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MUMIAS SUGAR COMPANY LIMITED



Annual Report & Financial Statements for the year ended 30th June 2004

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MUMIAS SUGAR



MUMIAS SUGAR COMPANY

OUR MISSION

To satisfy our consumer needs for sugar and other products through efficient and innovative production and marketing practices while meeting the diverse expectations of all our stakeholders

OUR VISION

To be a leading Kenyan manufacturing Company that efficiently and profitably produces and markets sugar and related products to world class standards.

OUR VALUES

We consistently offer quality products and services to our customers,
being a customer driven Company.

•

We encourage teamwork and positive contribution from our motivated and innovative workforce.

•

We conduct business with employees, customers and other stakeholders
in a honest, fair and caring manner.

•

We are an equal opportunity employer guided by International Labour Organization conventions.

•

We practice fair competition.

•

We at all times observe good corporate governance.

•

We uphold excellence in performance as the basis of employee rewards.

•

We embrace internationally accepted health, safety and environmental practices in our operations.

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1. Nunnias Sugar Company -- Periodicals
2. Sugar Trade -- Kenya -- Periodicals

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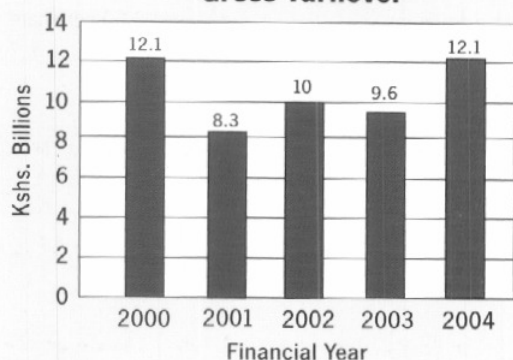
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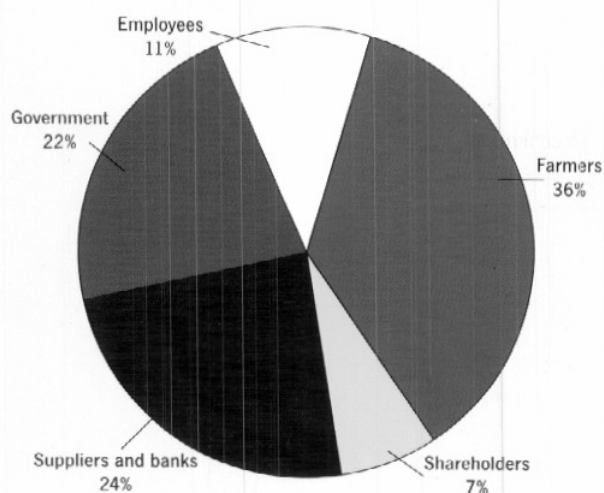
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Financial Highlights - 2004

