Contents

Our Vision

To be a world class producer of sugar and energy.

Our Mission

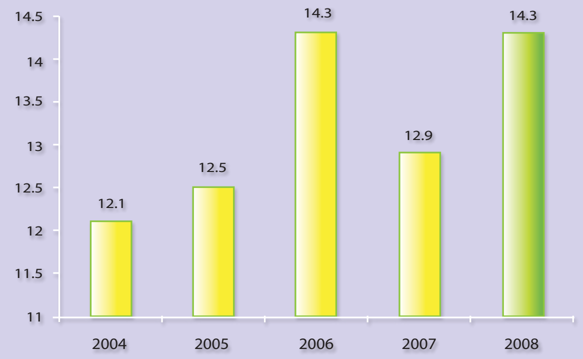
To consistently satisfy consumer needs for sugar and energy through efficient and innovative practices while meeting the diverse expectations of all our stakeholders.

Our Key Values

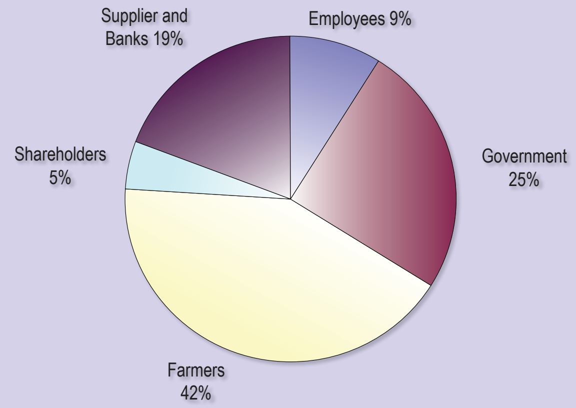
- Consistently offer quality products and services to our customers.
- Uphold excellence in performance as a key business driver.
- Encourage teamwork and positive contribution from our motivated and innovative employees.
- Conduct business with our customers and all other stakeholders with integrity and probity.
- Practice fair competition.
- Observe good corporate governance at all times.
- Be a responsible corporate citizen.
- Be an equal opportunity employer guided by local laws and International Labour
- Organization conventions.
- Embrace internationally accepted health, safety and environmental practices in our operations.

Performance Highlights

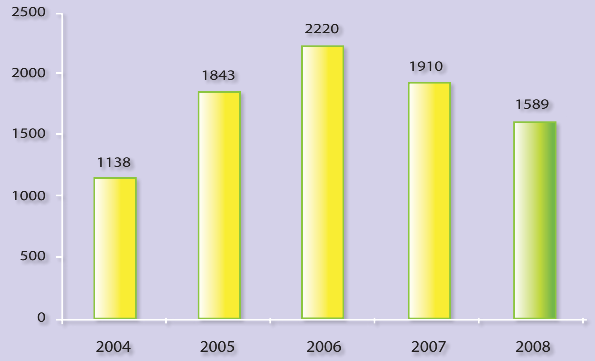
Gross Turnover (Shs. billions)



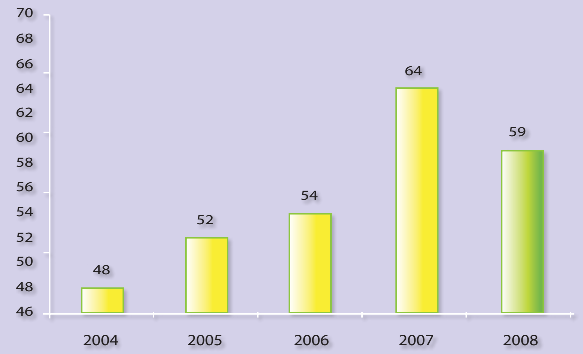
Value Added Summary - 2008



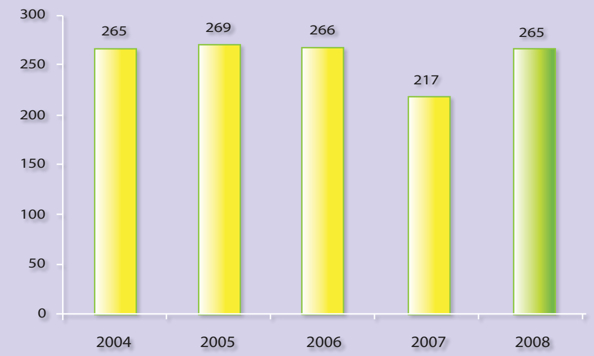
Profit Before Tax (Shs. millions)



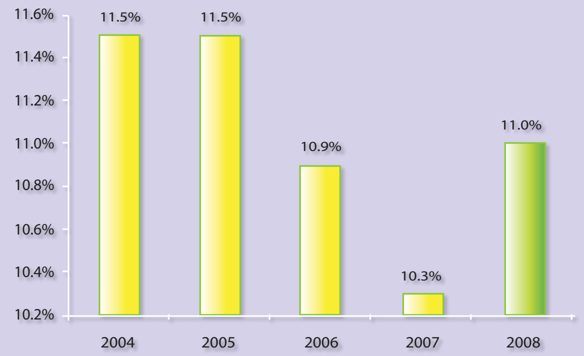
Hactares of Outgrowers Sugarcane (thousands)



Sugar Production (tonnes)



Production Efficiency (Rendement)



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 Mboya	
Board Human Resource and Strategy Committee		
	Mr K Gatabaki	- Chairman
	Dr E Kidero	
	Ms G K Ngala	
	Mr E S Osundwa	
	Mrs E Koimett	
	Dr C W Wangia	
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)
P O Box 10037 - 00200
Nairobi

REGISTERED OFFICE

Mumias Sugar Company Limited
Private Bag
Mumias

BANKERS

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

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

REGISTRARS

Image Registrars
Transnational Plaza, 8Th Floor
Mama Ngina Street
P.O. Box 9287 - 00100
Nairobi

The major shareholders on the company's share register as at 30 June 2008 were as follows:

MAJOR SHAREHOLDERS

No.	Name	No. of Shares	Percentage Holding
		Number of shares	Percentage holding
1	Permanent Secretary, Treasury	306,000,000	20.00
2	Kenya Commercial Bank Limited	46,500,000	3.04
3	The Jubilee Insurance Company of Kenya Limited	25,235,002	1.65
4	Kanouti Trustees Limited	22,434,432	1.47
5	Karim Jamal	22,009,548	1.44
6	Abdul Karim Chaturbhai Popat	14,400,000	0.94
7	Barclays (Kenya) Nominees Ltd A/c 1853	13,024,593	0.85
8	Kenya Commercial Bank Nominees Ltd A/c 769G	11,915,381	0.78
9	Barclays (Kenya) Nominees Ltd Non-Resident A/c 9318	10,949,700	0.72
10	Barclays (Kenya) Nominees Ltd A/c 1256	10,850,637	0.71
11	Others	1,046,680,707	68.41
	TOTAL	**1,530,000,000**	**100.00**

SHAREHOLDERS PROFILE

Category	Number of Shareholders	Number of Shares	Percentage Holding
Local Individuals	140,784	688,511,006	45.00
Local Institutional	4,934	777,432,757	50.81
Foreign Investors	651	64,056,237	4.19
	146,369	**1,530,000,000**	**100.00**

MSC DIRECTORS SHAREHOLDING

NO.	DIRECTOR'S NAME	NO. OF SHARES
1	PERMANENT SECRETARY TREASURY	306,000,000
2	HON. AMOS S. WAKO	1,050,000
3	EVANS KIDERO	640,000
4	MAURICE ROBERT JUMA	64,050
5	DR. CALEB W. WANGIA	59,120
6	MS. GRACE K. NGALA	19,800
7	MR. EDWIN S. OSUNDWA	19,706

MSC SHARES DISTRIBUTION SUMMARY

Shareholding Classification	Accounts	Shares	Shares %
1 to 1000	65,589	36,611,181	2.39
1001 to 10000	69,154	222,531,098	14.54
10001 to 100000	10,581	263,286,619	17.21
100001 to 1000000	913	252,532,822	16.51
1000001 to 10000000	124	321,498,708	21.01
10000001 to 100000000	7	127,539,572	8.34
100000001 to 1530000000	1	306,000,000	20.00
Total:	**146,369**	**1,530,000,000**	**100.00**

Notice of the Annual General Meeting (AGM) 2008

Notice is hereby given that the thirty seventh 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 5 December 2008 at 11.00 am to transact the following ordinary business.

1. To confirm the minutes of the thirty sixth Annual General Meeting held on 7 December 2007.
2. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 30 June 2008 together with the Director's and Auditor's reports thereon.
3. To approve payment of a final dividend of Shs .40 per share for the financial year ended 30 June 2008, to shareholders on the register of members as at close of business on 31 October 2008.
4. To elect Directors:
   In accordance with Article 113 of the Company Articles of Association, Mr. John Bosse, Mr. Amos Wako, Mr. Joseph Kinyua and Dr Caleb Wangia are due for retirement by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting that is today.
5. To approve the remuneration of the Directors for the year ended 30 June 2008 as provided in the Financial Statements.
6. To note that the Auditors, Messrs Deloitte & Touche, being eligible, continue in office in accordance with Section 159 (2) of the Companies Act (cap 486) and to authorize the Directors to fix their remuneration.
7. Any other business of an Annual General Meeting for which appropriate notice will have been given.

By order of the Board

Meshack Guto
Secretary
Dated: 28 August 2008

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 67 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 00200 G.P.O., NAIROBI or lodged at the Company's registered office at Mumias not later than 11.00 am on Wednesday 3rd December, 2008 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 67 for use by shareholders on the AGM day.

Notisi ya Mkutano Mkuu wa Pamoja wa Mwaka (AGM) Mwaka 2008

NOTISI inatolewa hapa kwamba mkutano mkuu wa pamoja wa mwaka wa 37 (AGM) wa wanahisa wa kampuni ya Sukari ya Mumias utafanyika katika chuo cha Tom Mboya Labour College kilichoko barabara ya Ring Road eneo la Milimani mjini Kisumu siku ya Ijumaa Desemba 5, 2008 kuanzia saa tano asubuhi ili kuangazia maswala yafuatayo-:

1) Kuthibitisha kumbukumbu za mkutano wa 36 za mwaka uliofanyika Desemba 7, 2007
2) Kupokea, kuangazia na endapo itaonekana kuwa sawa, kupitisha ripoti na taarifa kuhusu matumizi ya pesa kwa kipindi cha mwaka kilichomalizika Juni 30, 2008 pamoja na ripoti ya Mkurugenzi na wakaguzi wa hesabu
3) Kupitisha malipo ya mwisho kwa mgawo wa faida ya senti 0.40 kwa kila hisa kwa kipindi cha mwaka wa matumizi ya pesa kilichomalizikia Juni 30, 2008 kwa wanahisa ambao majina yao yamo kwenye rejista ya wanahisa kufikia Oktoba 31, 2008.
4) Kuwachagua wakurugenzi
   Kwa mujibu wa kifungu nambari 113 cha sheria za kampuni, Mabw. John Bosse, Amos Wako, Joseph Kinyua na Caleb Wangia wamefikisha muda wa kustaafu kwa zamu na kwa kuwa wanastahili, wamejitokeza kuchaguliwa tena wakati wa mkutano mkuu wa pamoja wa mwaka unaotarajiwa kufanyika hivi leo
5) Kupitisha malipo ya wakurugenzi kwa kipindi cha mwaka uliomalizika Juni 30, 2008 kama ilivyoelezwa kupitia taarifa ya matumizi ya pesa
6) Kufahamu kwamba, kwa kuwa wanastahili, wakaguzi wa pesa Deloitte & Touche wataendelea mbele na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za kampuni (cap 486) na kuwapa uhuru kuamua malipo yao.
7) Maswala mengine ya mkutano mkuu wa pamoja wa mwaka ambayo yatahitaji notisi maalumu kutolewa.

Kwa Amri ya Halmashauri

Meshack Guto
Katibu,
Imenukuliwa Agosti 28, 2008.

Muhimu

1. Mwanachama yeyote kupitia notisi aliyotia sahihi na kuiwasilisha kwa katibu chini ya muda wa siku tatu na zisizidi 21 kabia ya siku ya mkutano mkuu wa pamoja wa mwaka anaweza kumpendekeza mtu mwengine kuchaguliwa katika Halmashauri ilmradi notisi hiyo iandamane na nyingine iliyowekwa sahihi na mtu anayempendekeza kuchaguliwa..
2. Mwanachama anayefaa kuhudhuria na kufanya uchaguzi wakati wa mkutano lakini akawa hawezi anaruhusa ya kumteua wakala kumwakilisha na kupiga kura kwa niaba yake. Si lazima kwa wakala kama huyo kuwa mwanachama wa kampuni. Kuweza kufanya hivyo, fomu ya wakala ambayo iko ukurasa 68 wa ripoti hii lazima iwe imejazwa vizuri na mwanachama na kuwasilishwa katika ofisi za msajili wa hisa, Image Registras na Public Secretaries, Orofa ya nane jumba la Trans Nations Plaza barabara ya Mama Ngina Sip 9287, Code 00100 GPO NAIROBI au kupelekwa katika ofisi za kampuni zilizosajiliwa mjini Mumias kabia ya saa tano Jumatano Desemba 3, 2008 na ikichelewa haitakuwa na maana, Endapo ni shirika, fomu ya wakala lazima iwe imepigwa mhuri. Mwanahisa Barua ya kumsajili mwanahisa iko ukurasa wa 68 wa ripoti hii ili kutumika siku ya mkutano wa pamoja wa mwaka,

Board of Directors

MR JOHN BOSSE (61)
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 KEDERO (51)
Dr. Kidero is a Pharmacy graduate from the University of Nairobi and holds an MBA from United States International University. He has over 24 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.

DR CALEB WANGIA (62)
Dr. 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. He has wide experience in agricultural input supply with Hoechst, Ciba Geigy and 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.

MS GRACE NGALA (58)
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 KUNGU GATABAKI (63)
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 Bank, Grain Bulk Handlers Ltd and Shelter Afrique among several other company Boards.

MR ALINOOR HASSAN (44)
Mr. Hassan is a holder of a Bachelor of Economics and Sociology degree from Egerton University and Masters of Science degree in Industrial Environmental Management from Wageningen University in Netherlands. He has held various management positions at Egerton University. He is currently Managing Partner of Eco International.

MR EDWIN OSUNDWA (61)
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.

HON AMOS WAKO (62)
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.

MRS ESTHER KOIMETT (51)
Mrs. Koimett is a holder of an MBA and Bachelor of Commerce degrees 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 MESHACK GUTO (51)
Mr. Guto has an LLB degree from the University of Nairobi and is an advocate of the High Court of Kenya. He is also a Certified Public Secretary – CPS (K). Prior to joining MSC, he worked as Assistant Secretary, Ministry of Foreign Affairs and as Legal Officer at Kenya Industrial Estates. He served as the Chief Legal Officer at Mumias Sugar Company for 20 years prior to his retirement in June 2005. He is currently in private legal practice and the Company Secretary of MSC.

MR JOSEPH KINYUA (57)
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 FRANCIS KIPKOECH ARAP KIGEN (62)
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 Malaysia, 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 Training Manager, British American Insurance Company and as Director of Kenya Institute of Personnel Management.

MR MAURICE JUMA (60)
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 APOLLO MBOYA (39)
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 as a Legal Specialist at UNDP and a Senior State Counsel at the Attorney General's chambers. He is currently deputy Chief Executive Officer at the Law Society of Kenya.

MR JAMES CHEGE (54)
Mr. Chege is an Accountant by profession with a Bachelor of Commerce degree from the 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.

John V.Boss
Chairman

It delights me to present to you the results of yet another year in the history of the company. The performance for the year, though not meeting projected targets, was impressive in an environment with growing challenges.

Highlights

The company has continued on the path of improvement and broadened strategic investments aimed at enhancing its profitability and survival beyond the current challenges. The Board continues to formulate policies and guidelines that will make the company competitive. During the year under review, we reviewed the Strategic Plan that culminated in the detailed 2008 – 2012 Strategic Plan. This Plan will guide the strategy of the company to greater achievements in the short and long term future. During the year we also embarked on the co-generation project. As stated elsewhere, the benefits of the project to the company and the general economy cannot be understated.

Operating Environment

Whereas the economic growth, at about 7% in the first half of the year was impressive despite the challenges of an election year, the growth was quickly dampened by the ensuing post election crisis that saw the inflation rate skyrocketing. As reported elsewhere, the company was hit with high costs of production resulting from logistical shifts, high fuel prices and high inflation rates.

Sugar Industry outlook

The world sugar prices have been on the rise and are in the range of $380-$420 per tonne. With the higher oil prices, there is a likelihood of this being sustained as production shifts from sugar to ethanol.

The COMESA safeguard measures were extended to 2012. However, this has allowed for a progressive increase in import duty free quota and decrease in the customs duty. These will be eventually removed by 2012 making the market very competitive. Although the Sugar (Imports, Exports and By-product) Regulations 2008 (LN 114 of 2008) have been gazetted to try and regulate the importation of sugar, competition from imports will continue to be a challenge. The company continues to improve on branding by increasing the volume of pre-packed sugar and expanding on the product range offering. Sugar fortification by adding nutrients for improved health is being explored.

Local competition is stiff which has depressed margins. Imported sugar needs to be properly controlled to ensure that there are no unfair trade practices. If this is achieved, then prices are expected to remain stable. However, the high operational costs such as sugar cane, transport, spare parts and packaging are likely to lead to depressed margins. Cost reduction initiatives will be implemented to sustain profitability.

Overall Business Performance

The overall performance in 2007/8 was good. Whereas we did not achieve our targeted profitability, all other major performance indicators reflect a healthy business that is confident of facing the challenges of the future.

