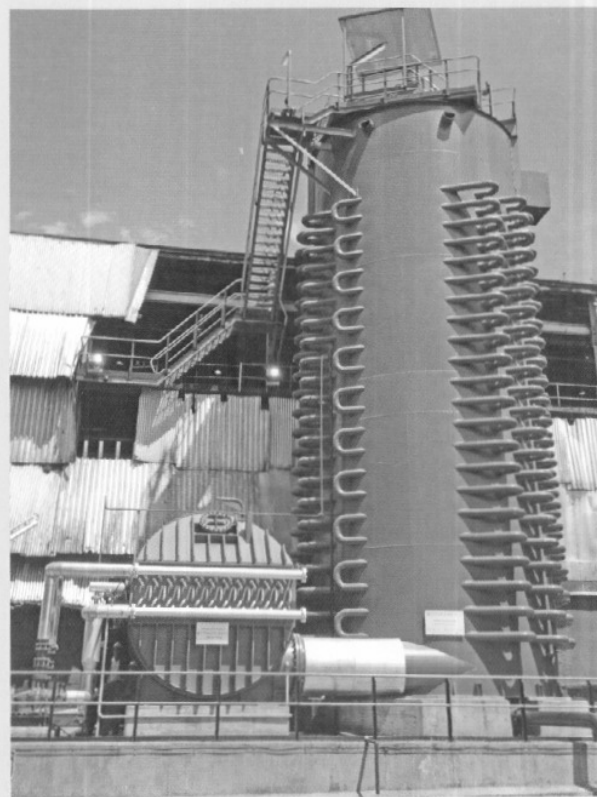
An additional 3,642 Ha of new land was planted to match the expanded factory crushing capacity.

Farmer's payments were on schedule and 26,026 farmers were paid a total of Kshs.1,094,284,149 within the 30 days from date of delivery as stipulated in the Sugar Act. However, earnings per farmer were down at Kshs.42,045 from Kshs.48,544 in the previous year as a result of high incidences of cane fires affecting about 8,165 ha of land. Burnt cane below average cane cutting ages was cut and paid for rather than letting it go to waste.

Human Resource Management

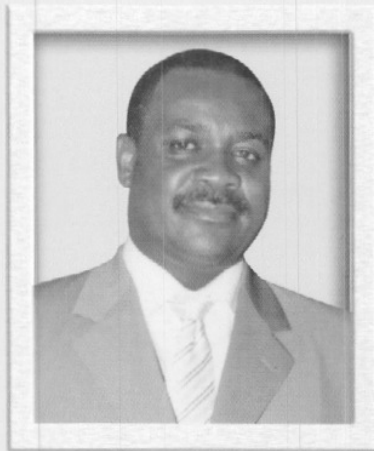
Human Resource development remains a focal point as we continue to build individual and institutional capacity to steer MSC towards achieving our Mission and Vision.

Our staff are core to our success and we continue to invest in a number of initiatives that will deliver a competitive edge in the industry. We have continued to attract and retain high calibre professionals through the use of modern recruitment and selection process.



The newly installed sugar crystalliser and massecuite reheater.

Managing Director's Report



Dr. E Kidero
Managing Director

I am pleased to report that MSC has once more recorded sterling performance during the 2004/5 financial year.

Financial Performance

The Company saw an improvement in all key performance indicators during the year under review.

The company's gross profit after tax was Kshs 1,289 million, an increase of 63% over 2004 level of Kshs 791 million reflecting a solid performance and good growth in many areas of the business segments and the benefits reaped from the product introductions.

Net revenue for the financial year 2004/05 at KShs 10,080 million was 4.0% above forecast. The corresponding operating profit before tax at KShs 1,843 million was 41% above forecast and 61% above the profit before tax of KShs 1,138 million achieved last year.

The operational expenditure was well controlled and within budgetary provisions and for the second year running, the operational expenditure is flat year on year despite annual inflation running at 14%.

Operating profit as a percentage of turnover grew from 11% in 2003/04 to 16% in the current year whilst return on capital employed grew from 21% to 30%.