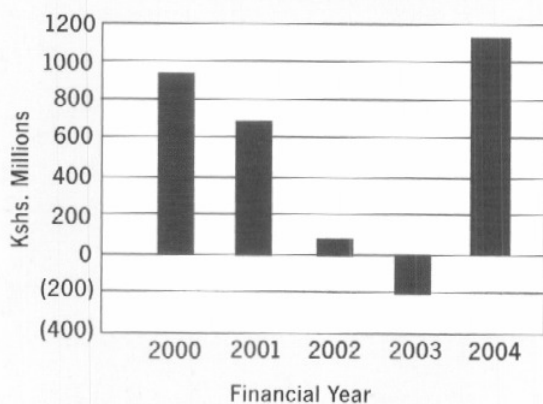
Gross Turnover



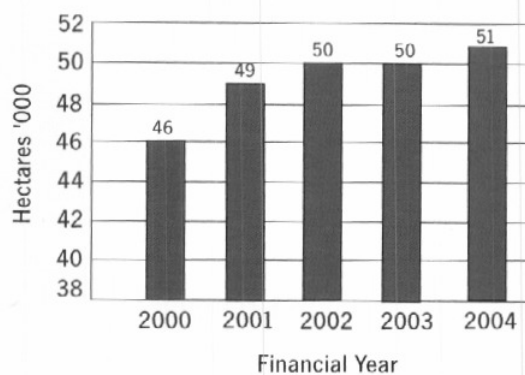
Value Added Summary



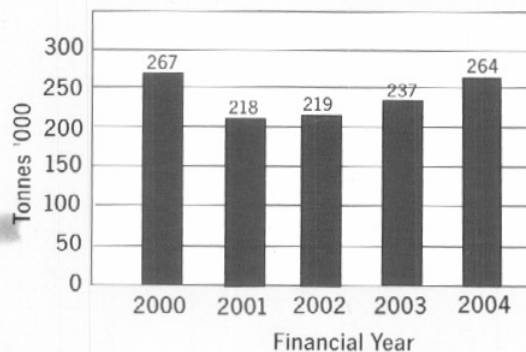
Profit Before Tax



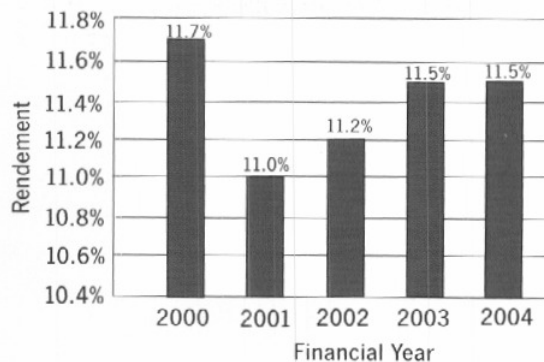
Hectares of Sugarcane



Sugar Production



Production Efficiency



Notice of Annual General Meeting

Notice is hereby given that the thirty third 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 12th November 2004 at 11.00 a.m. to transact the following ordinary business:

1. To receive, consider and, if thought fit, adopt the Annual Report and Financial Statements for the year ended 30th June, 2004 together with the Directors' and Auditors' reports thereon.
2. To confirm the interim dividend of Shs. 0.50 per share paid in April 2004 and approve payment of a final dividend of Shs. 0.60 per share.
3. To elect directors:
 - (a) In accordance with Article 113 of the Company's Articles of Association, Mr. Edwin Osundwa, Ms Grace Ngala and Mr. Maurice Juma are due for retirement by rotation and, being eligible, offer themselves for re-election.
 - (b) The Permanent Secretary- Treasury, Mr Joseph Kinyua who joined the Board on 30 June 2004 to fill a casual vacancy created by the resignation of Mr Joseph Magari retires in accordance with Article 114, and, being eligible, offers himself for election.
 - (c) Pursuant to Article 115 and note 1 below, election of a Director to replace Mr. Roger Speddy who resigned from the Board on 18 June 2004.
4. To approve the remuneration of the directors for the year ended 30 June 2004 as provided in the financial statements.
5. To note that the auditors Messrs Deloitte & Touche, being eligible, will continue in office in accordance with section 159 (2) of the Companies Act (cap. 486) and to authorise the directors to fix their remuneration.

By order of the Board

Meshack Guto

Secretary

Private Bag

Mumias

Dated: 27 August 2004

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 form of proxy which is on page 51 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 office, 8th Floor, Trans National Plaza, Mama Ngina Street, P.O. Box 9287, Postal Code 00100 G.P.O. NAIROBI or lodged at the Company's registered office at Mumias not later than 11.00 am on Wednesday 10th November 2004 failing which it will be invalid. In case of a corporate body, the proxy must be under its common seal. Shareholder Admission letter is also on the same page for use by shareholders on the AGM day attached as part of the proxy form.

Notisi ya Mkutano wa Pamoja wa Mwaka

Notisi inatolewa kuhusiana na mkutano wa pamoja wa mwaka wa wenye hisa wa kampuni ya sukari ya Mumias kwamba, kongamano hilo litaandaliwa katika chuo cha mafunzo cha Tom Mboya Labour eneo la Milimani Road mjini Kisumu siku ya Ijumaa Novemba 12, 2004 kuanzia saa tano asubuhi ili kushughulikia maswala yafuatayo:-