The company processed 2,408,141 tonnes (2007 - 2,118,563 tonnes) of cane, which is 14% higher than last year. This was as a result of improved cane husbandry which improved the yields and quality of cane for crushing.

Sugar produced is 265,263 tonnes (2007 - 217,200) tonnes, which is 22% above that produced last year. The improved cane quality and higher factory availability and efficiency following factory expansion and modernisation are bearing fruit. Production would have been higher had it not been for the disruption following the post-election crisis and some teething problems in start up following the completion of the second phase of the factory expansion project. A strike by employees of contracted cane transporters in March 2008 led to a loss of 10 days production.

Gross turnover is KShs 14,305,457,000 (2007-Shs 12,864,962,000) which is 11% above that achieved last year. The domestic selling prices were however much lower than last year's for most of the year. This has been due to the high influx of cheap imported sugar and unfair trade practices with undeclared sugar finding its way into the market. The dumping of transit sugar destined to neighbouring countries into the local Kenyan market has further depressed prices. Export markets in the region are being explored for greater market penetration. There were over 25,000 tonnes of sugar exported this year of which 2,000 tonnes were to the European Union.

Results and Dividends

The financial results for the year ended 30 June 2008 are commendable given the extremely difficult operating and trading conditions experienced during the year. The post-election crisis resulted in two weeks of lost production (equivalent to about 14,000 tonnes of sugar). There was also severe limitation in transporting raw materials from the farms to the factory, obtaining inputs for sugar manufacture and in transporting sugar

throughout the country. This was further exacerbated by the high rate of inflation especially fuel and oil prices leading to very high production and transport costs. The displacement of people led to depressed demand for sugar.

The company made a profit before tax of Kshs 1,589 million for the year which is 17% below that achieved last year.

Profit after tax of Kshs 1,213,837,000 (2007- Kshs 1,393,611,000) is a decrease of 12.9% from last year. Earnings per share is Kshs 0.79 (2007- Kshs 0.91) which is Kshs 0.12 per share lower than last year representing a 13.2% decrease.

Based on these results, the Board propose a first and final dividend of 20% per ordinary share of Kshs 2 each which is Kshs 0.40 per share. The register of members closes at 4:30 pm on 31 October 2008 up to 7 November 2008. Final dividend will be paid to shareholders on the register as at the close of business on 31 October 2008.

Contribution to the Exchequer

The company's contribution to the exchequer in taxes from Value Added Tax, Sugar Development Levy, Corporation Tax and other taxes was over Kshs 3.2 billion in the year.

A science class at Booker Secondary

Securing the future

The Directors are cognisant of the challenges facing the sugar industry and will continue to implement strategies to sustain the profitability of the company. Amidst these challenges there are opportunities that the Board will build on. The Board has approved several significant initiatives that will see the company diversify its product range to ensure survival. These initiatives include the following:

(a) Electricity Generation

The company is in the final stages of increasing the power generated from the current 12 MW to 38 MW. This will increase the current export of power from 3 Mw to 26 MW while the balance of 12MW will be used to run the factory. The project which will cost about USD 54 million is expected to be completed by 31 December 2008. The company obtained a loan of USD 35 million from PROPARCO, a leading international development finance institution for the co-generation project.

In order to ensure a reliable supply of the power to be generated, the company entered into a 10 year Power Purchase Agreement (PPA) with Kenya Power and Lighting Company (KPLC) for the power project.

KPLC has committed itself to purchase 26MW. Diversification into electricity generation will result in increased revenue streams for the company and reduction of the current country electricity deficit of 100MW p.a. Our project is registered as CDM project for carbon credits under the United Nations Framework for Climatic Change (UNFCC).

(b) Greenfield Operations

The company in collaboration with Tana and Athi River

CoGeneration power house building under construction

Development Authority (TARDA), completed a feasibility study for an integrated sugar project in the Tana River Delta. The study indicated that it was viable and would be a major step towards sugar self –sufficiency in Kenya, it would create employment, develop infrastructure, reduce poverty and improve the social and economic well-being of the community. The project has been approved by the National Environmental Management Authority (NEMA). The company will progress the project once all the legal, financial, regulatory and operational issues have been satisfactorily concluded.

(c) Ethanol Production

The major increase in the use of bio-fuels globally to replace fossil fuels as part of the reduction in environmental pollution and initiatives to stem the global warming has been further strengthened by the very high oil prices. This has made ethanol a more profitable product.

Ethanol will be produced from the molasses currently produced by the company as a by-product. The company has the capacity to produce up to 40 million litres of ethanol annually. The company is currently undertaking a feasibility study on the viability of setting up an Ethanol Plant in Mumias.

In order to complete these plans, the company will continually work and collaborate with the government and other relevant bodies in taking advantage of group synergies and look beyond economic borders as traditional boundaries continue to collapse as a result of the global economic order.

Governance and Board Performance

There were no changes in the composition of the Board during the year. The details of the directors are set out on page 4. The Director's direct and indirect interest in the ordinary share capital of the company as at 30th June 2008 is shown on page 5.

The Board discharged its duties diligently through the various Board Committees as specified on page 4. The Board is in the process of reviewing the Board Charter and identifying areas of improving its performance.

The Directors are satisfied that the company has to the best of their knowledge, complied with all applicable laws and conducted its business affairs in accordance with the law.

Appreciation

On behalf of the Board, I would like to thank the management and staff, shareholders, all our customers, business partners and Board members for their support and contribution to the Company during the past year. We will continue to rely on your support to achieve our objectives in 2008/9.

John V. Bosse
Chairman

John V.Boss
Mwenyekiti

Ni furaha yangu kuwatangazia matokeo ya fedha ya mwaka mwingine katika historia ya kampuni. Matokeo ya mwaka ambayo ingawa hayakufikia shabaha iliyolengwa, yalikuwa ni ya kuridhisha chini ya mazingira yanayokumbwa na ushindani.

Vidokezo

Kampuni inazidi kuendeleza mkondo wa kuimarisha na kupanua mkakati wa uwekezaji ambao dhamira yake ni kuimarisha faida zake na kukabiliana na changamoto zilizoko sasa. Halmashauri inazidi kubuni sera na miongozo ambayo itaifanya kuwa na ushindani. Katika muda wa kipindi cha mwaka unaongaziwa, tulifanyia mabadiliko mpango wa mkakati ambao umejadiliwa kwa kina kupitia mkakati wa mwaka 2008-2012. Mpango huu utatoa mwongozo kwa mkakati wa kampuni ili kupata matokeo ya juu ya muda mfupi na mrefu. Wakati wa kipindi hiki cha mwaka, tulirejelea mradi wa uzalishaji pamoja wa kawi. Na kama ilivyoelezewa kwingine, manufaa ya mradi huu kwa kampuni na uchumi kwa jumla hayawezi kupuuzwa.

Mazingira ya kikazi

Huku kiwango cha ukuaji uchumi cha asilimia 7 (7%) kipindi cha kwanza cha mwaka kikiwa ni cha kuridhisha bila kujali changamoto zilizotokana na mwaka wa uchaguzi, ukuaji huu uliathirika mara moja kutokana na ghasia za baada ya uchaguzi ambazo zilisababisha kuwepo kwa mfumuko mkubwa wa bei za bidhaa. Kama ilivyoripotiwa kwingine, kampuni iliathirika kutokana na kupanda kwa gharama za uzalishaji ambazo zilitokana na mabadiliko ya utaratibu, bei za juu za mafuta na mfumuko mkubwa wa bei.

Mtazamo wa sekta ya sukari

Bei ya bidhaa ya sukari ulimwenguni imekuwa ikipanda na kufikia kiwango cha $ 380- $ 420 kwa tani. Kutokana na ongezeko la bei ya mafuta, kuna uwezekano kwa bei hii kuthibitiwa huku uzalishaji ukibadilika kutoka sukari hadi mafuta yanayotokana na mabaki ya mimea (ethanol).

Masharti ya ulinzi ya soko la COMESA yameongezwa hadi mwaka 2012. Hata hivyo, hali hii imepelekea kuongezeka kwa kiwango kisichotozwa ushuru bidhaa zilizoagizwa kutoka nje na kupunguka kwa ushuru wa forodha. Hili litaondolewa mwaka 2012 na kulifanya soko kuwa na ushindani mkubwa. Hata ingawa (uagizaji, uuzaji na bidhaa zinazotokana na mabaki ya miwa) masharti ya mwaka 2008 (LN114 ya mwaka 2008) yamesajiliwa kujaribu kuthibiti uagizaji wa sukari, ushindani kutokana na bidhaa zilizoingizwa utazidi kuwa changamoto. Kampuni itazidi kuimarisha jina la bidhaa zake kwa kuongeza kiwango cha sukari iliyopakiwa na kupanua aina mbali mbali za bidhaa. Uboreshaji wa sukari kwa kuongeza viungo ili kuimarisha Afya unazidi kufanyiwa utafiti.

Ushindani wa humu nchini ni mkali na umepunguza tofauti iliyopo baina ya bidhaa. Sukari inayoagizwa kutoka nje inahitaji kuthibitiwa vyema ili kuhakikisha kwamba kuna usawa kibiashara. Endapo hili litaafikiwa, basi bei za sukari zinatarajiwa kuwa imara. Hata hivyo, gharama za juu za utekelezaji kama vile miwa, uchukuzi, vipuri na upakiaji, zitachangia pakubwa kupunguza tofauti iliyopo baina ya bidhaa. Mikakati ya kupunguza gharama itazinduliwa Ili kuthibiti faida.

Matokeo ya biashara kwa jumla

Matokeo ya biashara kwa jumla mwaka 2007/08 yalikuwa mazuri. Hata ingawa hatukufikia faida iliyolengwa, maeneo mengine ya matokeo yanaashiria biashara imara ambayo inaweza kukabiliana na changamoto za siku za usoni.

Kampuni ilisaga tani 2, 408, 141 (2007- 2, 118, 563) za miwa, kiwango ambacho ni asilimia 14 (14%) zaidi ikilinganishwa na mwaka jana. Matokeo haya yalitokana na mbinu bora za kilimo cha miwa ambazo ziliimarisha mazao na ubora wa miwa.

Sukari iliyosagwa ilikuwa tani 265, 263 (2007 - 217, 200) kiwango ambacho ni asilimia 22 (22%) zaidi ikilinganishwa na mwaka jana. Kiwango cha ubora wa miwa kilichoimarika, usafiri wa haraka kiwandani na utendaji mzuri wa kazi kutokana na kupanuliwa kwake na kuwa katika muundo wa kisasa kunazaa matunda. Uzalishaji huu ungekuwa wa juu endapo haungetatizwa na ghasia za baada ya uchaguzi na matatizo mengine wakati wa mwanzo wa shughuli baada ya kukamilishwa kwa awamu ya pili ya zoezi la upanuzi wa kiwanda. Mgomo uliotekelezwa na wafanyakaz walioajiriwa kama wanakandarasi katika huduma ya usafirishaji wa miwa mwezi Machi 2008

A rear view of the factory from the nucleus estate

ulisababisha kutokea kwa hasara ya siku 10 za uzalishaji.

Mapato kwa jumla ni shilingi 14, 305, 457,000 (2007 – shilingi 12, 864, 962,000) kiwango ambacho ni cha juu kwa asilimia 11 (11%) ikilinganishwa na mapato ya mwaka jana. Hata hivyo, bei ya mauzo katika soko la humu nchini ilikuwa ni ya chini kwa kipindi kirefu ikilinganishwa na mwaka jana. Hii ilitokana na kuwepo kwa sukari ya bei duni kutoka nje na taratibu zisizofaa za kibiashara huku sukari isiyofahamika ikipenya na kuingia masoko ya humu nchini. Kuingizwa kwa sukari iliyonuiwa kusafirishwa mataifa mengine humu nchini kumeathiri zaidi bei. Masoko ya uuzaji sukari katika kanda yanazidi kufanyiwa utafiti Ili kupanuliwa kimaeneo. Kulikuwa na zaidi ya tani 25,000 za sukari iliyouzwa nje mwaka huu ambapo tani 2,000 ziliuzwa soko la Ulaya.

Matokeo na mgawo wa faida

Matokeo ya hesabu kipindi cha mwaka uliomalizikia Juni 30, 2008 ni ya kuridhisha ikizingatiwa hali ngumu za utekelezaji shughuli za biashara zilizoshuhudiwa kipindi hiki cha mwaka. Ghasia za baada ya uchaguzi zilipelekea kuwepo kwa wiki mbili za hasara ya uzalishaji (sawa na hasara ya tani 14,000 za sukari). Pia, kulikuwa na vikwazo vya usafirishaji wa miwa kutoka mashambani hadi kiwandani, kupata pembejeo kwa utengenezaji wa sukari na usafirishaji kote nchini. Tatizo hili lilichochewa zaidi na mfumuko wa bei za bidhaa hasa mafuta na kupelekea kupanda kwa gharama za uzalishaji na uchukuzi. Ufurushaji watu kutoka maeneo yao kulipelekea kushuka kwa mahitaji ya sukari.

Kampuni ilipata faida ya kshs. 1, 589 milioni kabla ya ushuru mwaka huu kiasi ambacho kilikuwa ni cha chini kwa asilimia 17% ikilinganishwa na mwaka jana.

Faida baada ya ushuru ya Kshs. 1, 213, 837,000 (2007 Kshs. 1, 393, 611,000) ni ya chini kwa asilimia 12.9 (12.9%) ikilinganishwa na mwaka jana.

Mapato kwa kila hisa ni shilingi 0.79 (2007- kshs. 0.91) kiasi ambacho kimeshuka kwa Kshs. 0.12 kwa kila hisa ikilinganishwa na mwaka jana na kuwakilisha punguko la asilimia 13.2 (13.2%).

Kufungamana na matokeo haya, Halmashauri inapendekeza mgawo wa kwanza na wa mwisho wa faida wa asilimia 20 (20%) kwa kila hisa za kawaida za shilingi 2 malipo ambayo ni Kshs. 0.40 kwa kila hisa. Msajili wa wanachama atafunga shughuli mnamo Oktoba 31, 2008 saa kumi unusu jioni hadi Novemba 7 2008. Mgawo wa mwisho wa faida utatolewa kwa wanahisa ambao majina yao yamo kwenye rejista kufikia Oktoba 31, 2008.

Mchango Kwa hazina ya serikali

Mchango wa kampuni katika mfuko wa hazina ya serikali kutokana na ushuru wa ziada , ushuru wa maendeleo ya sukari, ushuru wa mashirika na kadhalika ulikuwa zaidi ya Bilioni 3.2 mwaka unaoangaziwa.

Kujiandaa kwa changamoto za baadaye

Wakurugenzi wanafahamu changamoto zinazokabili sekta ya sukari na watazidi Kubuni mikakati kuimarisha faida za kampuni. Kutokana na changamoto hizi, kuna nafasi ambazo Halmashauri itategemea. Halmashauri imeidhinisha mikakati kadhaa ambayo itashuhudia kampuni ikiongeza aina mbali mbali za bidhaa Ili kuzidi kuwepo. Mikakati hii inahusu yafuatayo:-

a) Uzalishaji wa kawi.

Kampuni imo hatua za mwisho kuongeza uzalishaji wa kawi kutoka kiwango cha sasa cha Mewagati 12 hadi megawati 38. Hii itaongeza uuzaji wa sasa wa kawi kutoka megawati 3 hadi 26 huku kiwango kilichosalia cha megawati 12 kikitumiwa na kiwanda. Mradi huu utakaogharimu karibu $ 54 milioni za marekani unatarajiwa kukamilika Desemba 31, 2008. Kampuni ilipokea mkopo wa $ 35 milioni kutoka PROPARCO, taasisi ya kifedha ya kimataifa inayoongoza kwa ufadhili miradi ya pamoja ya uzalishaji kawi. Ili kuhakikisha kuzalishwa kwa kawi inayotegemewa, Kampuni ilitia sahihi mkataba wa miaka 10 wa ununuzi wa kawi (PPA) na kampuni ya usambazaji umeme ya KPLC. KPLC imejitolea kununua megawati 26. Upanuzi wa biashara kwa kuzalisha kawi utapelekea ongezeko la njia za mapato kwa kampuni na kupunguza pengo la sasa la nchi la Megawati 100 kila mwaka. Mradi wetu umesajiliwa Kama CDM kwa kutochafua hewa chini ya mpango wa umoja wa mataifa wa kuhusu mabadiliko ya hali ya hewa (United Nations Framework for climate change (UNFCC).

Seed cane being transported to a farm

b) Shughuli za mashamba ya miwa

Kupitia mashauriano na Halmashauri ya maendeleo ya Athi River Development Authority (TARDA), kampuni imekamilisha utafiti wa mradi wa pamoja wa sukari eneo la Tana River Delta. Utafiti huu ulionyesha kwamba, mradi huu unawezekena na utapiga hatua kubwa kuliwezesha taifa la Kenya kujitegemea kwa sukari, kuzalisha nafasi zaidi za kazi, kuinua muundo msingi, kupunguza umaskini na kuimarisha hali ya kijamii na kiuchumi. Mradi huu umepata idhini kutoka Halmashauri inayosimamia mazingira nchini Kenya- NEMA. Kampuni itaendelea na mradi huu punde tu baada ya kutimiza kanuni za kisheria, kifedha, masharti na maswala ya usimamizi.

c) Uzalishaji wa mafuta yanayotokana na mabaki ya miwa- ethanol

Ongezeko la juu la matumizi ya bidhaa zinazotokana na mabaki ya bidhaa kuchukua mahali pa mafuta yanayotokana na mabaki ya viumbe kama njia moja ya kupunguza uharibifu wa mazingira na mikakati ya kuzuia mabadiliko ya hali ya hewa ulimwenguni kumechangiwa pakubwa na ongezeko la bei za juu za mafuta. Hali hii imefanya mafuta yanayotokana na mabaki ya mimea (ethanol) kuwa bidhaa yenye faida kubwa.