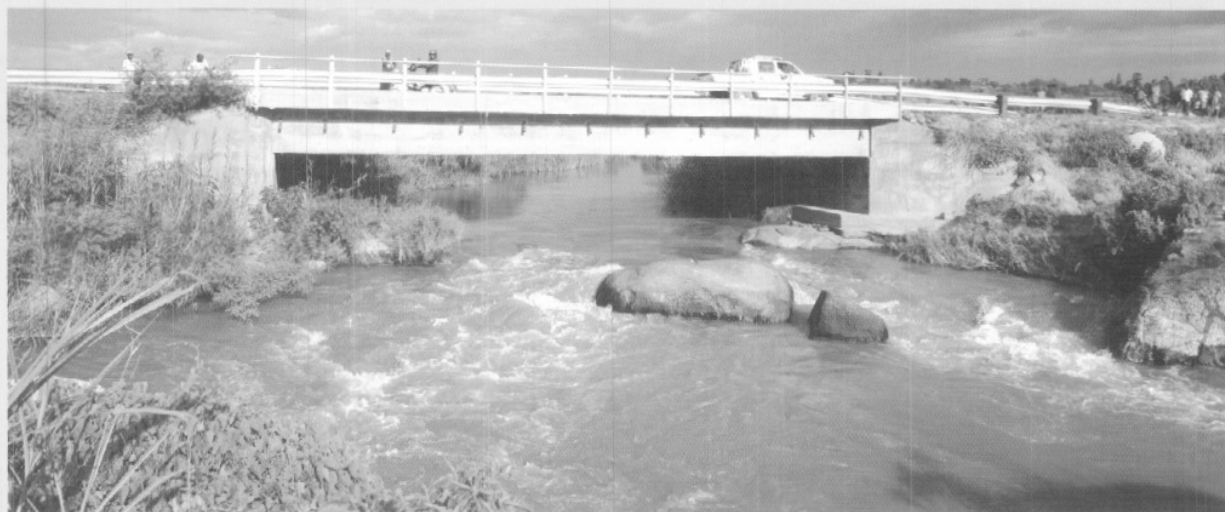
The good performance on the operating parameters was due to high sales with good selling prices and very well controlled operating expenses.

The Company has continued to incur significant expenditure in restructuring, investment in infrastructure and projects and improvements in customer offerings.

Capital expenditure for the year 2005 was Kshs 669 million with the main capital projects undertaken being factory refurbishment to expand the factory capacity to 380 tonnes of cane per hour and the factory perimeter wall and gates project which has given the image of the company premises a unique character as well as providing enhanced security.

Sales And Marketing

Total sales were 269,000 MT less 10,000 MT, which was still enroute to Finland at the close of the year. Sales for the previous year were 275,000 MT hence there was a decrease of 2% in the year under review. Sales were driven by sustained efforts by the company through various initiatives aimed at sustaining the existing market share and the introduction of new and innovative Store Keeping Units (SKUs).



Environmental health - safety rails on river Nzola provided by Mumias Sugar Company.

Desemba 5, 2005. Kwa jumla, mgao wa pamoja wa faida utakuwa shilingi 1.50 kwa kila hisa. Hii ni pamoja na mgao wa muda uliokuwa umelipwa mwezi Aprili mwaka huu.

MIKATAKATI NA HALI YA BAADAYE

Hali ya baadaye ya shughuli za kilimo cha miwa nchini Kenya ni ya kuvutia. Bei duni na uagizaji wa sukari ya kiwango cha chini si tisho tena kutokana na mahitaji ya kimataifa ya sukari ambayo sasa ni sawa na usambazaji wake. Bei ya sukari ya humu nchini ni sawa na ya mataifa mengine yanayozalisha bidhaa hii. Hata hivyo, gharama za uzalishaji nchini zinazidi kupanda juu kutokana na kuwepo kwa barabara mbovu ambazo mara nyingi huhitaji kampuni kuzikarabati, wakulima wa mashamba madogo, mabadiliko ya hali ya anga na gharama za juu za uendeshaji wa shughuli ambazo zimetokana na ongezeko la bei ya mafuta.

Ufanisi wa kampuni umetokana na kuwepo kwa bei thabiti ya sukari nchini. Ingawa bei za sukari kwenye soko la kimataifa zinazidi kupanda na kuwakatiza tamaa waagizaji kutoka nje, kampuni yenu itazidi kujiandaa kila mara kukabiliana na ushindani wowote.