Shughuli za kawaida

1. Kupokea, kufikiwa na endapo itaonekana kuwa sawa kukubali ripoti ya mwaka na taarifa ya hesabu kwa kipindi kilichomalizika Juni 30, 2004 pamoja na ripoti ya wakurugenzi na ile ya mhasibu.
2. Kudhibitisha mgao wa faida wa senti 50 kwa kila hisa uliolipwa mwezi Februari 2004 na wakati huo kuidhinisha malipo ya mwisho ya mgao wa senti 60.
3. Kuwachagua wakurugenzi;
 - (a) Kwa mujibu wa kifungu nambari 113 cha sheria za kampuni, Bw. Edwin Osundwa, Bi. Grace Ngala na Maurice Juma wamefikisha muda wao kustaafu na kwa kuwa wanastahili, wamejitokeza kuchaguliwa tena.
 - (b) Katibu wa kudumu katika wizara ya fedha Bw. Joseph Kinyua ambaye alijiunga na Halmashauri Juni 30, 2004 ili kujaza nafasi iliyoachwa wazi baada ya kujiuzulu kwa Bw. Joseph Magari atastaafu kwa mujibu wa kifungu nambari 114 na kwa kuwa anastahili ameamua kusimama ili kuchaguliwa tena.
 - (c) Kwa mujibu wa kifungu nambari 115 na kidokezo cha kwanza hapa chini, kumchagua mkurugenzi ili kujaza nafasi iliyoachwa na Bw. Roger Speddy aliyestaafu kutoka kwa Halmashauri mnamo Juni 18, 2004
4. Ili kuidhinisha marupurupu ya wakurugenzi kufikia Juni 30, 2004 kama ilivyoelezwa kupitia ripoti ya uhasibu.
5. Ili kufahamu kwamba uhasibu Deloitte & Touche wataendelea kutekeleza wajibu wao wa uhasibu kwa mujibu wa sehemu 159 (2) ya sheria za kampuni (kifungu.486) na kuwaruhusu wakurugenzi kuamua kiwango cha malipo yao.

Kwa Amri ya Halmashauri,

Meshack Guto
Katibu
Private Bag
Mumias
Imeandikwa Agosti 27, 2004

MUHIMU

1. Mwanachama yeyote anaweza kutuma notisi iliyotiwa sahihi na yeye mwenyewe na kuiwasilisha kwa katibu kwa muda usiopungua siku 3 au kuzidi 21 kabla ya siku ya mkutano mkuu wa pamoja wa mwaka iliyoachuliwa na kupendekeza mtu yeyote kujiunga na Halmashauri. Notisi kama hii iwe na sahihi ya mtu anayependekeza kuchaguliwa.
2. Mwanachama aliyehitimu kuhudhuria mkutano na kufanya uchaguzi lakini akawa hawezi kuhudhuria, anaweza kumtuma mwakilishi wake ili kupiga kura kwa niaba yake. Sio lazima kwa mwakilishi kama huyo kuwa mwanachama wa kampuni. Ili kuruhusiwa, mwanachama atahitajika kujaza fomu iliyoandamana na ripoti hii na kuiwasilisha katika ofisi ya msajili wa hisa za kampuni, Image Registra's & Certified Public Secretaries Office orofa ya nane Trans National Plaza, Mama Ngina Street, S/P 9287 Postal Code 00100 GPO NAIROBI au katika ofisi za kampuni mjini Mumias kabla ya saa tano 5 asubuhi siku ya Jumatano Novemba 10, 2004. Baada ya kipindi hiki kumalizika, fomu itakayowasilishwa haitakuwa na maana. Kwa upande wa mashirika, mwakilishi lazima awe ametambuliwa na kuidhinishwa. Barua ya usajili ya mwanahisa imeandamana na ripoti hii ili kutumiwa na wenye hisa siku ya mkutano mkuu wa pamoja wa mwaka.

Chairman's Statement

Your company performed very well in 2003/04 and am delighted to present to you our Annual Report and Financial Statements for the year ended 30th June 2004.

OVERVIEW OF THE YEAR

The results for the year ended 30 June 2004 are commendable especially in view of the slow growth of the economy. The profit before tax of Shs 1,138,550,000 is the highest since the company's inception in 1973. This level of profit was a turnaround for the company as a loss of Shs 245 million was recorded in the previous year.

The Company processed 2,290,427 tonnes of cane, which was 11% more than previous year. Sugar produced was 263,786 tonnes, which is 11% above last year. This was achieved because of adequate cane supply, plant availability and efficiency. However, the unpredictable weather conditions exacerbated by the poor state of the roads and cane fires on both the nucleus estate and outgrowers continue to be a threat to higher productivity.

Gross turnover at Shs 12,134,937,000 is 27% above that achieved last year. This was made possible because of efficiency, resulting in higher volumes as well as relatively stable sugar market prices. However, there continues to be a threat from cheap imported sugar.

The Company's contribution to the exchequer in taxes from VAT at 16% was Shs 1,647 million compared to Shs 1,426 million in 2003. Sugar Development Levy at 7% was Shs 695 million compared to Shs 519 million last year. Corporation tax is Shs 347 million bringing the total taxes and levies to Shs 2,689 million which accounted for 22% of total turnover.