Supervision of application of fertilizers in a farmer's plot

Ethanol itatengenezwa kutokana na molasi ambayo kwa sasa inazalishwa na kampuni kama bidhaa ya mwisho. Kampuni ina uwezo kuzalisha hadi lita milioni 40 za ethanol kila mwaka. Kwa sasa, kampuni inafanya utafiti wa kina kuzindua kiwanda cha ethanol mjini Mumias.

Ili kukamilisha mipango hii, kampuni itaendelea kufanya kazi na kushirikiana na serikali na taasisi nyingine na kuvumbua njia nyingine za masoko kwani yale ya sasa yanazidi kuzorota kutokana na masharti ya kiuchumi duniani.

Usimamizi na matokeo ya Halmashauri

Hakukuwa na mabadiliko kuhusu usimamizi wa Halmashauri kipindi hiki cha mwaka. Maelezo ya kina kuhusu wakurugenzi yamefafanuliwa kupitia ukurasa 4. Umiliki wa moja kwa moja au usio wa moja kwa moja wa umiliki wa hisa za kawaida kwa wakurugenzi wa kampuni kufikia Juni 30, 2008 imeonyeshwa kupitia ukurasa 5.

Halmashauri ilitekeleza wajibu wake ipasavyo kupitia kamati mbali mbali za bodi kama ilivyoonyeshwa kupitia ukurasa 4 Bodi imo katika hatua za kuchunguza upya mkataba wa utendaji kazi na kutambua maeneo yanayohitaji kuimarishwa.

Wakurugenzi wameridhika kwamba, kampuni, kwa ufahamu wao na uwezo wake kampuni imetimiza kanuni zote za kisheria na inatekeleza majukumu yake kwa mujibu wa sheria.

Shukrani

Kwa niaba ya Halmashauri, ningependa kutoa shukrani zangu kwa wasimamizi na wafanyakazi, wanahisa, wateja wetu wote, washirika kibiashara na wanachama wa bodi kutokana na uungaji wao mkono na msaada kwa kampuni kipindi cha mwaka uliopita. Tutazidi kutegemea msaada wenu Ili kutimiza lengo letu mwaka 2008/9.

John V.Boss
Mwenyekiti.

Management

DR EVANS KEDERO (51)
Managing Director /
Chief Executive Officer

Mr. Peter Kebati
Head of Finance /
Chief Finance Officer

David Shipley
Head of Agriculture

Mr. Edwin Muruka
Head of Human Resources

Mr. Wesley Koech
Head of Information Technology

Mr. Paul Morgor
Head of Sales

Mr. James Luchacha
Head of Factory Operations

Mr. Evans Kaiga
Chief Internal Auditor

Managing Director's Statement

Dr. Evans Kidero
Managing Director

Economy

After registering 7% growth in 2007, the national economy shrunk by 1.3% in 2008. Manufacturing declined by 0.9% reflecting constraints in supply during this period.

High oil prices and less than optimal rains is expected to stifle productivity, consumer spending and GDP growth for 2008 is expected to be between 3.0% and 4.5%.

Sugar market

World Sugar Market appears to be recovering after it had fallen to an all time low of $280/mt. There are prospects of a more balanced outlook for production and consumption based on underlying demand and diversion of cane to ethanol production. The March 2009 and October 2009 sugar futures prices now stand at $ 389/mt and $ 400/mt respectively.

The domestic sugar production increased by 6%. The sugar prices however dropped by 10% mainly due to flooding of the local market by diversion of transit sugar, under declaration of quantity and value of imported sugar, and illegal imports through Kismayu, Liboi and the Old Port of Mombasa.

The Minister for Agriculture banned both importation and exportation of sugar in contravention of regional and international trade protocols.

Taxation

Tax is currently charged on locally manufactured sugar after adding profit (ex factory price) while tax on imported sugar is charged on cost Insurance and local manufacturers can therefore not claim 100% VAT when it is sold as the cost includes 70% non taxable inputs like sugarcane, labour, diesel etc while importers claim 100% VAT. The unclaimed VAT increases cost of locally produced sugar. VAT is also charged on SDL hence a Tax on Tax scenario. A review of exemption of the agricultural sector from taxes such as fuel levy would cut a sizeable proportion of the cost of production and transportation of sugarcane.

Biofuel Legislation

Kenya has huge potential for Ethanol from sugarcane but lacks the institutional and regulatory framework as well as tax incentives to facilitate development of the Industry. Kenya's requirement for Ethanol for blending with petrol is 60.0 Million litres out which Mumias can produce 27.0 million litres from molasses.

Energy policy needs to be reviewed to accommodate this policy and management will be working with Government to achieve this.

COMESA Safeguards

Kenya is a signatory to the East African Community Customs Union, COMESA, Cotonou Partnership Agreement (ACP-EU) arrangement and the WTO Agreements. In order to implement a programme to enable locally made sugar attain price competitiveness, Kenya applied for and was granted a four-year safeguard period starting March 2004 to end in February 2008 under the COMESA Trade Agreement. In 2007 despite the fact that the industry had made remarkable progress, it was still not ready to open its market to sugar from the region and hence saw the need to apply for the safeguard to be extended by a further four years.

COMESA council of ministers acceded to the request and agreed to extend the safeguard measures on condition that the country undertake a raft of radical measures which include:

i) Total elimination of state control of the industry through a speedy privatization programme of state owned sugar mills to be concluded in the next two years.

ii) The implementation of the Sucrose Based pricing and payment System as the basis for compensating sugar cane growers in Kenya. This new measure will introduce a fundamental shift in pricing of sugar cane using recoverable sucrose content as basis rather than weight.

iii) Steady rise in the sugar import quota in tandem with a graduated fall in the duty charged. The quota under the safeguard will be enlarged in each successive year of application, and the tariff applied on import quantities above the quotas reduced in each successive year of application of the safeguard as follows;

Year	Size of quota in metric tonnes	Tariff rate on above import-quota in %
2008/09	220,000	100
2009/10	260,000	70
2010/11	300,000	40
2011/12	340,000	10
1st March 2012	No quota	0

Sales Performance

265,263 MT of sugar was produced while 256,000 MT was sold. Gross Revenue achieved of KShs 14,305 million was 11% ahead of the previous year's of KShs 12,865 million.

Despite the increase in production volume and sales, the margins were adversely affected by lower market price, higher cane price and increased cost of operation arising from high oil prices and post-election skirmishes.

In order for the company to maintain its brand equity, the company is working on various initiatives including improvement of product quality, packaging quality and product development activities to maintain its competitive edge. Formal Launch and repositioning of the brown sugar range in the market will be done. A project on sugar fortification has been started and is being supported by Ministry of Health and UNICEF.

MSC has continued to be the market leader in distribution. The company will continuously evaluate distributor performance and rationalise the distribution network to enhance its operations and effectiveness. Implementation of specific territory management strategies will ensure that Mumias Sugar is available in the entire trade channels. The environment is highly dynamic and continuously presents opportunities and challenges. To ensure sustainability and success, we will endeavour to develop capability to manage threats and exploit emerging opportunities.

Our brand has continued to perform very well in the Export market. The total export sales of 29,344 MT was an increase of 227.5% compared to previous year sales of 8,960 MT. The Company will continue assessing the regional market aimed at gaining more opportunities and increased market share. Over the past financial year, MSC sold good quantities of sugar in Uganda, Rwanda, Democratic Republic of Congo, Southern Sudan, Ethiopia and European Union. The company will continue to offer leadership in the regional sugar industry by establishing strong strategic partnerships with other regional players.

Agricultural Operations

A total of 207,038 tons cane was delivered from the Nucleus Estate and 2,200,164 tons were delivered from the Outgrowers. Of this, 67,977 tons of cane came from the Nzoia Sugar zone. 2,773 hectares were harvested on the Nucleus estate and 28,407 hectares were harvested on the Outgrowers fields. Yields were 74.7 tons cane per hectare for the Nucleus Estate and 72.1 tons cane per hectare for the Outgrowers. The mean Pol % Cane was 13.06 and the mean cane age at harvesting was 18.2 months. Farmer numbers were 81,789.

Three hundred and seventy hectares of "A" and "B" nurseries have been established on the Nucleus Estate. The quality seed material thus produced can now be used for bulking up of more quality seed cane on the Outgrower farms. Among these, a number of new KEN and EAK varieties have been planted.

The fertilizer supplies to the Outgrowers continue to be implemented by the Block application system, ensuring that fertilizer gets applied to the sugar cane and forestall diversion. Agronomy is mapping fertilizer requirements across the zones through chemical analysis so that application of fertilizer is specific to soil requirements.

Windrow harvesting of cane on the Nucleus Estate is being implemented as one way of encouraging higher productivity among the cane cutters.

Factory Operations

In the year, we made 265,263 tons of sugar against a budget of 280,000. This was up from the 217,200 tons the previous year. Taking into account a lot of disturbances in the year, this was a good performance.

In the first half of the year, factory operations were excellent. Daily runs on average were above projection, good time efficiencies were achieved as did overall recoveries. Rendement month on month generally stayed above budget.

Branded sugar warehouse operations

Cane feeding at the factory

During the period, we suffered one wild cat strike by transporters' drivers in October, slowed down factory operations to suit cane deliveries following a slow down in cane cutting operations in November, and had extended holidays in the month of December because of elections that affected our performance.

In the second half, we did achieve mixed results. The first month was affected by post election violence which resulted into lack of cane during the period and processing of rotten cane thereafter. In the second month we had exemplary production and made many new all time records. Conditions of material quality and freshness, factory time efficiency and utilization were all met.

A week was lost in the month of March following cane transport contractors' drivers downing their tools.

34MW Cogeneration Power Project

The new Cogeneration Power Plant will have one high efficiency high pressure boiler rated at 170 tons of steam per hour, at a pressure of 87Bar, and a temperature of 515°C. It will also have a 34.2MW Turbo Generator.

When commissioned, the plant is expected to work in tandem with one existing 110 ton steam per hour, 21bar, 380°C boiler, and a 7MW Turbine Generator that will be limited to a power output of 4MW. Some of the existing low efficiency boilers and turbine generators will then be retired or kept on standby initially.

Project Milestones

Power Purchase Agreement (PPA)

On the 15th May 2008, we successfully signed a firm Power Purchase Agreement with KPLC. This was to guarantee a market for our electricity. The PPA provides for a wholesome value of 6 US Cents per KWh of energy injected into KPLC grid, as long as the plant availability is above 85%.

Project Implementation Agreement (PIA)

On the 26th May 2008, we successfully signed a Project Implementation Agreement (PIA) with KPLC. Within the provisions of the PIA, we will on an agency arrangement procure, construct and commission a 132kV, 30kM Transmission Line and Associated substations.

Electricity Generation Licence

On 26th April 2008, the Energy Regulating Commission (ERC) granted us a 38MW Generation Licence. Thus, we shall generate 34MW from the new plant and 4MW from the old plant.

Project Financing

The project is being financed on 30% Equity and 70% Debt with a loan from PROPARCO, a French financial institution. The loan agreement was signed between MSC and PROPPARCO. In addition, KPLC, MSC and PROPARCO signed a tripartite agreement (Direct Agreement) which is aimed at strengthening the loan repayment guarantee. This was a requirement by PROPARCO.

Information and Communications Technology

With the recent completion of major business application and infrastructure projects, the quest to realise business benefits from the implementations was sustained and is expected to continue well beyond the 2007-2008 financial year.

User-empowerment and business process reviews were continued in order to ensure maximisation of business technology benefits. In order to enhance our internal and external communications, a corporate messaging solution was implemented and work is progressing for the re-development of a website and an intranet. The key business systems did not undergo major changes hence the main activities were support and maintenance. Significant resources were invested in

A doctor attending to a patient at an MSC sponsored eye camp

infrastructure initiatives that included network extension, personal computers, servers, printers, power systems, and security enhancements. One of the major infrastructural achievements was the implementation of the Wide Area Network (WAN) linking Mumias head office to remote offices in Nairobi and Mombasa. We adopted and began modular implementation of the IT Infrastructure Library (ITIL) framework in order to enhance ICT operations.

Human resources

During the period under review, the company has maintained a strong human resource base with a skilled and competent workforce. The company has continued to undertake measures geared towards creating a harmonious working environment, enhanced industrial relations and staff welfare practices among others.

Staff Establishment

The company establishment as at 30th June 2008 stood at 1606 permanent employees and 129 contract employees compared to 1850 permanent and 146 contract employees as at 30th June 2007.

Industrial Relations

The company has cultivated cordial relations amongst the union and management in order to enhance efficiency and maximize production. This has been achieved through monthly meetings and regular Joint Industrial Council meetings. This has led to minimal disciplinary cases, improved teamwork, customer care, visible culture change and no industrial unrest leading to improved productivity.

The biggest challenge that we are now facing are work stoppages that are caused by contracted cane transporters and cane cutters who paralyze our operations causing the company to incur losses and lost man hours.

A number of issues have arisen from the new labour laws that will have a direct financial impact on employers. These include:

- Maternity leave – increased from 60 days to 90 days exclusive of annual leave.
- Paternity leave - 14 days
- Insurance for all employees including casuals
- Increased injury compensation up to 96 months wages
- Cost of providing a safe work environment
- Criminalization of labour issues

Capacity Building

In line with the company's objective to strengthen human resources base through timely provision of skills and competent staff, scheduled training programmes were coordinated for development of staff to cope up with emerging knowledge and skill requirements in various disciplines within the business. A total of 398 employees were trained in-house, locally and overseas.

Performance Management

In order to enhance staff productivity, the company has embraced a performance management system as a basis for rewarding staff and identifying areas of improvement.

Welfare Programmes

In order to attract, retain and motivate employees the company continues to undertake various welfare programmes. The medical facilities, housing and schools within the company premises have been maintained to high standards.

Booker Academy has continued to excel in national examinations with the school improving its mean score in KCPE from 388.35 in 2006 to 393.94 in 2007 and a mean score of 8.043 (B-) KCSE, the best since the school presented its first candidates in 1996.

Health and Safety

In order to provide a safe and healthy work environment the company has upgraded safety and health management system resulting in overall accident reduction from an average of lost time accidents.

CoGeneration high capacity boiler under construction

Environmental Management

The company has invested heavily in Environmental Management by refurbishing the ponds to achieve a clean and safe working environment. Malaria control has been carried out by regular fogging to control mosquitoes and their breeding grounds.

Corporate communication

To sustain and enhance stakeholder awareness on company Vision, Mission and direction, frequent communication for the employees was maintained through the Strategic Plan cascade and In-house Quarterly publications. This was also to manage the corporate change initiatives and create awareness on overall corporate direction both for the internal and external publics.

Farmers Education Radio Programme

The radio was used as a channel of communication on technical issues in cane husbandry but also was a useful tool in providing feedback on MSC's service delivery to the farmers.

The farmers' quarterly publication was also used as an information sharing tool focussing on best practice in various areas of cane development and also focussed on cane farming experiences in the Mumias farmers' zones.

Customer Care Centre

As part of efforts to respond to the stakeholders' concerns with emphasis on farmer relations, the Customer Care Centre was maintained at the Outgrowers Services section in order to attend to customer queries, complaints and resolution. This is part of our efforts to enhance stakeholder relations and also monitor feedback from the farming community.

Corporate Social Responsibility

Support to Health - Eye Clinic

An Eye Camp clinic was sponsored by MSC and over 2,000 people were attended to by the doctors from Friends Hospital in Sabatia and also Lions of Kisumu. Over 100 people received corrective eye surgery in Sabatia Eye Hospital.

Mumias Town Street lighting

Street lighting was installed in Mumias Town as part of MSC's contribution to Mumias town resident's security.

The company also contributed to the 'Keep Mumias Town Clean' project by contributing to the installation of branded dustbins in the town.

Community Support

During the period, the company continued to support various activities in the community including;

- contribution to various schools, infrastructure, health facilities and various charity initiatives
- contribution to World Environment day where employees participated in community clean up exercises and also tree planting activities with MSC donating seedlings and materials for clean up exercises

Awards and recognition

COYA Awards

Mumias Sugar Company was for the third year awarded the Company of the Year (COYA) Award in Environmental Management. The award was in recognition of the company's environment initiatives and efforts in conservation including;

- Environment conservation.
- Waste management

- The Cogeneration Project contribution to Clean Development Mechanism (CDM) and climate change

East Africa Superbrands

Our brand, Mumias Sugar achieved Superbrand status and was among the 64 brands recognised in East Africa in a growing and changing market. The awards were based on market dominance, longevity, customer loyalty and overall market acceptance.

Future Outlook and Strategy

MSC's Short term Competitive Strategies

Kenya's, and indeed MSC's, competitive-ness in the short term depends on;

- Reduction of operating costs and waste elimination
- Improvement of cane yields through better cane husbandry
- Product development
- Innovative marketing approaches and value addition through decommoditisation of sugar
- Cost-dilution via diversification into co-generation and ethanol
- Strategic partnerships with the Southern Africa COMESA producers of Swaziland, Malawi, Zambia and Zimbabwe.

Long-term Competitive Strategies

In the long term the institutional structure of the industry will have to shift to the more acceptable lowland, irrigated, plantation model of sugarcane production therefore:

- Expansion into new Greenfield operations like the TARDA Project.
- Consolidation of the currently dispersed small sugar mills via acquisition and amalgamation.
- An integrated approach to the industry with the mills turning into integrated sugar and energy generation firms.
- Government policy conducive to support sugar cane, ethanol and power sub-sectors.