Kutokana na hali hii, Halmashauri yenu imeidhinisha mpango ambapo kampuni iko kwenye harakati za kutafuta ushirikiano na washika dau wengine nchini Kenya na kwingineko ili kustawisha kiwanda cha ethanol.

Isitoshe, kulingana na wito wa kampuni ambao ni "kutosheleza mahitaji ya wateja wetu ya sukari na bidhaa nyinginezo kupitia mbinu mwafaka za uzalishaji na ubunifu na kutimiza matarajio ya



Dairy farming in the cane zone as part of farmer diversification.

washika dau wote" Halmashauri ya Wakurugenzi na wasimamizi imezindua mkakati wa kutimiza wito huu kwa kuchunguza upya hali ya bidhaa zetu. Lengo lao ni kuzindua bidhaa na mbinu mpya za upakiaji, kupanua uwezo wa kuhifadhi bidhaa, kuanzisha mbinu za kiteknolojia na kuboresha njia za usambazaji kwa manufaa ya kampuni.

Halmashauri ya wakurugenzi ina imani kwamba tutapata mwaka mwingine wenye ufanisi.

Shukurani

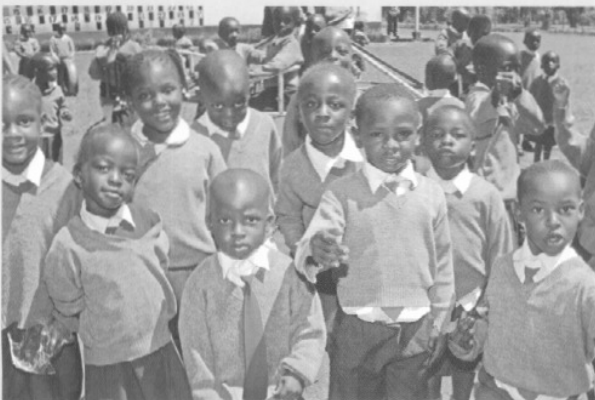
Mwisho, ningependa kutoa shukrani zangu za dhati kwa wanahalmashauri wenzangu, wafanyakazi na wanahisa kwa kutuunga mkono na kujihusisha kikamilifu wakati wa kipindi chote cha mwaka. Mchango wenu wa kushirikiana nasi na uaminifu kwa wateja wetu na Mumias Sugar kama chaguo bora za bidhaa zinatambuliwa hata zaidi.

Asanteni.

John V. Bosse

Mwenyekiti

Agosti 26, 2005



Corporate social responsibility - supporting children education.

Taarifa ya Mwenyekiti



Bw. J V Bosse
Mwenyekiti

Nina furaha kuwatangazia wanahisa ripoti ya mwaka na taarifa ya hesabu ya kampuni yenu kwa kipindi cha mwaka kilichomalizika Juni 30, 2005. Katika muda huu, kampuni yenu ilikuwa na matokeo mengine ya kuvutia ingawa kulikuwa na mabadiliko ya mara kwa mara kwenye masoko ya sukari na visa vingi vya moto kati ya Januari na Februari. Sababu hizi zinazidi kuathiri uzalishaji wa sukari.

Ripoti ya Kifedha

Mapato kwa kipindi kinachomalizika Juni 30, 2005, yalikuwa ni ya kutia moyo. Faida baada ya ushuru ya Shilingi 1,289,930,000 (2004 - Kshs. 791,451,000) ilikuwa ni ongezeko la asilimia 63 ikilinganishwa na mwaka jana. Hii ilitokana na kiwango cha ukuaji wa uchumi kilichoshuhudiwa mwaka jana, usambazaji na mahitaji ya sukari zilizolingana. Tena kulikuwa na usimamizi bora wa gharama za utengenezaji bidhaa hiyo.

Kampuni ilisaga tani 2,348,019 za miwa kiwango ambacho ni asilimia 2.5 zaidi kikilinganishwa na mwaka uliotangulia. Sukari iliyozalishwa ilikuwa tani 269,184 ambayo ni asilimia 1.7 zaidi ikilinganishwa na mwaka uliotangulia. Hiki ni kiwango cha juu sana cha uzalishaji kuwahi kutokea tangu kampuni ilipoanzishwa mnamo 1973.