Conclusion

On behalf of the management team at Mumias, I wish to thank the Board for its untiring guidance and direction. I also wish to express my appreciation to the entire staff for their dedication and hard work, our loyal farmers for their support, our customers and consumers for choosing Mumias as their brand of choice and all other stakeholders for their support.

With the commitment demonstrated by all stakeholders we are optimistic that we shall be able to overcome challenges and return better results next year.

Thank you

Dr. Evans Kidero
Managing Director

Matawa bridge on river Nzoia nearing completion

Dr. Evans Kidero
Meneja Mkurugenzi

Uchumi

Baada ya uchumi wa nchi kuandikisha kiwango cha ukuaji cha asilimia Saba (7%) mwaka 2007, uchumi ulipungua Kwa asilimia 1.3 mwaka 2008. Uzalishaji kiwandani ulipungua kwa aslimia 0.9 na kupelekea kupungua kwa usambazaji wa bidhaa kipindi hiki.

Bei za juu za mafuta na mvua chache kinyume na ilivyotarajiwa ziliathiri uzalishaji, matumizi ya wateja na kiwango cha ukuaji wa uchumi mwaka 2008 ambacho kinatarajiwa kuwa baina ya asilimia 3.0 na 4.5.

Soko la Sukari.

Bei ya sukari katika soko la kimataifa inaonekana kuimarika baada ya kushuka hadi kiwango cha chini cha $ 280 kwa kila metriki tani. Kuna matarajio kwamba uzalishaji na matumizi zitalingana kutokana na msingi wa mahitaji na mabadiliko ya uzalishaji wa mafuta yanayotokana na mabaki ya mimea (- ethanol) badala ya miwa. Bei za sukari miezi ya Machi 2009 na Oktoba 2009 kwa sasa zinasimamia $ 389 kwa kila metriki tani na $ 400 kwa metriki tani mtawalia.

Uzalishaji wa sukari nchini uliongezeka kwa asilimia 6. Hata hivyo, bei za sukari zilishuka kwa asilimia 10 kutokana na kufurika kwa bidhaa ya sukari iliyonuiwa kusafirishwa mataifa ya nje, kutowekwa kwa vipimo vya thamani ya sukari kutoka nje na uingizaji usio halali wa bidhaa kupitia maeneo ya Kismayu, Liboi na bandari ya zamani ya Mombasa. Waziri wa kilimo aliharamisha uagizaji na uuzaji wa sukari unaokwenda kinyume na maazimio ya kibiashara ya kanda na kimataifa.

Ushuru

Kwa sasa, ushuru unatozwa sukari iliyotengenezewa humu nchini baada ya kuongeza faida (bei ya nje) huku ushuru unaotozwa sukari kutoka nje ukitegemea bima. Kwa sababu hiyo, watengenezaji wa sukari humu nchini wanaweza kudai asilimia 100 ya ushuru wa ziada wakati inapouzwa kwani bei hiyo inawakilisha asilimia 70 ya pembejeo zisizotozwa suhuru kama vile, Miwa, ajira, mafuta ya dizeli na kadhalika huku wanaoagiza kutoka nje wakidai asilimia 100 ya ushuru wa ziada. Ushuru usiodaiwa unafanya bei ya sukari iliyotengenezewa humu nchini kupanda. Uchunguzi mpya wa kuondoa ushuru katika sekta ya sukari kama vile ushuru wa mafuta utaweza kupunguza kiwango kidogo cha gharama za uzalishaji na usafirishaji wa miwa.

Sera ya uzalishaji mafuta yanayotokana na mabaki ya mimea

Taifa la Kenya lina utajiri mkubwa wa utengenezaji wa mafuta yanayotokana na mabaki ya mimea lakini linakosa uwezo wa kitaasisi na taratibu za mfumo pamoja na motisha wa ushuru kuendeleza kiwanda hiki. Mahitaji ya ethanol nchini Kenya kwa kuchanganya na mafuta ya petroli ni lita milioni 60 ambapo Mumias inaweza kuzalisha lita milioni 27 kutoka molasi.

Sheria za kawi zinahitaji kuchunguzwa upya ili kuipatia nafasi sheria hii. Wasimamizi watafanya kazi na serikali ili kuafikia hili.

Masharti ya COMESA

Kenya ni mojawapo wa mataifa yaliyotia sahihi mkataba wa soko la pamoja la mataifa ya Afrika Mashariki (COMESA), makubaliano ya mpango wa ushirikiano ya Cotonou (ACP-EU) na yale ya shirika la biashara la ulimwengu WTO. Ili kuzindua mpango utakaowezesha sukari ya humu nchini kupata ushindani, taifa la Kenya lilituma ombi la ulinzi wa miaka 4 kuanzia Machi 2004 na kumalizika Februari 2008 chini ya makubaliano ya mkataba wa kibiashara wa COMESA.

Hata ingawa biashara ilikuwa imepata mafanikio ya kufana mwaka 2007, haikuwa tayari kufungua masoko yake katika kanda na hivyo ikaona haja ya kutuma ombi la ulinzi kuongezwa kwa miaka minne zaidi.
Mawaziri wa baraza la COMESA walikubaliana na ombi hilo na wakaongeza muda huo kwa sharti kwamba taifa litachukua hatua muhimu ambazo ni;-

i) Kuondoa kabisa usimamizi wa taifa katika biashara chini ya mpango wa haraka wa ubinafsishaji wa viwanda vinavyomilikiwa na serikali na kukamilika chini ya muda wa miaka miwili ijayo.
ii) Uzinduzi wa mfumo wa uwekaji bei kupitia kiwango cha sukari kama

Mwaka	Kiwango cha uagizaji sukari kwa metriki tani	Ushuru kwa asilimia (%)
2008/09	220,000	100
2009/10	260,000	70
2010/11	300,000	40
2011/12	340,000	10
1st March 2012	No quota	0

msingi kuwaridhia wakulima wa miwa nchini Kenya. Hatua hii mpya italeta mabadiliko katika bei ya sukari kama msingi badala ya kutumia uzito.

iii) Kupanda kwa haraka kwa bei ya sukari iliyoagizwa kutoka nje kwa wakati mmoja na kushuka kwa ushuru unaotozwa. Kiwango cha sukari kilichokubaliwa kitapanuliwa kila mwaka wa kutumwa kwa maombi na ushuru uliowekwa kwa viwango vya juu kupunguzwa kila mwaka kama ilivyoonyeshwa hapa chini:-

Matokeo ya mauzo

Metriki tani 265,263 za sukari zilizalishwa huku 256,000 zikiuzwa. Mapato yaliyopatikana ya shilingi milioni 14,305 457 kabla ya kutozwa ushuru yalikuwa asilimia 11 zaidi ikilinganishwa na mwaka uliotangulia ya shilingi milioni 12,865.

Hata ingawa kulikuwa na ongezeko la viwango vya uzalishaji na bei, tofauti hizi ziliathiriwa sana na bei duni ya masoko, bei ya juu ya miwa na kuongezeka kwa gharama za uendeshaji zilizotokana na bei ya juu ya mafuta na ghasia za baada ya uchaguzi.

Ili kuiwezesha kuthibiti Jina Lake, kampuni inajiandaa kuzindua mikakati mbali mbali ikiwemo kuimarisha ubora wa bidhaa zake, upakiaji na maendeleo yake ili kuthibiti ushindani. Uzinduzi rasmi na uingizaji wa sukari ya brown sugar kwenye masoko unatarajiwa kuzinduliwa. Mradi wa uimarishaji sukari umeanzishwa na unapata usaidizi kutoka wizara ya kilimo na shirika la UNICEF.

MSC inazidi kuongoza kama msambazaji masokoni. Kampuni itazidi kutathmini matokeo ya usambazaji na kupanga upya mtandao wa usambazaji ili kuimarisha shughuli zake na kuleta matokeo yanayotakikana. Uzinduzi wa mikakati maalumu wa usimamizi utahakikisha kwamba sukari ya Mumias inapatikana kupitia njia zote za biashara. Mazingira yanazidi kubadilika na mara nyingi yanatoa nafasi na changamoto. Ili kuhakikisha jina letu linazidi kuvuma na kupata mafanikio, tutajitolea kuimarisha uwezo wa kupambana na hatari na kutumia vyema nafasi zinazojitokeza.

Bidhaa yetu inazidi kufanya vyema soko la nje. Jumla ya mauzo ya metriki tani 29, 344 yalikuwa ongezeko la asilimia 227.5 ikilinganishwa na mauzo ya metriki tani 8, 960 mwaka uliotangulia. Kampuni itazidi kutathmini soko la kanda ikiwa na nia ya kupata nafasi zaidi kupanua eneo lake. Kwa muda wa kipindi hiki cha mwaka wa biashara, Kampuni ya Mumiasi iliuza viwango vizuri vya sukari mataifa ya Uganda, Rwanda, Jamhuri ya kidemokrasia ya Congo, Sudan Kusini, Ethiopia na soko la umoja wa Ulaya. Kampuni itazidi kutoa mwongozo wa kibiashara katika kanda kwa kubuni mikakati imara ya ushirikiano na washirika wengine.

Shughuli za kilimo.

Jumla ya tani tani 207, 038 za miwa zilipokelewa kutoka mashamba ya miwa ya Nucleus na zingine 2, 200, 164 kutoka Outgrowers. Kati ya hizi, tani 67, 977 za miwa zilitoka kanda ya Nzoia. Jumla ya hekta 2, 773 zilivunwa kutoka mashamba ya Nucleus na 28, 407 kutoka yale ya Outgrowers. Mazao yalikuwa tani 74.7 za miwa kwa kila hekta moja ya mashamba ya Nucleus na hekta 72.1 kwa kila hekta mashamba ya Outgrowres. Kiwango cha wastani cha Pol kwa asilimia katika miwa kilikuwa asilimia 13.06 na kiwango cha wastani cha umri wa miwa wakati wa kuvunwa kikiwa miezi 18.2. Idadi ya wakulima ambao ni wanachama ilikuwa 81, 789.

Jumla ya hekta 370 za nasari ''A'' na '' B'' zimezinduliwa mashamba ya Nucleus. Mbegu hizi za hali ya juu zaweza kutumika sasa kuimarisha viwango katika mashamba ya Outgrowers. Miongoni mwa haya, aina mpya za mbegu za KEN na EAK zimepandwa.

Usambazaji wa mbolea mashamba ya Outgrowers unazidi kutekelezwa kupitia mfumo wa utumiaji mbolea kwa wingi (block application) na kuhakikisha kwamba mbolea inatumika kwenye miwa na kujiepusha kurudia. Sayansi ya mashamba ya kilimo inapima mahitaji ya mbolea kote katika kanda kupitia utafiti wa kemikali hivi kwamba matumizi ya mbolea yanatumika sawa kulingana na mahitaji ya udongo.

Cane varieties research by Agronomy

Mbinu ya uvunaji miwa ya windrow inazinduliwa katika mashamba ya Nucleus Kama njia moja ya kuimarisha mazao mengi miongoni mwa wakataji.

Shughuli za kiwanda

Katika kipindi hiki cha mwaka, tulitengeneza jumla ya tani 265, 263 za sukari dhidi ya bajeti ya tani 280, 000. Kiwango hiki kilikuwa cha juu kutoka tani 217,200 mwaka uliotanguliwa. Kwa kuzingatia matatizo mengi mwaka huu, haya yalikuwa matokeo ya kufana.

Katika kipindi cha kwanza cha mwaka, shughuli za kiwanda zilikuwa za kufana. Shughuli za kila siku zilizidi shabaha na utendaji kazi kwa muda uliokadiriwa uliafikiwa na kurudisha hasara iliyotokea. Kwa jumla, Shughuli za mwezi baada yamwezi zilizidi shabaha iliyolengwa.

Wakati wa kipindi hiki, kutokana na mgomo wa madereva wa usafirishaji mwezi Oktoba, tulipunguza kasi ya shughuli katika kiwanda ili kuafikiana na usafirishaji wa miwa kufuatia usitishaji wa ukataji wake mwezi Novemba na kuongeza muda wa likizo mwezi wa Desemba kutokana na uchaguzi ambao uliathiri matokeo yetu.

Katika kipindi cha pili cha mwaka, tulipata matokeo mbali mbali. Mwezi wa kwanza uliathirika kutokana na ghasia za baada ya uchaguzi na kupelekea kukosekana kwa miwa kipindi hiki na baadaye kusaga miwa iliyooza. Mwezi wa pili tulikuwa na uzalishaji wa hali ya juu na kuandikisha rekodi mpya. Tulipata kiwango kizuri cha miwa iliyokomaa, uzingatiaji wakati katika kiwanda na matumizi bora. Hata hivyo, Juma moja lilipotezwa mwezi Machi kufuatia mgomo wa madereva walioajiriwa na wanakandarasi wa uchukuzi.

Ushirikiano wa uzalishaji kawi ya megawati 34

Mradi mpya wa uzalishaji kawi kwa pamoja utakuwa na chombo kimoja kinachokadiriwa kuwa na mvuke wa tani 170 kwa kila saa kwa joto la 87 Bar na kiwango cha hewa cha digrii 515. Pia, kitakuwa na mtambo wa Turbo Generator wa Megawati 34.2.

Kitakapofunguliwa, kiwanda hiki kinatarajiwa kufanya kazi kwa pamoja na mtambo mwingine ulioko wa tani 110 kwa kila saa, 21bar, mtambo huu utotoa joto la digrii 380 na Turbine generator ya Megawati 7 ambao utatumia kawi ya megawati 4. Mitambo ya sasa iliyo na kiwango cha chini cha joto na turbine generators itapumzishwa au kuwekwa tayari kutumika tu wakati wa dharura.

Ufanisi wa mradi
Mkataba wa ununuzi kawi (PPA)

Mnamo Machi 15, 2008, tulifaulu kutia sahihi mkataba wa ununuzi kawi na kampuni ya usambazaji nguvu za umeme ya KPLC. Mkataba huu ulikuwa wa kutoa hakikisho kwa soko la kawi yetu. Mkataba huu unatoa thamani ya senti 6 za dola ya marekani kwa kila kilowati ya kawi iliyopitishwa kwenye nyaya za KPLC mradi tu upatikanaji wa kiwanda umepitisha asilimia 85.

Kuzinduliwa Kwa makubaliano ya mradi (PIA)

Mnamo Machi 26, 2008, tulifanikiwa kutia sahihi makubaliano ya uzinduzi wa mradi (PIA) na KPLC. Chini ya sheria za PIA, kupitia hatua za utaratibu wa mawakala, tutajenga na kuzindua mtambo wa kuzalisha umeme wenye uwezo wa 132KV wa umbali wa kilomita 30 kutoka kiwanda kipya na vituo vidogo husika.

Leseni kuzalisha kawi

Mnamo Aprili 26, 2008, Halmashauri inayosimamia masharti ya umeme (ERC) ilitupatia leseni kuzalisha kawi ya megawati 38. Kwa hivyo, tutazalisha kawi ya Megawati 34 kutoka kiwanda kipya na megawati nyingine 4 kutoka kiwanda cha zamani.

Ufadhili wa mradi

Mradi huu unafadhiliwa kwa asilimia 30 na Equity na asilimia 70 kupitia deni la PROPARCO- taasisi ya kifedha kutoka Ufaransa. Makubaliano ya ufadhili huu yalitiwa sahihi baina ya MSC na PROPARCO. Zaidi ya hayo, KPLC, MSC na PROPARCO zilitia sahihi makubaliano ya moja kwa moja ambayo yananuiwa kuimarisha udhamini wa malipo ya mkopo. Hili lilikuwa sharti la PROPARCO.

Teknolojia ya habari na mawasiliano

Baada ya kukamilika kwa miradi mikubwa ya kibiashara na miundo msingi, matumaini ya kupata manufaa kutokana na uzinduzi yalithibitiwa na inatarajiwa kuendelea mbele kipindi cha matumizi ya pesa cha mwaka 2007/2008. Uimarishaji wa uwezo wa watumiaji na tathmini za biashara ziliendelea ili kuhakikisha matumizi bora ya manufaa ya teknolojia ya biashara. Ili kuimarisha mawasiliano yetu ya nje na ndani, mradi wa matumizi ya mawasiliano ulianzishwa na kazi inaendelea kuimarisha upya wavuti wetu. Mifumo muhimu ya kibiashara haikufanyiwa mabadiliko makubwa hivyo shughuli muhimu zilikuwa usaidizi na uthibiti.

Raslimali kadhaa zilitumika katika miundo misingi ambayo ilihusisha upanuzi wa mtandao, kompyuta kwa matumizi ya kibnafsi, mitambo ya usambazaji barua, mitambo ya kutoa nakala, mitambo ya nguvu za umeme na mitambo ya kuthibiti usalama. Mojawapo wa mafanikio makubwa kwenye miundo misingi ilikuwa uzinduzi wa mtandao wa mawasiliano ya masafa marefu *(Wide Area Network*

-WAN) kuunganisha ofisi kuu ya Mumias , Nairobi na Mombasa. Tulizindua na kuanza matumizi ya mundo wa mawasiliano katika maktaba zetu *(IT Infrastructure Library- ITIL)* ili kuimarisha shughuli zetu za mawasiliano.

Idara ya Wafanyakazi

Katika muda unaoangaziwa, kampuni imehifadhi idara imara ya wafanyakazi wenye ujuzi na uwajibikaji. Kampuni inazidi kuchukua hatua ambazo lengo lake ni kuandaa mazingira bora ya utendaji kazi, kuimarisha uhusiano kibiashara na maslahi ya wafanyakazi miongoni mwa mambo mengine.

Wafanyakazi

Kufikia Juni 30, 2008, idadi ya wafanyakazi wa kudumu wa ilikuwa 1606 na wengine 129 wa kandarasi ikilinganishwa na wafanyakazi 1850 na 146 wa kandarasi kufikia Julai Mosi 2007.

Uhusiano kiwandani

Kampuni imedumisha uhusiano bora baina ya chama kinachotetea maslahi yao na wasimamizi ili kuchochea uzalishaji. Hili limeafikiwa kupitia mikutano ya kila mwezi na ya mara kwa mara ya baraza. Kuwepo kwa mikutano hii kumepunguza visa vya ukiukaji nidhamu, kuimarisha uhusiano kikazi, huduma kwa wateja, mabadiliko ya hisia, migomo ya kibiashara na kupelekea kuimarika kwa uzalishaji.

Changamoto kubwa ambayo inatukabili sasa ni migomo inayotekelezwa na wanakandarasi wa usafirishaji na wakataji miwa ambayo inapooza shughuli zetu na kusababisha kampuni kupata hasara.

Maswala mbali mbali yameibuka kupitia sheria mpya za kazi ambayo yataathiri moja kwa hali ya fedha kwa wafanyakazi wetu. Maswala hayo ni pamoja na -:

- Likizo kwa akina mama kujifungua- Imeongezwa kutoka siku 60 hadi 90 bila kujumuisha likizo ya mwaka
- Likizo kwa akina baba kuwatuza wake zao - siku 14
- Bima kwa wafanyakazi wote wakiwemo vibarua
- Ridhaa kutokana na majeraha hadi mishahara ya miezi 96
- Gharama za kuandaa mazingira bora ya utenda- kazi
- Uhalifu kuhusiana na maswala ya kikazi


Computer lesson in progress at Booker Secondary

Uimarishaji uwezo wa utenda- kazi Kufungamana na azima ya kampuni kuimarisha idara ya wafanyakazi kupitia utoaji mafunzo kwa wakati unaofaa, ratiba ya utoaji mafunzo iliandaliwa ili kuimarisha uwezo wa wafanyakazi kukabiliana na elimu na uzoevu katika nyanja mbali mbali kibiashara. Jumla ya wafanyakazi 398 walipokea mafunzo ya ndani, nje na ng'ambo.

Uimarishaji matokeo

Ili kuhamasisha matokeo ya wafanyakazi, kampuni imebuni mfumo wa uimarishaji matokeo kama njia ya kuwatunuku maafisa wake na kutambua maeneo yanayohitaji kuimarishwa.

Mipango ya kujali maslahi

Ili kuvutia, kuhifadhi na kuwapa motisha wafanyakazi, kampuni inazidi kutekeleza mipango mbali mbali yenye nia ya kujali maslahi. Huduma za matibabu, makao na shule ndani ya eneo la kampuni imeimarishwa kufikia viwango vya juu.

Shule ya Broker Academy inazidi kufanya vyema kwenye mitihani ya kitaifa huku ikiimarisha kiwango chake cha wastani kwenye mtihani wa KCPE mwaka 2006 hadi alama 393.94. Mwaka 2007 kiwango hicho kikifikia alama 8.043 (B-) kwenye mtihani wa KCSE kiwango ambacho ni bora zaidi tangu shule hii isajili watahiniwa wa kwanza mwaka 1996.

Usimamizi wa vifaa

Katika juhudi zake kuhamasisha hali njema, kuleta motisha na uwajibikaji, kampuni inazidi kuhifadhi vifaa vyake ikiwemo kuzungusha ua katika mitaa yake, kukarabati nyumba na kudumisha usafi eneo lake kufikia viwango vinavyohitajika.

Afya na Usalama

Ili kuandaa mazingira bora ya kikazi yaliyo salama na yenye Afya, kampuni imeirisha mfumo wa usalama na kupelekea kupunguka kwa visa vya ajali.

Usimamizi wa mazingira

Kampuni imewekeza mtaji mkubwa katika usimamizi wa mazingira kwa kukarabati madimbwi ili kupata mazingira safi na salama ya utendaji kazi. Uthibiti wa ugonjwa wa maralia umetekelezwa kwa kunyunyiza dawa wa kila mara kukabiliana na mbu na maeneo ya kuzaana.

Mawasiliano katika shirika

Ili kuthibiti na kuimarisha mawasiliano na washika dau kuhusu ndoto, azima na mwelekeo wa kampuni, mawasiliano ya mara kwa mara na wafanyakazi yamekuwa yakitekelezwa kupitia mpango wa mkakati na machapisho ya kila baada ya miezi mitatu. Hili lilikusuduiwa kusimamia mkakati wa kufanyia mabadiliko shirika na kutoa ufahamu kuhusu mwelekeo wa jumla wa kampuni kwa umma wa ndani na nje.

Mipango ya kuwapa wakulima mafunzo kupitia redio

Redio ilitumika kama mbinu ya mawasiliano kuhusu maswala ya kiufundi na njia bora za ukuzaji wa zao la miwa na pia kama chombo muhimu cha kutoa majibu kuhusu huduma za MSC.
Jarida la kila baada ya miezi mitatu pia lilitumika kama chombo cha kupasha habari kwa kuangazia mbinu bora za ukuzaji katika maeneo ya maendeleo ya kilimo cha miwa na pia kuangazia kuhusu ujuzi wa kilimo cha miwa kanda ya Mumias.


MSC employees in a shibale market clean up

Kituo cha kuwahudumia wateja

Kama sehemu moja ya kuwasiliana na washika dau na kudumisha uhusiano bora na wakulima, kituo cha kuwahudumia wateja kiliendelezwa sehemu ya mashamba ya Outgrowers ili kushughulikia maswali ya wateja, malalamiko na suluhu. Hii ni mojawapo wa juhudi za kuhamasisha uhusiano na washika dau na pia kutathmini majibu kutoka kwa jamii ya wakulima.

Wajibu katika jamii

Msaada kwa huduma za Afya- klinki ya macho

Kampuni ya Sukari ya MSC ilidhamini Kampi ya macho ambapo zaidi ya wagonjwa 2,000 walihudumiwa na madaktari kutoka Hospitali ya Friends, Sabatia na pia Lions, Kisumu. Zaidi ya wagonjwa 100 walifanyiwa upasuaji wa macho katika hospitali ya macho ya Sabatia.

Uwekaji taa mitaa ya mji wa Mumias.

Mradi wa uwekaji taa mjini Mumias ulitekelezwa kama njia moja ya mchango wa kampuni ya MSC kwa usalama wa wakazi wa mji huu.
Kampuni pia ilitoa mchango wake kwa mradi wa usafi wa '' keep Mumias clean'' kwa kutoa mapipa yenye nembo ya kampuni mjini humo.

Msaada kwa jamii.

Wakati wa kipindi hiki, kampuni ilizidi kusaidia miradi mbali mbali ya kijamii ikiwemo:-

- Mchango kwa miundo misingi kama vile shule, vifaa vya Afya na miradi mbali mbali ya kusaidia jamii
- Mchango wakati wa sherehe za siku ya mazingira duniani ambapo wafanyakazi wake walishiriki zoezi la usafi na pia upandaji miti huku MSC ikitoa mchango wa miche na vifaa kwa shughuli za usafi.

Tuzo za COYA

Kwa mwaka wa tatu mfulululizo, kampuni ya MSC ilizawadiwa tuzo la kwanza la COYA kutokana na usimamizi bora wa mazingira. Tuzo hii ilikuwa ni kutambua juhudi za kampuni katika uhifadhi wa mazingira ikiwemo:-

- Utunzaji mazingira
- Utupaji taka
- Mchango wa Mradi wa pamoja wa uzalishaji kawi katika mbinu za maendeleo ya usafi (CDM) na

mabadiliko ya hali ya anga

Bidhaa bora Afrika Mashariki

Bidhaa yetu ya sukari ya Mumias ilipokea hadhi ya bidhaa bora na ilikuwa miongoni mwa bidhaa nyingine 164 zilizotambuliwa Afrika Mashariki, soko linalokuwa na kubadilika. Zawadi hizi ziliegemea utawala katika masoko kwa muda mrefu, uaminifu kwa wateja na maswala mengine ya jumla ya soko.

Mumias town street lights

Mtazamo na mkakati kwa siku za usoni

Mkakati wa MSC wa muda mfupi kukabiliana ushindani

Mkakati wa taifa la Kenya na hasa MSC wa muda mfupi kukabiliana na ushindani unategemea:-

- Kupunguzwa kwa gharama za utekelezaji na kuangamizwa kwa uingizaji wa bidhaa duni
- Kuimarishwa kwa mazao ya miwa kupitia mbinu bora za kilimo
- Uimarishaji wa bidhaa
- Kufanyia mabadiliko mbinu za uvumishaji na kuongeza thamani kupitia uwekaji huru bidhaa ya sukari
- Kuweka huru bei za sukari kupitia uvumbuzi wa uzalishaji pamoja na mafuta yanayotokana na mabaki ya miwa (ethanol)
- Ushirikiano wa mkakati wa pamoja na mataifa ya COMESA ya Swaziland, Malawi, Zambia na Zimbabwe.

Mikakati ya muda mrefu ya ushindani.

Kuhusu muda mrefu, mkakati wa kitaasisi wa kampuni utabidi kubadilika na kuhusisha mbinu za kisasa za uzalishaji wa miwa maeneo ya chini, unyunyizaji, uendelezaji kilimo kwenye mashamba makubwa na hivyo:-

- Upanuzi katika shughuli za mashamba mapya kama vile mradi wa TARDA
- Kuweka pamoja vinu vidogo vya usagaji vilivyoko sasa kupitia umiliki na ushirikiano
- Mtazamo wa pamoja kuhusu biashara huku vinu vikiondolewa na kuwepo kwa viwanda vinavyoshirikina na mashirika yanayozalisha umeme
- Sera ya serikali itakayoandaa mazingira bora kwa kilimo cha miwa na sekta ndogo za uzalishaji wa mafuta yanayotokana na mabaki ya miwa na kawi.

Hitimisho:

Kwa niaba ya timu ya wasimamizi wa kampuni ya Mumias, ningependa kuishukuru Halmashauri kutokana na mwongozo na mwelekeo wake. Pia, ningependa kutoa shukrani zangu kwa wafanyakazi wote kutokana na kujitolea kwao na kufanya kazi kwa bidii, wakulima wetu waaminifu kutokana na mchango wao, wateja wetu na watumiaji wa bidhaa yetu kwa kuchagua Mumias kama bidhaa yao na washika dau wengine kutokana na mchango wao.
Kupitia uwajibikaji uliodhihirishwa na washika-dau, tuna matumaini kwamba tutashinda changamoto na kupata tena matokeo bora mwaka ujao.

Asanteni.

Dkt. Evans Kidero
Meneja Mkurugenzi.

MSC Ltd is committed to good corporate governance. The Board formulates policies and strategies that enhance transparency and accountability and aimed at conforming to the CMA guidelines and continuing listing obligations bestowed upon listed companies.

Board of Directors and Board Meetings

The Board provides the overall strategic guidance to the Company and is accountable to shareholders and other stakeholders. The day to day management of the Company has been delegated to the Managing Director. However the Board retains the overall responsibility for the Company's performance in financial, compliance, monitoring and operational areas.

The current Board consists of twelve directors, one of whom is executive and eleven are independent non executive Directors. The Board composition draws a good mix of skills, experience and competencies in various fields. Detailed information on the Directors, their qualifications and experience is provided on pages 9 and 10

The Chairman is responsible for managing the Board and providing leadership to the Company while the Managing Director is responsible to the Board for running the business in accordance with instructions given by the Board. The Managing Director implements Board decisions and instructions with the assistance of the management team.

The Board meets regularly and at least four times a year to, amongst other things, agree on the Company's objectives and strategies to realize the objectives, review performance against agreed targets, consider and approve the annual and interim statements and to discuss other matters of strategic importance to the Company. Senior management of the Company attend Board meeting by invitation whenever necessary.

Committees of the Board

For effective running of the affairs of the Company, the Board has delegated part of its responsibilities to standing committees. The Board has three standing committees. The Committees and their membership is given on page 4. The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board. The Committees have complete access to Company information and are authorised to get independent professional advice within any matter within their scope. During the period under review, the Committees met as per their respective mandates and through their respective chairmen, submitted their reports to the Board.

Conduct of business and performance reporting

The business of the Company is conducted in accordance with carefully formulated strategies, budgets and business plans which set out clear objectives. Performance against the objectives is reviewed and discussed monthly by the management team. Any issues arising from these objectives are discussed by the Board Human Resources and Strategy Committee which ultimately reports to the Board. This is aimed at ensuring close monitoring of performance trends, forecasts as well as actual performance against budgets.

A PE lesson at Booker Primary

Kampuni ya Sukari ya Mumias imejitolea kutimiza usimamizi bora wa mashirika. Halmashauri inabuni sera na mikakati ambayo itaimarisha uwazi na uwajibikaji ambao nia yake ni kuafikiana na miongozo ya CMA na kuzidi kutimiza masharti yaliyowekewa kampuni zilizosajiliwa.

Halmashauri ya Wakurugenzi na Mikutano ya Halmashauri

Halmashauri inaandaa mkakati wa mwongozo wa kampuni na inawajibikia wanahisa na washika-dau wengine. Meneja Mkurugenzi ana jukumu la kuangazia usimamizi wa kila siku wa kampuni. Hata hivyo, Halmashauri husimamia jukumu nzima kuhusu mafanikio ya matokeo ya kampuni, kuafikiana na matakwa, uchunguzi na maeneo ya utendaji kazi.

Halmashauri ya sasa ina jumla ya wakurugenzi 12 mmoja wao akiwa na mamlaka ya juu na kumi na moja wakiwa wakurugenzi wanaojisimamia bila mamlaka ya juu. Bodi inajumuisha wakurugenzi walio na ujuzi kuhusu taaluma mbali mbali, tajriba na ushindani katika nyanja tofauti. Maelezo ya kina kuhusu wakurugenzi, taaluma zao na ujuzi yamefafanuliwa kupitia ukurasa 9 na 10 Mwenyekiti ana wajibu kusimamia Halmashauri na kutoa mwongozo kwa kampuni huku Meneja Mkurugenzi akiwa na jukumu la kuwajibikia Halmashauri kuhusiana na uendeshaji biashara kwa mujibu wa masharti yaliyotolewa nayo. Meneja Mkurugenzi anatekeleza maoni ya Halmashauri na masharti yake akisaidiwa na timu ya wasimamizi.

Halmashauri hukutana mara kwa mara aghlabu mara nne kwa mwaka ili kuafikiana kuhusu azima na mkakati wa kampuni kuafikia lengo lake, kutathmini matokeo yake kwa kuegemea shabaha iliyokubaliwa, kuwazia na kuidhinisha taarifa za mwaka na za muda kuhusu matokeo ya fedha na kujadili maswala mengine ya mkakati yaliyo muhimu kwa kampuni. Wasimamizi wa ngazi ya juu wa kampuni huhudhuria mikutano hii baada ya kupokea mwaliko pale inapohitajika.

Kamati za Halmashauri

Ili kuwepo kwa usimamizi bora kuhusiana na maswala ya kampuni, Halmashauri imegawa baadhi ya majukumu yake kwa Kubuni kamati saidizi. Bodi ina kamati tatu saidizi. Kamati na uanachama wake zimeelezwa kupitia ukurasa wa nne. Kamati hizi zinatekeleza wajibu wake chini ya majukumu ambayo yanafafanua wajibu wake, uwezo wa madaraka yake na hatua za kuripoti kwa Halmashauri. Kamati hizi zina njia wazi kufikia maelezo ya kampuni na zimepewa uwezo kupokea ushauri wa kitaalamu kuhusu maswala yaliyo ndani ya uwezo wake. Katika kipindi tunachoangazia, kamati hizi zilikutana na kupitia wenyeviti wao zikawasilisha ripoti zao kwa Halmashauri.

Utekelezaji wa shughuli za biashara na kutoa ripoti za matokeo

Utekelezaji wa shughuli za biashara za kampuni unaendeshwa kwa mujibu wa mikakati iliyobuniwa, bajeti na mipango ya biashara ambayo inafafanua wazi malengo yake. Matokeo kuhusiana na shabaha huchunguzwa na kujadiliwa kila mwezi na timu ya wasimamizi. Maswala yoyote yatakayoibuka kutokana na shabaha hii hujadiliwa na Halmashauri ya uajiri kazi na kamati ya mkakati ambayo huripoti kwa Halmashauri. Dhamira yake ni kuhakikisha kuwepo kwa tathmini ya karibu kuhusu mwelekeo, utabiri na pia matokeo halisi dhidi ya bajeti.

COYA and Superbrands Awards

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2008.

PRINCIPAL ACTIVITIES

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

RESULTS

	Shs'000
Profit before taxation	1,589,204
Taxation charge	(375,367)
Profit for the year transferred to retained earnings	1,213,837

DIVIDENDS

No interim dividend was paid during the year (2007: Shs 0.50 per share totalling Shs 255 million). The directors recommend a final dividend of Shs 0.40 per share totalling Shs 612 million (2007: Shs 510 million) bringing the total dividend paid and proposed to Shs 0.40 per share (2007: Shs 1.50) amounting to Shs 612 million (2007: Shs 765 million) in respect of the year.