Mapato kwa jumla ya Shilingi 12.5 bilioni yalikuwa ni ya juu ikilinganishwa na mwaka uliotangulia kutokana na chapa mpya kwenye mifuko ya kuhifadhi sukari pamoja na bei ya juu iliyoshuhudiwa. Bei ya sukari katika masoko ya kimataifa imekuwa ikipanda na kusababisha bei ya soko humu nchini kuwa thabiti. Mwaka huo, kampuni iliiza nje tani 10,000 za sukari chini ya mkataba wa European Union Sugar Protocol. Kufikia Juni 30, 2005, tani 10,000 zaidi zilikuwa zikisafirishwa kuuzwa chini ya mkataba wa European Union Special Preferential na hazikuwa zimehusishwa chini ya mauzo ya mwaka huo.

Mchango Kwa Hazina Ya Serikali

Mchango wa kampuni kwa hazina ya fedha za serikali ulitokana na ushuru wa ziada (VAT), kodi ya kustawisha kilimo cha sukari (Sugar Development Levy), ushuru wa mashirika (Corporation Tax) na ushuru mwingine zilikuwa bilioni 3.5 mwaka huo.

Mgao Wa Faida

Baada ya kuidhinishwa na wanahisa, Halmashauri inapendekeza mgao wa faida wa senti 90(0.90 cents) kwa kila hisa utakaolipwa wanahisa wa kampuni ambao watakuwa wamesajiliwa kufikia Novemba 10, 2005. Mgao wa mwisho wa hisa utalipwa kufikia



Street lighting in Kakamega town sponsored by Mumias Sugar.



The new Evaporator for sugar extraction.

threat due to the world demand for sugar now being about equal to supply. The local sugar prices are similar to those in other producing countries. Local production cost continues to be high due to poor roads which have to be maintained by the company, small holder farms, unreliable weather and high operational costs which has been exacerbated by the increase in oil prices.

The company's success is dependent on stable local selling price of sugar. Though the world sugar prices appear to be on the increase thus making any sugar imported into Kenya to be less attractive, your company is nonetheless preparing itself to remain competitive.

In this regard, your Board has approved a Strategic Plan where the company is in the process of exploiting co-generation, establishment of an ethanol plant and strategic partnerships with other stakeholders both in Kenya and elsewhere in order to place the company in an unassailable position in the Kenyan sugar industry.

Further, in line with the company's mission which is "to satisfy our consumers needs for sugar and other products through efficient and innovative production and marketing practices while meeting diverse expectations of all stakeholders", the Board and

management are implementing strategies to achieve this mission by reviewing the product portfolio with a view of introducing new products and packages, capacity expansion, investment in technology and improved supply chain management for overall efficiency in the company. The Board is optimistic of another good performance this year.

Appreciation

In conclusion, may I take this opportunity to record my deep appreciation to my fellow Board Members, Management, Staff and you the shareholders for the dedicated support and commitment throughout the year. The continued and spirited support and undivided loyalty of our customers to Mumias Sugar as the commodity of choice is appreciated even more.

Thank you.

John V. Bosse

CHAIRMAN

26 August 2005



Lusumu bridge constructed by the company.

CHAIRMAN'S STATEMENT



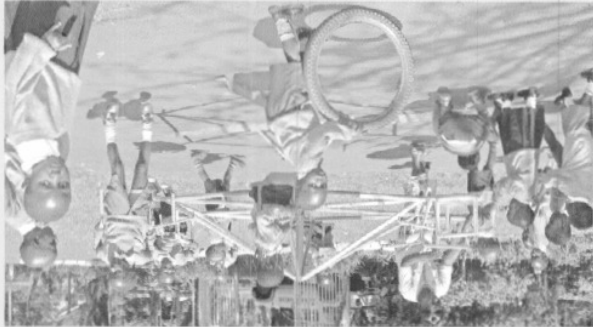
Mr. J V Bosse
Chairman

I am delighted to present to you shareholders, the annual report and financial statements of your company for the year ended 30 June 2005. During the financial year, your company recorded yet another year of excellent performance despite the highly volatile sugar market, and the high incidents of cane fires which occurred in January/February 2005, and which continue to be a major threat to higher productivity.