PRODUCTION

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

	Cane Processed (Tonnes)	Sugar production (Tonnes)
2008	2,408,141	265,263
2007	2,118,563	217,200
2006	2,450,548	265,819
2005	2,348,019	269,184
2004	2,290,427	264,802

NUCLEUS ESTATE AND OUTGROWERS

The company's nucleus estate under cane, measuring approximately 3,851 (2007 – 3,695) hectares, provides an average of about 6% of the total cane processed annually.

At 30 June 2008, there were 81,789 (2007 – 77,200) registered outgrowers, with 59,410 (2007 – 63,705) hectares of land under cane.

DIRECTORS

The directors who served during the year are shown on page 4.

In accordance with article 113, Messrs John V. Bosse, Joseph Kinyua, Amos Wako and Caleb Wangia 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 Kenya Companies Act.

BY ORDER OF THE BOARD

M J R Guto
Secretary

28 August 2008

Statement of Directors' Responsibilities

The Kenyan 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 of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 which 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 V Bosse	**James G Chege**
DIRECTOR	**DIRECTOR**
28 August 2008	28 August 2008

Deloitte.

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

We have audited the financial statements of Mumias Sugar Company Limited set out on pages 35 to 69 which comprise the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, 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

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

Deloitte & Touche

29 August 2008

Audit. Tax. Consulting. Financial Advisory.

A member firm of
Deloitte Touche Tohmatsu

Partners: DM. Ndonye F. 0. Aloo H. Gadhoke* D.C. Hodges* J.M. Kiane M.M. Kisuu J Nyang'aya S.O. Onyango J.W. Wangai *British

Income Statement

	Note	2008 Shs'000	2007 Shs'000
REVENUE	3	11,970,101	10,381,190
FAIR VALUE LOSS ON BIOLOGICAL ASSETS	17	(16,140)	(63,492)
OPERATING INCOME		11,953,961	10,317,698
COST OF SALES		(7,688,437)	(6,729,750)
GROSS PROFIT		4,265,524	3,587,948
OTHER OPERATING INCOME		101,691	106,837
MARKETING AND DISTRIBUTION COSTS		(1,091,503)	(591,060)
ADMINISTRATIVE EXPENSES		(1,119,680)	(734,752)
OTHER OPERATING EXPENSES		(489,936)	(488,493)
FINANCE (COSTS)/INCOME - NET	4	(76,892)	29,414
PROFIT BEFORE TAXATION	5	1,589,204	1,909,894
TAXATION CHARGE	7	(375,367)	(516,283)
PROFIT FOR THE YEAR		1,213,837	1,393,611
EARNING PER SHARE - BASIC & DILUTED	8	Shs 0.79	Shs 0.91
DIVIDEND PER SHARE			
- Interim	9	Shs 0.00	Shs 0.50
- Final (proposed)	9	Shs 0.40	Shs 1.00

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

Balance Sheet 30 June 2008

	Note	2008 Shs'000	2007 Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	10	9,279,504	8,003,491
Intangible assets	11	81,690	123,708
Development costs	12	135,969	-
Non current receivables	14	74,067	86,081
		9,571,230	8,213,280
Current assets			
Inventories	16	1,086,254	518,679
Biological assets	17	188,132	214,011
Taxation recoverable	7(c)	-	202,899
Trade and other receivables	18	2,630,991	2,114,403
Collateral deposit	20	194,084	-
Cash and bank balances		474,639	626,104
		4,574,100	3,676,096
Non current assets held for sale	21	7,246	27,493
		4,581,346	3,703,589
Total assets		14,152,576	11,916,869
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	3,060,000	1,020,000
Revaluation surplus		1,827,343	2,065,794
Retained earnings		4,154,154	5,251,866
Shareholders' equity		9,041,497	8,337,660
Non current liabilities			
Deferred income tax liability	23	1,655,521	1,900,774
Provision for service gratuity	24(a)	8,071	4,063
Deferred grant income	25	49,391	60,996
		1,712,983	1,965,833
Current liabilities			
Borrowings	26	1,027,600	157,807
Trade and other payables	27	1,838,272	1,125,350
Provision for service gratuity	24(a)	5,455	23,837
Provision for staff leave pay	28	22,128	19,529
Taxation payable	7(c)	200,235	-
Unclaimed dividends	29	304,406	286,853
		3,398,096	1,613,376
Total equity and liabilities		14,152,576	11,916,869

The financial statements on pages 35 to 69 were approved by the board of directors on 28 August 2008 and were signed on its behalf by:

John V. Bosse
James G. Chege } Directors

Statement of Changes in Equity

	Share capital Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Total Shs '000
At 1 July 2006	1,020,000	2,135,554	4,553,495	7,709,049
Profit for the year	-	-	1,393,611	1,393,611
Final dividend declared - 2006	-	-	(510,000)	(510,000)
Interim dividend declared - 2007	-	-	(255,000)	(255,000)
Excess depreciation transferred in prior year	-	18,694	(18,694)	-
Transfer of excess depreciation	-	(126,363)	126,363	-
Deferred tax on excess depreciation	-	37,909	(37,909)	-
At 30 June 2007	1,020,000	2,065,794	5,251,866	8,337,660
At 1 July 2007	1,020,000	2,065,794	5,251,866	8,337,660
Profit for the year	-	-	1,213,837	1,213,837
Final dividend declared - 2007	-	-	(510,000)	(510,000)
Bonus share issue	2,040,000	-	(2,040,000)	-
Transfer of excess depreciation for prior year	-	(85,385)	85,385	-
Transfer on disposal of equipment	-	(12,922)	12,922	-
Transfer of excess depreciation	-	(205,743)	205,743	-
Deferred tax on excess depreciation	-	65,599	(65,599)	-
At 30 June 2008	3,060,000	1,827,343	4,154,154	9,041,497

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

	Note	2008 Shs'000	2007 Shs'000
OPERATING ACTIVITIES			
Cash generated from operations	30(a)	1,707,489	1,256,988
Interest paid		(47,013)	(4,387)
Interest received		20,814	43,298
Other finance charges paid		(8,611)	(5,380)
Taxation paid	7(c)	(217,486)	(414,800)
Net cash generated from operating activities		1,455,193	875,719
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(30(d)	(1,847,275)	(1,412,749)
Additions to intangible assets		-	(1,620)
Proceeds on disposal of property, plant and equipment		2,584	-
Proceeds on disposal of non-current assets held for sale		6,314	70,938
Development expenditure on TARDA project		(135,969)	-
Net cash used in investing activities		(1,974,346)	(1,343,431)
FINANCING ACTIVITIES			
Dividend paid	29	(492,447)	(654,819)
Loans repaid	30(b)	(151,396)	(150,157)
Loans received	30(b)	730,000	-
Net cash generated from/ (used in) financing activities		86,157	(804,976)
DECREASE IN CASH AND CASH EQUIVALENTS		(432,996)	(1,272,688)
BALANCE AT BEGINNING OF THE YEAR		626,104	1,898,792
BALANCE AT END OF THE YEAR	30(c)	193,108	626,104

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:

Adoption of new and revised International Financial Reporting Standards

In the current year, the following Standards and Interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The comparative figures have been restated as required in accordance with the relevant requirements.

- IFRS 7 on Financial Instruments Disclosures; this standard introduces new qualitative and quantitative disclosure requirements about exposure to risks arising from financial instruments. Minimum disclosures on credit, market and liquidity risk have been defined.
- IAS 1 Amendment – Capital Disclosures – defines minimum disclosure requirements about the level of Capital and management thereof.
- IAS 23 (revised) Borrowing costs
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2—Group and Treasury Share Transactions

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Interpretations were in issue but not yet effective:

- IFRS 8 Operating Segments
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The directors anticipate that the adoption of these Standards and Interpretations will not have a material impact on the financial statements of the company.

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

Sale of sugar and molasses are recognised upon delivery of products to customers and are stated net of Value Added Tax, Sugar Development Levy and discounts. Sugar Development Levy does not apply to molasses sales.

Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable.

All other income earned by the company is recognised on the accruals basis.

Deferred grant income

Grants related to acquisition of equipment are accounted for as deferred income and are recognised in the income statement on a systematic basis over the useful life of the equipment.

1 ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of current taxation and deferred 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 taxation 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 taxation.

Property, plant and equipment

Property, plant and equipment are stated at cost or at professionally revalued amounts less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are revalued at periodic intervals, usually after every five years. The basis of valuation is depreciated replacement cost.

Increases in the carrying amount arising on revaluations are credited to a revaluation surplus. 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 development	2½%
Buildings	2½% - 5%
Factory plant and machinery	5% - 10%
Heavy mobile machinery	12½% - 25%
Motor vehicles	20% - 331/3%
Other equipment and fixtures	12½% - 331/3%

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

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.

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.

Notes to the Financial Statements *(Contd)*

1 ACCOUNTING POLICIES (continued)

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

Biological assets (cane plantations) and agricultural produce (harvested cane) are 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 cane existing in the market less point-of-sale costs.

Immature growing cane is valued at cost.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and the fair value less costs to sell.

Leases

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

Company as a lessor

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

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.

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

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.

1 **ACCOUNTING POLICIES (continued)**

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Research and development expenditure

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

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

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

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.

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

1 **ACCOUNTING POLICIES (continued)**
Financial instruments (continued)

Available-for-sale financial assets

This category represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Cash and cash equivalents

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.

Bank borrowings

Interest bearing 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.

Trade payables

Trade payables are stated at their nominal value.

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. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee benefits

Defined benefit pension scheme

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

1 ACCOUNTING POLICIES (continued)
Employee benefits (continued)

assets. The company's contribution to the scheme is charged to the income statement so as to spread the cost over the service lives of the employees. The defined benefit obligation is calculated every three years by independent Actuaries using the projected credit unit method. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past- service costs are recognised immediately in the income statement, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on the straight-line basis over the vesting period.

Defined contribution provident fund

The company operates a defined contribution provident fund for eligible unionisable employees. The fund is administered independently of the company's assets. It is funded by contributions from the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The company's contributions to the fund are charged to the income statement in the year to which they relate.

The company and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. 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.

Contract gratuity

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

Bonus scheme

The company operates a bonus scheme for its employees. The bonus is payable based on achievement of annual performance targets.

Restructuring and rationalisation provisions

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

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.

Comparatives

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

Notes to the Financial Statements *(Contd)*

2 CRITICAL JUDGMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Biological assets

In determining the fair value of biological assets, the company uses the present value of expected cashflows from the asset discounted at the current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The company considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. Management uses estimates based on historical data relating to yields and prices of sugar. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences between estimates and actual experience. The significant assumptions used are set out in note 17.

Property, plant and equipment and intangible assets

Critical estimates are made by the directors in determining the useful lives of property, plant and equipment and intangible assets.

Impairment

Determining whether assets are impaired requires an estimation of the value of the assets.

	2008 Shs'000	2007 Shs'000
3 REVENUE		
Gross sales	14,305,457	12,864,962
Less:		
Value Added Tax	(1,782,333)	(1,781,139)
Sugar Development Levy	(553,023)	(702,633)
	(2,335,356)	(2,483,772)
Net sales	11,970,101	10,381,190
Net sales analysed as follows:		
Sugar sales	11,870,162	10,296,879
Molasses sales	99,939	84,311
	11,970,101	10,381,190

	2008 Shs'000	2007 Shs'000
4 FINANCE (COSTS)/INCOME – NET		
Interest income:		
On BOCO balances	13,917	11,228
On short term deposits	540	25,014
On staff loans	6,357	7,056
	20,814	43,298
Interest expense:		
On loans	(51,709)	(8,671)
On bank overdrafts	(4,962)	(2,127)
Amortisation of MOCO loan discount (note 19(a))	(12,683)	-
	(69,354)	(10,798)
Less: Amounts included in cost of qualifying assets	47,127	-
	(22,227)	(10,798)
Other finance charges	(8,611)	(5,380)
Net foreign exchange (losses)/gains	(66,868)	2,294
	(76,892)	29,414

As detailed in note 19(a) the advance to MOCO is non interest bearing and as such, has been discounted to its present value as at 30 June 2008 with the resultant amortised discount being recorded as a finance cost in accordance with International Accounting Standard No 39 on Financial Instruments Recognition and Measurement.

	2008 Shs'000	2007 Shs'000
5 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after:		
charging:		
Staff costs (note 6)	1,433,155	1,458,749
Depreciation of property, plant and equipment (note 10)	613,250	586,616
Amortisation of intangible assets (note 11)	42,018	3,682
Operating lease rentals (note 31)	19,111	18,217
Directors' emoluments - fees	2,971	2,971
- other	52,599	50,259
Auditors' remuneration	4,798	4,829
Bad and doubtful debts	134,010	61,057
Loss on disposal of non- current assets held for sale	17,471	-
Loss on disposal of property, plant and equipment	-	383
Research and development costs	-	45,638
and crediting:		
Amortisation of grant income (note 25)	11,605	11,605
Gain on disposal of non- current assets held for sale	-	1,239
Gain on disposal of property, plant and equipment	983	-

5 PROFIT BEFORE TAXATION (continued)

Research and development costs represent costs incurred in carrying out a feasibility study on the Development of the TANA DELTA Integrated sugar project in conjunction with Tana and Athi Rivers Development Authority (TARDA).

	2008 Shs'000	2007 Shs'000
6 STAFF COSTS		
Salaries and allowances	1,293,358	1,318,531
Pension - defined benefit scheme	55,642	59,578
Provident fund	35,505	31,092
Group life insurance cover	18,248	14,994
Staff gratuity provision	17,606	22,813
Provision for leave pay	7,253	2,827
Pension - statutory defined contribution scheme	5,543	5,888
Production bonus	-	3,026
	1,433,155	1,458,749
7 TAXATION		
(a) Taxation charge		
Current taxation based on the adjusted profit		
for the year at 30% - current year	633,757	389,687
- prior year over provision	(13,137)	(14,125)
Total current taxation charge	620,620	375,562
Deferred taxation credit - current year	(151,781)	217,095
- Prior year over provision	(93,472)	(76,374)
Total deferred taxation (credit)/charge (note 23)	(245,253)	140,721
	375,367	516,283
(b) Reconciliation of expected tax based on accounting profit to taxation charge		
Accounting profit before taxation	1,589,204	1,909,894
Tax at the applicable rate of 30%	476,762	572,968
Tax effect of expenses not deductible for tax purposes	9,280	37,296
Tax effect of income not taxable	(4,066)	(3,482)
Prior year overprovision of deferred tax	(93,472)	(76,374)
Prior year overprovision of current tax	(13,137)	(14,125)
	375,367	516,283

7 TAXATION (continued)

	2008 Shs'000	2007 Shs'000
(c) Taxation payable/(recoverable)		
At beginning of the year	(202,899)	(163,661)
Charge for the year	620,620	375,562
Paid in the year	(217,486)	(414,800)
At end of year	200,235	(202,899)

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.

	2008	2007
Profit for the year (Shs'000)	1,213,837	1,393,611
Number of ordinary shares (thousands)	1,530,000	1,530,000
Earnings per share Basic & diluted (Shs)	0.79	0.91

There were no potential dilutive shares outstanding at either 30 June 2008 or 30 June 2007. The number of shares outstanding as at 30 June 2007 has been adjusted from 510 million shares to 1,530 million shares for the purposes of computing the earnings per share. This is in accordance with International Accounting Standard No 33 on Earnings per Share which requires such treatment if the number of ordinary or potential ordinary shares outstanding increases as a result of a bonus issue.

9 DIVIDEND

No interim dividend was paid during the year (2007 - Shs 0.50 per share totalling Shs 255 million). The directors recommend a final dividend of Shs 0.40 per share totalling Shs 612 million (2007: Shs 510 million) bringing the total dividend paid and proposed to Shs 0.40 per share (2007: Shs 1.50) amounting to Shs 612 million (2007: Shs 765 million) in respect of the year.

This dividend is subject to approval by shareholders at an Annual General Meeting and has not been included as a liability in these financial statements.

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 2006	743,886	1,889,604	4,086,630	259,046	259,721	449,705	173,211	7,861,803
Additions	-	8,607	24,394	10,880	14,662	72,206	1,282,000	1,412,749
Transfers to assets held for sale (note 21)	-	-	(99)	(28,269)	(7,388)	(2,440)	-	(38,196)
Transfers from capital work in progress	3,542	2,980	576,552	-	-	-	(583,074)	-
Disposals	-	(399)	-	-	-	-	-	(399)
Transfers to intangible assets (note 11)	-	-	-	-	-	-	(121,523)	(121,523)
At 1 July 2007	747,428	1,900,792	4,687,477	241,657	266,995	519,471	750,614	9,114,434
Additions	-	3	35,115	2,496	33,942	28,310	1,794,536	1,894,402
Transfers to assets held for sale (note 21)	-	-	(3,038)	(1,902)	(11,025)	(3,285)	-	(19,250)
Transfers from capital work in progress	175,822	-	-	-	-	-	(175,822)	-
Disposals	-	-	-	(1,223)	(6,423)	(2,759)	-	(10,405)
At 30 June 2008	923,250	1,900,795	4,719,554	241,028	283,489	541,737	2,369,328	10,979,181
COMPRISING								
Cost	179,364	11,590	633,023	10,251	273,871	495,678	2,369,328	3,973,105
Valuation – 1996	-	-	-	-	9,618	46,059	-	55,677
Valuation – 2006	743,886	1,889,205	4,086,531	230,777	-	-	-	6,950,399
	923,250	1,900,795	4,719,554	241,028	283,489	541,737	2,369,328	10,979,181

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

	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
DEPRECIATION								
At 1 July 2006	-	-	-	-	188,557	348,367	-	536,924
Charge for the year	21,848	95,501	355,099	43,966	25,864	44,338	-	586,616
Transfers to assets held for sale (note 21)	-	-	(22)	(3,205)	(7,388)	(1,966)	-	(12,581)
Eliminated on disposal	-	(16)	-	-	-	-	-	(16)
At 1 July 2007	21,848	95,485	355,077	40,761	207,033	390,739	-	1,110,943
Charge for the year	21,848	95,767	384,338	41,821	27,728	41,748	-	613,250
Transfers to assets held for sale (note 21)	-	-	(1,168)	(790)	(11,025)	(2,729)	-	(15,712)
Eliminated on disposal	-	-	-	(459)	(6,423)	(1,922)	-	(8,804)
At 30 June 2008	43,696	191,252	738,247	81,333	217,313	427,836	-	1,699,677
NET BOOK VALUE (valuation)								
At 30 June 2008	879,554	1,709,543	3,981,307	159,695	66,176	113,901	2,369,328	9,279,504
At 30 June 2007	725,580	1,805,307	4,332,400	200,896	59,962	128,732	750,614	8,003,491
NET BOOK VALUE (Cost basis)								
At 30 June 2008	534,077	500,805	3,014,515	78,789	66,176	107,304	2,369,328	6,670,994
At 30 June 2007	369,135	525,403	3,264,045	146,245	59,964	120,743	750,613	5,236,030

Property and factory plant and machinery were revalued on 30 June 2006, by Lloyd Masika, Registered Valuers and Estate Agents, on a depreciated replacement cost basis.