Financial Results

The results for the year ended 30 June 2005 are very encouraging. The profit after tax of KShs. 1,289,930,000 (2004 – KShs. 791,451,000) is an increase of 63% over last year. This is attributed to the growth in the economy last year, world sugar supply and demand being in equilibrium and effective management of operational costs.

The company processed 2,348,019 tonnes of cane, which is 2.5% higher than last year. Sugar produced was 269,184 tonnes, which is 1.7% above last year. This is the highest production by the company since its inception in 1973.



Children playing at the Infant school.

Strategy and Future Outlook

The Board is recommending approval by shareholders of a final dividend of KShs. 0.90 per share, payable to the shareholders of the company on the register of members at close of business on 10th November 2005. The final dividend will be paid on or around 5th December 2005. This together with the interim dividend of KShs. 0.60 per share paid in April 2005 brings the total dividend for the year to KShs. 1.50 per share.

Dividend

The company's contributions to the exchequer in taxes from VAT, Sugar Development Levy, Corporation Tax and other taxes were KShs. 3.5 billion in the year.

Contribution to Exchequer

The newly installed Centrifugal Station



Gross turnover at over KShs 12.5 billion was above that achieved last year because of branding of our sugar and higher price realization. World sugar prices have been on the rise and this in turn has stabilized domestic prices. The company exported 10,000 tonnes of sugar under the European Union Sugar Protocol in the year. As at 30 June 2005, an additional 10,000 tonnes on the European Union Special Preferential Sugar was in transit and was not included in sales for the year.

The future prospects for the sugar industry in Kenya are promising. Low cost sugar and low priced dumped sugar are now not a major

Notisi Kuhusu Mkutano Mkuu wa Pamoja wa Mwaka (AGM) 2005

Notisi inatolewa kuhusiana na mkutano wa 34 wa pamoja wa mwaka (AGM) wa wanahisa wa kampuni ya sukari ya Mumias utakaofanyika katika Tom Mboya College, Ring Road, eneo la Milimani mjini Kisumu Novemba 25, 2005 kuanzia saa tano asubuhi ili kuangazia maswala yafuatayo:-

1. Kudhibitisha kwamba mkutano wa 33 uliofanyika Novemba 12, 2004.
2. Kupokea, kufikiwa na endapo itaonekana kuwa sawa, kukubali ripoti ya mwaka na taarifa ya hesabu kwa kipindi kilichomalizika Juni 30, 2005 pamoja na ripoti ya wakurugenzi na ile ya mhasibu.
3. Kudhibitisha mgao wa awali wa faida wa senti 60 (0.60 cents) kwa kila hisa uliolipwa mwezi Aprili na kuidhinisha malipo kwa mgao wa mwisho wa senti 90 (90 cents) kwa kila hisa.
4. Kuwachagua wakurugenzi:

Kwa mujibu wa kifungu nambari 113 sheria za kampuni, Bw. John Bosse, Dkt. Caleb Wangia, Mhe. Amos Wako na Bw. Kungu Gatabaki wamefikisha muda wao wa kustaafu na kwa kuwa hali inawaruhusu, wamejitokeza tena kuchaguliwa wakati wa mkutano mkuu wa mwaka unaotarajiwa.
5. Kuidhinisha marupurupu ya wakurugenzi kwa kipindi cha mwaka kilichomalizika Juni 30, 2005 kama ilivyofafanuliwa kwenye ripoti ya uhasibu.
6. Kufahamisha kwamba, wahasibu Deloitte & Touche wataendelea na kazi yao ya uhasibu kwa mujibu wa sehemu ya 159 (2) ya sheria za kampuni (kifungu nambari 486) na kuwaruhusu wakurugenzi kuamua kiwango cha malipo yao.

Kwa Amri ya Halmashauri

Meshack Guto

Katibu

Private Bag

Mumias

Imenukuliwa Novemba 2, 2005

MUHIMU

1. Mwanachama yeyote anaweza kutuma notisi aliyoitia sahihi na kuiwasilisha kwa katibu kwa muda usiopungua siku 3 au kuzidi siku 21 kabla ya siku ya mkutano mkuu wa pamoja wa mwaka iliyochaguliwa na kupendekeza mtu anayetaka kuchaguliwa kujiunga na Halmashauri. Notisi kama hii iwe na sahihi ya mtu anayependekeza kuchaguliwa.
2. Mwanachama aliyehitimu kuhudhuria mkutano na kufanya uchaguzi lakini akawa hawezi kuhudhuria, anaweza kumtuma wakala wake ili kupiga kura kwa niaba yake. Sio lazima kwa wakala kama huyo kuwa mwanachama wa kampuni. Ili kuruhusiwa, fomu ya wakala iliyoko kwenye ukurasa wa 56 wa ripoti hii itahitajika kujazwa na mwanachama na kuwasilishwa kwenye ofisi ya msajili wa hisa za kampuni, Image Registra's & Certified Public Secretaries Office orofa ya nane Trans National Plaza, Mama Ngina Street, Slip 9287 Postal Code 00100 GPO NAIROBI au katika ofisi za kampuni mjini Mumias kabla ya saa tano asubuhi Jumanne Novemba 22, 2005. Baada ya kipindi hiki kumalizika, fomu itakayowasilishwa haitakuwa na maana yoyote. Kwa upande wa mashirika, wakala lazima awe ametambuliwa na kuidhinishwa. Barua ya usajili kwa mwanahisa iko ukurasa wa 56 ili kutumika na wanahisa wakati wa mkutano mkuu wa pamoja wa mwaka.

Notice of the Annual General Meeting (AGM) 2005

Notice is hereby given that the thirty fourth Annual General Meeting (AGM) of the Shareholders of Mumias Sugar Company Limited will be held at Tom Mboya Labour College, Ring Road, Milimani - Kisumu on Friday 25th November 2005 at 11.00 a.m. to transact the following ordinary business:

1. To confirm the minutes of the thirty third Annual General Meeting held on 12th November 2004.
2. To receive, consider and, if thought fit, adopt the Annual Report and Financial Statements for the year ended 30th June 2005 together with the Directors' and Auditor's reports thereon.
3. To confirm the interim dividend of Shs. 0.60 per share paid in April 2005 and approve payment of a final dividend of Shs. 0.90 per share.
4. To elect Directors:
In accordance with Article 113 of the Company's Articles of Association, Mr. John Bosse, Dr. Caleb Wangia, Hon Amos Wako and Mr. Kungu Gatabaki are due for retirement by rotation and being eligible, offer themselves for re-election at the forthcoming AGM.
5. To approve the remuneration of the Directors for the year ended 30 June 2005 as provided in the Financial Statements.
6. To note that the Auditors Messrs Deloitte & Touche, being eligible, will continue in office in accordance with Section 159 (2) of the Companies Act (cap. 486) and to authorize the directors to fix their remuneration.

By order of the Board

Meshack Guto
Secretary
Private Bag
Mumias

Dated: 2nd November 2005



Notes:

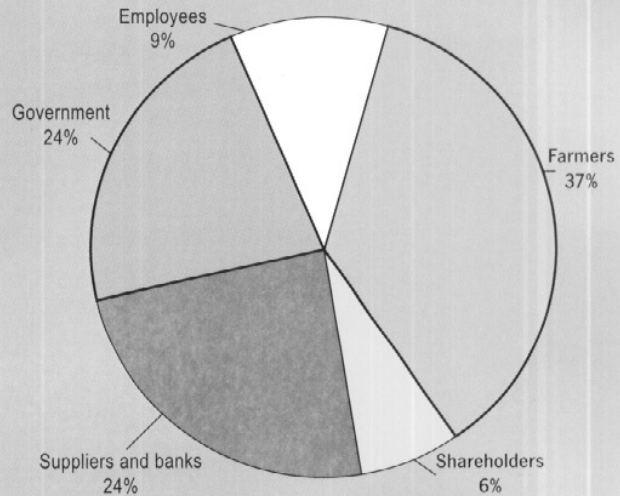
1. Any member may by notice duly signed by him or her delivered to the Secretary not less than 3 and not more than 21 days before the day appointed for the AGM propose any other person for election to the Board, such notice to be accompanied by a notice signed by the person proposed of his or her willingness to be elected.
2. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a proxy form which is on page 55 of this report, must be duly completed by the member and either lodged at the Company's Share Registrar's, Image Registrars and Certified Public Secretaries, 8th Floor, Trans National Plaza, Mama Ngina Street, P.O. Box 9287, Postal Code 00100 G.P.O., NAIROBI or lodged at the Company's registered office at Mumias not later than 11.00 a.m. on Tuesday 22nd November, 2005 failing which it will be invalid. In case of a corporate body, the proxy form must be under its common seal. Shareholder Admission letter is also set out on page 55 for use by shareholders on the AGM day.