The Mumias Factory access road was completed in 2008 at a cost of Shs 175,822,000 and reclassified to Land Development from Capital work-in-progress.
The balance on capital work-in-progress mainly represents expenditure on the Co-generation project; factory expansion works and Information Technology (IT) upgrade projects that were in progress as at balance sheet date.
Interest on loans amounting to Shs 47,127,055 has been included in the cost of qualifying assets, which are principally the Co-generation project.

Included in factory plant and heavy mobile machinery are assets with a carrying value of Shs 49,390,628 (2007 - Shs 60,995,625) acquired under a Road Maintenance Unit package financed by the Kenya Sugar Board (note 25).
All property, plant and equipment have been charged to secure banking facilities as disclosed on note 26.

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Fully depreciated property, plant and equipment

	Cost/valuation		Normal annual depreciation charge	
	2008 Shs'000	2007 Shs'000	2008 Shs'000	2007 Shs'000
Factory plant and machinery	29,107	1,011	1,455	51
Motor vehicles	150,917	153,993	32,341	33,016
Other equipment and fixtures	313,864	177,726	69,704	59,236
	493,888	332,730	103,500	92,303

11 INTANGIBLE ASSETS

	Shs'000
COST	
At 1 July 2006	54,045
Additions	1,620
Transfer from property, plant and equipment (note 10)	121,523
At 30 June 2007	177,188
At 1 July 2007 and 30 June 2008	177,188
AMORTISATION	
At 1 July 2006	49,798
Charge for the year	3,682
At 1 July 2007	53,480
Charge for the year	42,018
At 30 June 2008	95,498
NET BOOK VALUE	
At 30 June 2008	81,690
At 30 June 2007	123,708

Intangible assets represent computer software. At 30 June 2008, intangible assets with a cost of Shs 54,045,604 (2007 – Shs 48,209,337) were fully amortised. The normal annual amortisation charge on these assets would have been Shs 18,013,400 (2007 – Shs 16,068,172).

12 DEVELOPMENT COSTS

Development costs represent costs incurred on the development of the Tana Delta Integrated Sugar Project in conjunction with Tana and Athi Rivers Development Authority (TARDA). The feasibility study was concluded in the year and the project found to be economically viable and costs incurred were capitalised in accordance with IAS 38 on Intangible Assets. The amounts incurred are to be converted to equity in a company to be incorporated to run the project and in which it is envisaged that Mumias Sugar Company Limited will have the majority shareholding.

13 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 to the company by the Government of Kenya at no purchase consideration. The land has been charged to secure banking facilities granted to the company as disclosed on note 26. The land was valued on 30 June 2006, by Lloyd Masika, Registered Valuers and Estate Agents, on open market basis at Shs 500,000,000.

14 NON CURRENT RECEIVABLES

	2008 Shs'000	2007 Shs'000
Staff receivables	129,008	136,428
Less: receivable within one year (included under note 18)	(54,941)	(50,347)
Receivable after one year (non-current)	74,067	86,081

Included in staff receivables is a balance of Shs 5,068,000 (2007 – Shs Nil) due from a director of the company.

Included in the staff receivables balances are staff car loans amounting to Shs 121,803,871 (2007 – Shs 128,942,309) which are secured by the vehicles acquired through the loans.

The effective interest rate on staff loans during the year was 5% (2007 - 5%).

15 INVESTMENT HELD TO MATURITY

The company's trade receivable from Uchumi Supermarkets Limited (in Receivership) amounting to Shs 7,266,625 was converted to a debenture with a similar face value. The interest rate is 10% per annum. The amount is to be recovered or converted to equity once a strategic investor is found for Uchumi Supermarkets Limited (in Receivership). The debt is fully provided for.

	2008 Shs'000	2007 Shs'000
Debenture	7,266	-
Impairment losses	(7,266)	-
	-	-

16 INVENTORIES

	2008 Shs'000	2007 Shs'000
Sugar and molasses	278,301	864
Sugar in process	19,423	5,470
	297,724	6,334
Mechanical and electrical spares	436,140	390,062
Fertilisers, chemicals and fuels	243,576	36,282
Other consumables	108,814	86,001
	1,086,254	518,679

17 BIOLOGICAL ASSETS

	2008 Shs'000	2007 Shs'000
At beginning of the year	214,011	163,203
Additions at cost	145,864	190,336
Decrease due to harvest	(155,603)	(76,036)
	204,272	277,503
Loss arising from changes in fair value attributable to physical changes	(19,287)	(73,744)
Gain arising from changes in fair value attributable to price changes	3,147	10,252
Fair value loss during the year	(16,140)	(63,492)
Carrying amount at the end of the year	188,132	214,011

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

- The valuation is based on a market price of Shs 2,300 (2007: Shs 2,228) per tonne of sugar cane.
- Cane at the 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.

	2008 Shs'000	2007 Shs'000
18 TRADE AND OTHER RECEIVABLES		
MOCO receivables (note 19a)	1,367,781	1,117,261
BOCO receivables (note (19b)	214,984	75,351
Advance to Busia Sugar Company Ltd	38,823	40,142
Trade receivables	429,434	252,128
Other receivables and prepayments	523,771	577,917
Staff receivables (note 14)	54,941	50,347
Advances to farmers	1,257	1,257
	2,630,991	2,114,403

The advance to Busia Sugar Company Ltd (in Receivership) is to be recovered through the use of the land owned by the company (Nasewa nucleus estate) over a period of 5 years.

19 (a) MOCO RECEIVABLES

	Gross amount Shs' 000	Provision for doubtful debt Shs' 000	Net 2008 Shs' 000	Net 2007 Shs' 000
Services recoverable from farmers	1,213,657	(86,801)	1,126,856	806,650
Accountancy fees and agricultural extension services	251,453	(251,453)	-	-
Interest receivable from MOCO (see note below)	425,460	(235,396)	190,064	239,840
Other receivables	-	-	-	1,257
Advance to MOCO	50,861	-	50,861	69,514
TOTAL (note 18)	1,941,431	(573,650)	1,367,781	1,117,261

The company provides agricultural extension services to farmers on behalf of Mumias Outgrowers Company Limited (MOCO) and accountancy services to MOCO. The directors have made provisions for the amounts deemed not recoverable from MOCO due to its inability to meet its obligations as they fall due.

The interest receivable from MOCO has been disputed by MOCO (see note 33). The balance of Shs 190,064,000 not provided for is considered recoverable.

The advance to MOCO is non interest bearing and has therefore been discounted to its present value as at 30 June 2008 at a rate of 12% per annum being the rate implicit in the agreement.

(b) BOCO RECEIVABLES

	2008 Shs'000	2007 Shs'000
Services recoverable from farmers	188,530	41,733
BOCO current account	6,873	11,808
Advance to BOCO	19,581	21,810
TOTAL (note 18)	214,984	75,351

(b) BOCO RECEIVABLES (Continued)

The company provides cane development and agricultural extension services to farmers contracted by Busia Outgrowers Company Ltd (BOCO). The amounts due are fully recoverable from farmers on harvest. The effective interest rate on BOCO advance is 12% per annum and is to be repaid in 28 equal monthly instalments. The advance to BOCO is recovered through a levy on services offered to farmers by the company.

20 COLLATERAL DEPOSIT

This is a term deposit which represents a 10% advance collateral deposit on the PROPARCO International Facility (note 26) that the company was required to place in a Debt Reserve Bank Account with a receiving bank (Barclays Bank of Kenya Ltd). The deposit earns interest at a rate of LIBOR minus 0.25%. The amount is expected to be discharged by December 2017 when the loan is fully repaid.

21 NON CURRENT 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 2006	304,889	13,783	9,392	4,568	332,632
Transferred from property, plant and equipment (note 10)	99	28,269	7,388	2,440	38,196
Eliminated on write off	(37,123)	-	-	-	(37,123)
Disposals	(266,521)	-	(1,676)	-	(268,197)
At 1 July 2007	1,344	42,052	15,104	7,008	65,508
Transferred from property, plant and equipment (note 10)	-	1,902	11,059	6,289	19,250
Disposals	-	(26,804)	(17,020)	(2,868)	(46,692)
At 30 June 2008	1,344	17,150	9,143	10,429	38,066
DEPRECIATION					
At 1 July 2006	61,231	13,783	9,392	2,691	87,097
Transferred from property, Plant and equipment (note 10)	22	3,205	7,388	1,966	12,581
Eliminated on write off	(2,186)	-	-	-	(2,186)
Eliminated on disposal	(57,801)	-	(1,676)	-	(59,477)
At 1 July 2007	1,266	16,988	15,104	4,657	38,015
Transferred from property, Plant and equipment (note 10)	-	790	11,051	3,871	15,712
Eliminated on disposal	-	(3,332)	(17,012)	(2,563)	(22,907)
At 30 June 2008	1,266	14,446	9,143	5,965	30,820
IMPAIREMENT					
At 1 July 2006	173,958	-	-	-	173,958
Eliminated on write off	(34,937)	-	-	-	(34,937)
Eliminated on disposal	(139,021)	-	-	-	(139,021)
At 30 June 2007/2008	-	-	-	-	-
NET BOOK VALUE					
At 30 June 2008	78	2,704	-	4,464	7,246
At 30 June 2007	78	25,064	-	2,351	27,493

Assets held for sale represent assets that the company intends to dispose within the next year in their present condition.

Notes to the Financial Statements *(Contd)*

22 SHARE CAPITAL

	2008 Shs'000	2007 Shs'000
Authorised:		
2,500,000,000 ordinary shares of Shs 2 each	5,000,000	5,000,000
Issued and fully paid:		
1,530,000,000 (2007 - 510,000,000) ordinary shares of Shs 2 each	3,060,000	1,020,000

The movement in paid up share capital is summarized as follows:

Number of ordinary shares	2008 Thousands	2007 Thousands
At 1 July	510,000	510,000
Bonus issue*	1,020,000	-
At 30 June	1,530,000	510,000

*At an Annual General meeting held on 7 December 2007, the shareholders resolved to capitalise Shs 2,040,000,000 being part of the amount standing in the revenue reserve account by paying in full at par 1,020,000 ordinary shares of two shilling (Shs 2) each in the capital of the company, and that such 1,020,000 shares credited as fully paid accordingly be allotted to shareholders in the proportion of two (2) shares for every (1) ordinary share held and that the shares so distributed shall rank parri passu with existing issued ordinary shares and shall be treated for all purposes as an increase of the nominal amount of capital of the company held by each such shareholder.

23 DEFERRED INCOME TAXATION LIABILITY

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

	2008 Shs'000	2007 Shs'000
The net deferred taxation liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	894,459	968,266
Revaluation surpluses	783,146	885,340
Fair value adjustment - biological assets	30,945	64,205
Unrealised exchange gains	257	-
	1,708,807	1,917,811
Deferred tax assets:		
Provision for service gratuity	(4,058)	(8,370)
Provision for staff leave pay	(6,638)	(5,859)
Unrealised exchange losses	(14,821)	(853)
General doubtful debts provision	(27,769)	(1,955)
	(53,286)	(17,037)
	1,655,521	1,900,774

23 DEFERRED INCOME TAXATION LIABILITY (Continued)

		2008 Shs'000	2007 Shs'000
The movement on the deferred taxation account during the year was as follows:			
Balance at beginning of the year		1,900,774	1,760,053
Charge to income statement - note 7(a)	– Current year	(151,781)	217,095
	– Prior year	(93,472)	(76,374)
Balance at end of the year		1,655,521	1,900,774

24 RETIREMENT BENEFITS OBLIGATIONS

(a) Provision for service gratuity

	2008 Shs'000	2007 Shs'000
Balance at the beginning of the year	27,900	514,177
Provision/(write back) for the year	17,606	22,813
Paid during the year	(31,980)	(509,090)
Balance at the end of the year	13,526	27,900
Maturity analysis		
Within one year	5,455	23,837
After one year	8,071	4,063
	13,526	27,900

(b) Staff retirement defined benefit scheme

Contributions to the company staff retirement defined benefit scheme are determined by the rules of the scheme and totalled Shs 55,642,144 (2007 – Shs 59,578,000) in the year.

An actuarial valuation was last carried out as at 30 June 2007 by Alexander Forbes Financial Services (E.A.) Limited. The valuation indicated a past service surplus of Shs 85,400,000, representing a funding level of 108.6%. The Retirement Benefits Regulations 2000 require all schemes to satisfy a minimum funding requirement of 80% of the schemes liabilities. The scheme satisfied the statutory minimum funding requirements as at the last valuation date.

Valuation method Projected Unit Method

Principal assumptions used in the valuation are:	
- Rate of salary inflation	8%
- Rate of return on investments	10%

The next actuarial valuation is scheduled for 30 June 2010.

24 RETIREMENT BENEFITS OBLIGATIONS (Continued)

(c) Statutory contribution scheme

The company's contributions to the statutory National Social Security Fund scheme are determined by statute and totalled Shs 5,542,800 (2007 – Shs 5,888,000) in the year.

(d) Staff provident fund

The company operates a defined contribution provident fund for eligible unionisable employees. The scheme is administered by an independent investment management company and is funded by contributions from the company and employees. The company's contribution in the year totalled Shs 35,505,000 (2007 Shs 31,092,000).

The company's obligations to the staff retirement benefits plans are charged to the income statement as they fall due.

25 DEFERRED GRANT INCOME

	2008 Shs'000	2007 Shs'000
At the beginning of the year	60,996	72,601
Amortisation for the year	(11,605)	(11,605)
At the end of the year	49,391	60,996

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.

26 BORROWINGS

	2008 Shs'000	2007 Shs'000
Barclays Bank of Kenya Ltd	489,989	-
Stanbic Bank of Kenya Ltd	256,080	-
Bank overdrafts	281,531	-
Kenya Sugar Board loans	-	157,807
	1,027,600	157,807
The borrowings are repayable as follows:		
On demand or within one year	1,027,600	157,807

The loan from Kenya Sugar Board was fully repaid in the year.

The Barclays Bank and Stanbic Bank loans are secured by a fixed and floating debenture on the company assets registered and stamped to cover Shs 1,250,000,000 as well as a first charge over property L.R.No. Mumias Sugar Scheme/2 registered and stamped to cover Shs 1,250,000,000 shared pari passu between Barclays Bank, Kenya Commercial Bank, Kenya Commercial Finance Company Ltd and Stanbic Bank.

26 BORROWINGS (Continued)

The bank overdrafts and other banking facilities are also secured by legal charges over LR Mumias Sugar Scheme/2 and fixed and floating debentures over all of the company's assets.

The company had undrawn committed banking facilities amounting to Shs 131 million (2007 – Shs 1,270 million). The banking facilities consist of term loans, bank overdrafts, guarantees and letters of credit. The banking facilities are secured by legal charges over LR Mumias Sugar Scheme/2 and fixed and floating debentures over all of the company's assets.

The company has negotiated a US dollar 35 million loan facility with PROPARCO International to be used for the Co-generation project. The loan had not yet been disbursed at year end. As a result, the company sourced short term bridging finance in the form of the Barclays Bank and Stanbic Bank loans above. The banks' loan agreements stipulate that payment of principal and interest is to be made upon receipt of funds from PROPARCO. The interest on this loan will be 2.25% above the six month LIBOR and is repayable in equal semi-annual instalments over a period of 10 years. As security for the loan, PROPARCO International will have a fixed charge over the Co-generation plant currently under construction and related equipment, receivables from the Power Purchase Agreement (PPA) signed with Kenya Power and Lighting Company Ltd as well as the Debt Reserve Bank Account (collateral deposits see note 20) which will exclusively hold the funds supplied by the financiers.

	2008	2007
The effective interest rates on the borrowings during the year were:		
Kenya Sugar Board loans	-	5.00%
Barclays Bank of Kenya Ltd	13.75%	-
Stanbic Bank of Kenya Ltd	16.75%	-
Bank overdrafts	15.00%	13.75%

	2008 Shs'000	2007 Shs'000
27 TRADE AND OTHER PAYABLES		
Trade payables	744,933	534,948
Prepaid sales	90,839	206,700
Accruals	222,209	154,858
Outgrowers	526,884	161,797
Other payables	253,407	67,047
	1,838,272	1,125,350
28 PROVISION FOR STAFF LEAVE PAY		
At the beginning of the year	19,529	18,439
Provision for the year	7,253	2,827
Paid in the year	(4,654)	(1,737)
At the end of the year	22,128	19,529

	2008 Shs'000	2007 Shs'000
29 UNCLAIMED DIVIDENDS		
At beginning of the year	286,853	176,672
Final dividend declared – 2007/2006	510,000	510,000
Interim dividend declared – 2008/2007	-	255,000
	796,853	941,672
Dividend paid	(492,447)	(654,819)
At the end of the year	304,406	286,853

The unclaimed dividends relate substantially to dividends payable to farmer shareholders who had unresolved share certificate issues at the balance sheet date.