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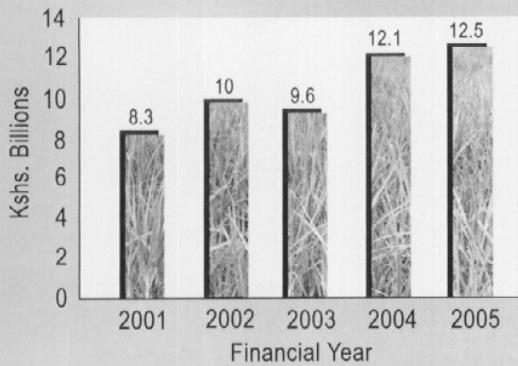
1. Mumias Sugar Company -- Periodicals
2. Sugar trade -- Kenya -- Periodicals.

Financial Highlights

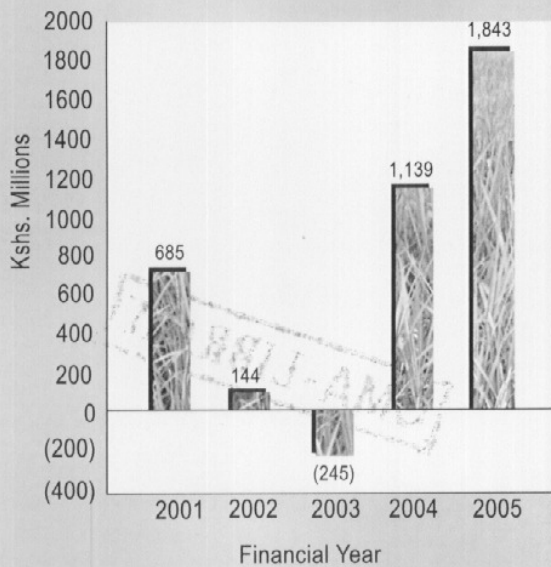
Value Added Summary - 2005



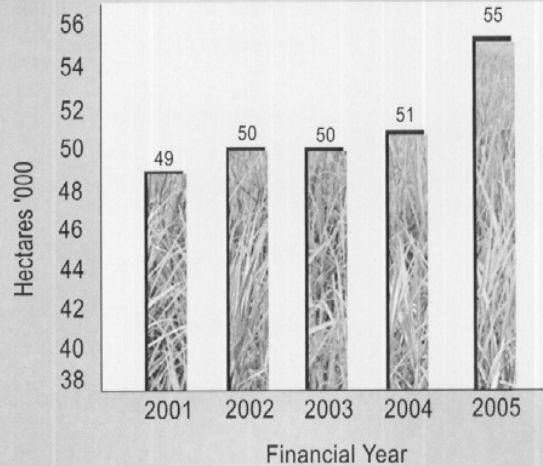
Gross Turnover



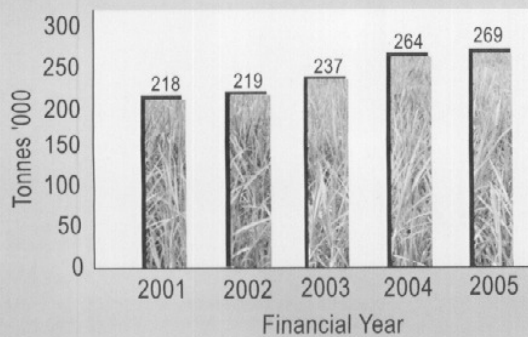
Profit Before Tax



Hectares of Sugarcane



Sugar Production



Production Efficiency