30 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2008 Shs'000	2007 Shs'000
Profit before taxation	1,589,204	1,909,894
Adjustments:		
Finance costs\(income)	76,892	(29,414)
Depreciation	613,250	586,616
Amortisation	42,018	3,682
(Gain)/loss on disposal of property, plant and equipment	(983)	383
Loss/(gain) on disposal of non-current assets held for sale	17,471	(1,239)
Amortisation of MOCO loan discount (note 19)	(12,683)	-
Foreign exchange (losses)/gains	(66,868)	2,294
Amortisation of deferred grant income	(11,605)	(11,605)
Cash generated from operations before Working capital changes	2,246,696	2,460,611
Movements in:		
Non-current receivables	12,014	10,876
Inventories	(567,575)	171,164
Biological assets	25,879	(50,808)
Trade and other receivables	(516,588)	(699,578)
Collateral deposit	(194,084)	-
Provision for service gratuity	(14,374)	(486,277)
Trade and other payables	712,922	(150,090)
Provision for staff leave pay	2,599	1,090
Cash generated from operations	1,707,489	1,256,988

30 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2008 Shs'000	2007 Shs'000
(b) Loans movement		
At beginning of year (note 26)	157,807	301,553
Received	730,000	-
Repayment of principal	(151,396)	(150,157)
Repayment of interest	(6,411)	-
Accrued interest	16,069	6,411
At end of the year	746,069	157,807
(c) Analysis of the balances of cash and cash equivalents		
Cash and bank balances	474,639	626,104
Bank overdrafts (Note 26)	(281,531)	-
	193,108	626,104
(d) Additions to property, plant and equipment		
Additions in the year (note 10)	1,894,402	1,412,749
Less interest capitalised	(47,127)	-
	1,847,275	1,412,749

31 OPERATING LEASE ARRANGEMENTS

The company as lessee:

	2008 Shs'000	2007 Shs'000
Minimum lease payments under operating leases recognised in the income statement	19,111	18,217

At the balance sheet date, the company had outstanding commitments under operating leases, payable as follows:

	2008 Shs'000	2007 Shs'000
Within one year	19,066	11,695
In the second to fifth years inclusive	33,272	46,779
After five years	75,637	75,509
	127,975	133,983

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

Notes to the Financial Statements *(Contd)*

31 OPERATING LEASE ARRANGEMENTS (Continued)

The company as a lessor:

Property rental income earned during the year amounted to Shs 6,849,940 (2007 – Shs 5,116,337). At the balance sheet date, the company had contracted with tenants for the following future lease receivables.

	2008 Shs'000	2007 Shs'000
Within one year	6,507	5,486
In the second to fifth years inclusive	2,036	2,036
	8,543	7,522

32 CAPITAL COMMITMENTS

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

	2008 Shs'000	2007 Shs'000
Authorised and contracted for	1,531,677	3,504,181
Authorised but not contracted for	1,131,017	776,663
	2,662,694	4,280,844

The capital commitments relate to expenditure on the co-generation project and the new packaging plant to be installed in the 2008/2009 financial year. The co-generation project will enable the company to sell electricity to Kenya Power and Lighting Company Ltd and is also expected to be completed in the 2008/2009 financial year. The company is funding these commitments through internally generated funds, loans and overdrafts. The Co-generation project will be primarily funded by the PROPARCO loan facility disclosed on note 26.

33 CONTINGENT LIABILITIES

A former customer has filed a claim in respect of breach of contract. A defence has been entered by the company and the case is pending in court. The directors are of the opinion that the likely liability, if any, should not exceed the provision recognised in the financial statements and the deposit with the court.

MOCO has claimed that the company has overcharged interest of approximately Shs 1.2 billion since 1 January 1998. The directors are of the opinion that the claim is unlikely to succeed. Mumias Sugar Company Limited has placed a claim of Shs 2.6 billion relating to a loan of Shs 190 million advanced to MOCO in 1994 for cane development at an interest rate of 23.5% per annum. The total loan plus accrued interest was repayable in full on or before 31 December 1996, however the amount remains unpaid to date.

34 RELATED PARTY TRANSACTIONS

a) Mumias Outgrowers Company Limited (MOCO)

The company continuously transacts with MOCO, a farmers representative organ. The processes and dealings between MOCO and 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. The balances as at 30 June are reflected on notes 18 and 19.

b) Busia Outgrowers Company Limited (BOCO)

The company continuously transacts with BOCO, a farmers representative organ for farmers in the Busia region. These transactions relate to the supply of sugar cane to MSC. These are all at arms length. The balances as at 30 June are reflected on notes 18 and 19.

34 RELATED PARTY TRANSACTIONS (Continued)

c) Staff loans

The company operates a company car loan scheme for managerial and supervisory employees. The balance outstanding on that scheme at year end was Shs 121,803,871 (2007 – Shs 128,942,309). The cars are registered in joint names of the company and the employees as security for the car loans.

d) Key management compensation

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

	2008 Shs'000	2007 Shs'000
Salaries and other benefits	48,549	49,609
e) Directors' remuneration		
Fees for services as directors	2,971	2,971
Other emoluments	52,599	50,259
	55,570	53,230

35 RISK MANAGEMENT POLICIES

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

Taking risk is core to the business and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance. The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits. This is achieved by means of reliable and up-to-date information systems.

The company regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the supervision of the Board of Directors. Management in conjunction with various committees then identifies, evaluates and addresses risks accordingly.

In addition, the company has an independent internal audit department which reports directly to the Board Audit Committee. This department is responsible for the independent review of risk management and the control environment.

a) Credit risk management

Due to the nature of the company's operations it is exposed to credit risk. This is the risk that a counterparty will be unable to pay amounts in full when due. The company is exposed to this risk in several areas including trade and other receivables, and cash and cash equivalents. However, the company's credit risk is concentrated mainly in advances issued to farmers in the form of farming inputs and in trade receivables in the form of sugar debtors.

Notes to the Financial Statements *(Contd)*

35 RISK MANAGEMENT POLICIES (Continued)

The company gives advances to farmers in the form of farming inputs and services to facilitate sugarcane crop establishment and to improve the productivity of the growing crop. Advances to farmers are eventually deducted from the value of the cane delivered upon harvesting. The key risk is therefore that the yield from the crop will not be sufficient to cover the advanced credit. The company counters this risk by placing significant emphasis on the vetting and selection of farmers. This is done with the aid of comprehensive and documented criteria which includes a review of farmers' payment histories.

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

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

The bulk of the company's revenue relates to sugar sales (note 3). The company has a documented credit policy whose management and implementation is overseen by a Credit Committee. The Committee manages limits and controls concentrations of credit risk wherever they are identified. It structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to a debtor or categories of debtors. Such risks are monitored on a regular basis and are subject to regular reviews. Exposure to credit risk is managed through regular analysis of the ability of credit customers to meet their obligations and by adjusting the limits appropriately. The credit risk on trade receivables is further mitigated by requiring most credit customers to provide guarantees issued by reputable banks recommended by the company.

In measuring credit risk relating to trade receivables, the company therefore reflects three components:

a) the 'probability of default' by the customer or counterparty on its contractual obligations;
b) current exposures to the counterparty and its likely future development, from which the company derives the 'exposure at default'; and
c) the likely recovery ratio on the defaulted obligations.

With regard to impairment of outstanding receivables, it is the company's policy to assess/review all debts over 90 days for impairment and to provide for all debts where a debtor is declared bankrupt. In some cases where an unsecured customer is in arrears the whole amount is provided for. Any bank guarantees received are factored in arriving at the impairment amounts.

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the company at the comparative balance sheet dates, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, this exposure is based on net carrying amounts as reported in the balance sheet.

The collateral held for sugar debtors is guarantees from reputable banks recommended by the company. Staff debtors are mainly for car loans advanced to members of staff, the vehicles are jointly registered in the employee and the company name hence there is no significant exposure from staff receivables.

35 RISK MANAGEMENT POLICIES (Continued)

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30 June 2008.

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	1,396,797	-	1,396,797	41
Past due but not impaired	1,976,984	-	1,976,984	59
Impaired	735,957	(735,957)	-	-
	4,109,738	(735,957)	3,373,781	100

The table below represents the comparative balances as at 30 June 2007.

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	998,405	-	998,405	33
Past due but not impaired	1,828,183	-	1,828,183	67
Impaired	581,728	(581,728)	-	-
	3,408,316	(581,728)	2,826,588	100

Of the total gross amount of impaired receivables, the following amounts have been individually assessed as impaired:

	2008 Shs'000	2007 Shs'000
Trade receivables	155,041	86,408
Debenture	7,266	-
MOCO receivables	573,650	495,320
	735,957	581,728

The customers under the neither past due nor impaired category are paying their debts as they continue trading. The default rate is low.

The debt that is past due but not impaired is not impaired and continues to be paid. The finance department is actively following this debt. The debt that is impaired has been fully provided for. However, the finance department are following up on the impaired debt, through pursuit of the debtors, debt collectors as well as through legal action.

b) Market risk management

(i) Interest rate risk

Interest rate risk arises primarily from borrowings and cash and cash equivalents disclosed in note 26. The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

35 RISK MANAGEMENT POLICIES (Continued)

As at 30 June 2008, an increase/decrease of 3 percentage points on interest rates would have resulted in an increase/decrease in pre-tax profit of Shs. 16,589,000 (2007 – Shs. 4,690,000).

(ii) Currency risk

The company undertakes certain transactions denominated in foreign currencies, mainly the US Dollar, the Euro, Sterling Pounds, Japanese Yen and the South African Rand. This results in exposures to exchange rate fluctuations. The balances impacted in this regard are the balances due to foreign suppliers, balances due from foreign debtors, bank balances and various accruals denominated in foreign currency. Exchange rate exposures are managed within approved policy parameters utilising matching of assets and liabilities.

As at 30 June 2008, an increase/decrease of 5 percentage points on exchange rates would have resulted in an increase/decrease in pre-tax profit of Shs 4,495,012 (2007 – Shs 7,401,601)

c) Liquidity risk management

Liquidity risk is the risk that the company will not be able to meet its financial obligations when they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the company's reputation.

The company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of directors. All capital investments are funded by long term borrowings.

The table below provides a contractual maturity analysis of the company's financial liabilities:

	1 - 6 months Shs'000	6 - 12 months Shs'000	1 – 5 years Shs'000	Total Shs'000
At 30 June 2008				
Financial liabilities				
Borrowings	1,027,600	-	-	1,027,600
Trade and other payables	1,838,272	-	-	1,838,272
Provision for service gratuity	-	5,455	8,071	13,526
Provision for staff leave pay	22,128	-	-	22,128
Unclaimed dividends	304,406	-	-	304,406
Total financial liabilities (contractual maturity dates)	3,192,406	5,455	8,071	3,205,932

35 RISK MANAGEMENT POLICIES (Continued)

At 30 June 2007

Financial liabilities				
Trade and other payables	1,125,350	-	-	1,125,350
Borrowings	157,807	-	-	157,807
Provision for service gratuity	-	23,837	4,063	27,900
Provision for staff leave pay	19,529	-	-	19,529
Unclaimed dividends	286,853	-	-	286,853
Total financial liabilities (contractual maturity dates)	1,589,539	23,837	4,063	1,617,439

d) Operational Risk Management

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid any control procedures that restrict initiative and creativity in the company.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in the company's departments.
This responsibility is supported by the development of overall company standards for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization and approval of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced by the entity, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and implementation of the proposed remedial solutions and actions.
- Development of contingency plans
- Training and professional development for its staff; and
- Adherence to ethical and business standards

Review of compliance with company standards is reviewed on an ongoing basis by senior management and the internal audit department.

36 CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are:

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

The company has a number of sources of capital available to it and seeks to optimize its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders.

Capital adequacy is monitored regularly by the company's management and quarterly by the Board of Directors. The capital structure of the company consists of debt, which includes the borrowings (note 26), cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings.

	2008 Shs'000	2007 Shs'000
The gearing ratio at the year end was as follows:		
Capital and reserves	9,041,497	8,337,660
Borrowings (note 26)	1,027,600	157,807
Collateral deposits	(194,084)	-
Cash and bank balances	(474,639)	(626,104)
Net debt	358,877	(468,297)
Total capital	9,400,374	7,869,363
Gearing ratio	3.8%	-

37 INCORPORATION

The company is domiciled and incorporated in Kenya under the Companies Act.

38 CURRENCY

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

Five Year Summary Review

	2003/04 Shs'000	2004/05 Shs'001	2005/06 Shs'000	2006/07 Shs'000	2007/08 Shs'000
Turnover	9,792,503	10,080,174	11,657,540	10,381,190	11,970,101
Cane purchases from outgrowers	3,989,035	4,163,260	4,533,676	4,216,471	5,010,627
Profit before taxation	1,138,550	1,843,381	2,219,889	1,909,894	1,589,204
Taxation	(347,099)	(553,451)	(693,274)	(516,283)	(375,367)
Profit after taxation	791,451	1,289,930	1,526,615	1,393,611	1,213,837
Shareholders funds at period end	5,402,105	6,080,035	7,709,049	8,337,660	9,041,497
Return on capital employed	21.08%	30.32%	28.80%	22.91%	17.58%
Number of shares, '000	510,000	510,000	510,000	510,000	510,000
Dividends	561,000	765,000	892,500	765,000	612,000
Dividends per share, Shs	0.37	0.50	0.58	0.50	0.40
Earnings per share, Shs	0.52	0.84	1.00	0.91	0.79
Direct revenue to Government by way of					
Value Added Tax and Income Tax	2,057,967	1,536,565	2,358,878	1,663,447	2,157,700
Staff costs:					
Management	558,060	651,475	729,364	722,665	734,067
Skilled	625,059	383,760	497,947	487,451	471,340
Unskilled	368,993	222,891	200,810	203,824	187,737
Casual labour	31,247	38,510	35,009	37,371	97,544
Area under cane (Ha)					
Nucleus estate	3,481	3,503	3,695	3,851	3,755
Outgrowers	47,669	51,732	53,674	63,705	59,410
Cane processed (Thousand Tonnes)	2,291	2,348	2,451	2,119	2,408
Sugar produced (Thousand Tonnes)	265	269	266	217	265
Increase/(decrease) in production					
over previous period	11.81%	1.51%	(1.11%)	(18.42%)	22.12%
Number of registered farmers					
at period end	54,741	63,634	65,943	77,200	81,789
Number of employees at period end:					
Permanent	2,789	1,992	1,795	1,850	1,606
Seasonal	10,079	11,207	11,894	12,636	12,620
Category of permanent/contract employees:					
Management	454	427	424	470	453
Skilled	1,522	990	977	973	918
Unskilled	813	575	394	407	235
Contract	137	94	224	146	129

Proxy Form

Share Member No ____________________

The Company Secretary
Mumias Sugar Company Limited (MSC)
Private Bag
MUMIAS

PROXY

I/We ______________________________ of ____________________

Being a *Member/Members of the 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 (AGM) of the Company to be held on Friday 5 December 2008 and at any adjournment thereof.
*Strike out as appropriate
Signature (s)

Signed this ____________________ day of ____________________ 2008

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 authorized.
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.

cut here ....

Shareholders admission letter for MSC AGM on 5.12.08

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 5th December 2008 at 11.00a.rn.

Nambari ya Mwanahisa ______________________

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

MWAKILISHI

Mimi/Sisi ______________________ kutoka ______________________

Kama* mwanachama/Wanachama wa Kampuni iliyotajwa namteua/twamteua

______________________ kutoka ______________________

Au akikosa ______________________ kutoka ______________________

Kama *mwakilishi *wangu/wetu kupiga kura kwa niaba *yangu/sisi wakati wa mkutano wa pamoja wa mwaka wa kampuni utakaofanyika Ijumaa Desemba 5, 2008 au kuahirishwa kwake.

*Chagua panapohitajika

Imetiwa sahihi ______________________ Tarehe ______________________ Mwaka 2008

Muhimu:

1) Anwani iwe sawa na ile iliyoko kwenye rejista ya wanachama.

2) Endapo mwanachama atakuwa shirika, fomu hii ya uwakilishi lazima iidhinishwe kupitia mhuri rasmi au kutiwa sahihi na afisa wa shirika aliyepewa mamlaka kufanya hivyo.

3) Si lazima kwa wakala aliyeteuliwa kuwa mwanachama wa kampuni.

4) Katika hali ambapo kuna ushirikiano katika umiliki wa hisa, sahihi ya mwanahisa mmoja itatosha lakini majina ya wanahisa wote yaonyeshwe.

Kata Hapa ....

Barua ya kukubaliwa kwa mwenye hisa kuingia katika Mkutano Mkuu wa kila Mwaka wa MSC mnamo 5.12.2008

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 kabia ya mkutano ndiyo
watakaoruhusiwa katika mkutano.

Jina ______________________

Sahihi ______________________

Nambari ya akaunti ya hisa ______________________

Mkutano Mkuuu wa kila Mwaka wa Mumias Sugar Company Limited kufanyika katika Tom Mboya Labour College, Ring Road, Milimani, Kisumu, mnamo Ijumaa, Decemba 5, 2008 saa tano asubuhi.