The high level of taxes and levies in the sugar industry continues to be a major constraint on consumer demand.

DIVIDENDS

The directors declared and paid an interim dividend of 25% per ordinary share of Shs 2 each which was Shs 0.50 per share. In view of the good financial results, the directors propose a second and final dividend of 30% per ordinary share of Shs 2 each which is Shs 0.60 per share.



Mr. J V Bosse
Chairman

Chairman's Statement continued

If approved, this will bring the total dividend for the year to 55% or Shs 1.10 per share of Shs 2.00

MANAGEMENT

This was the first full year of the company's operation under Kenyan Management. The transition has been smooth and the Board is confident that the new stewardship of the company will continue to meet the expectations of you, our shareholder, the farmers, local community, suppliers, employees and other stakeholders in the Company.

OUTLOOK

The success of the sugar industry in Kenya is heavily dependent on the local selling price of sugar which is greatly affected by world sugar prices, cost of low priced imported sugar and trade protocols such as COMESA. The Board has developed strategies to meet these challenges which should result in higher production and capacity utilisation, lowering of costs, product diversification and improvement of the management information systems. The Board of Directors is optimistic of continued sound performance this year.

APPRECIATION

I would like to take this opportunity to thank my fellow Board members, the Management and staff of MSC for their commitment and contribution over an important year for the Company.

John V. Bosse

CHAIRMAN

27 August 2004



Caneyard operations



School activities



Shareholders attending a past AGM

Ripoti Kutoka kwa Mwenyekiti

Kampuni yenu ilifanya vyema zaidi kwa kipindi cha mwaka wa 2003/04. Kutokana na sababu hiyo, nina furaha kuwapa ripoti ya mwaka pamoja na ile ya uhasibu kwa kipindi kilichomalizika Juni 30, 2004

MATUKIO YA MWAKA

Matokeo kwa kipindi cha mwaka kilichomalizika Juni 2004 ni ya kufurahisha hasa ikilinganishwa na hali isiyoridhisha ya ukuaji wa uchumi. Faida kabla ya ushuru ya shilingi bilioni 1,138,550,000 ni ya juu zaidi tangu kampuni kuanzishwa mwaka wa 1973. Hii ilikuwa ni faida kubwa kwa kampuni kwani mwaka uliopita ilipata hasara ya shilingi milioni 245.

Kampuni ilizalisha tani 2,290,427 za miwa kiwango ambacho kilikuwa ni asilimia 11 zaidi ikilinganishwa na mwaka uliopita. Kiwango cha sukari kilichozalishwa kilikuwa ni tani 263,786 ambacho ni asilimia 11 zaidi ikilinganishwa na mwaka uliopita. Ongezeko hili lililotakana na upokeleaji mkubwa wa miwa, kuwepo kwa mimea na utendaji kazi mwafaka. Hata hivyo, hali mbaya ya anga isiyotarajika na kuongezewa nguvu na hali mbovu ya barabara katika mashamba ya Nucleus na Outgrowers ni tisho la kila mara kwa ongezeko la uzalishaji.

Mapato kwa jumla ya shilingi bilioni 12,134,937,000 ni asilimia 27 zaidi ya kiwango kilichopatikana mwaka uliopita. Hali hii iliwezekana kutokana na ubora wa bidhaa iliyopelekea kuwepo kwa mauzo ya juu na bei mwafaka kwenye masoko. Hata hivyo, bado kuna tisho kutokana na kuingizwa kwa sukari ya bei duni kwenye masoko.

Mchango wa kampuni katika ushuru wa ziada wa asilimia 16 ulikuwa shilingi milioni 1,627 ikilinganishwa na milioni 1,426 mwaka wa 2003. Ushuru wa kuendeleza kilimo cha miwa wa asilimia 7 ulikuwa shilingi milioni 695 ikilinganishwa na milioni 519 mwaka uliopita. Ushuru wa ushirika ni shilingi milioni 347 na kufanya ushuru kwa jumla kuwa shilingi milioni 2,689 kiwango ambacho ni asilimia 22 cha mapato ya jumla kwa mwaka.

Ushuru wa juu na ada nyinginezo zinazotowwa kilimo cha miwa unazidi kuwa kikwazo na mzigo kwa mahitaji ya wateja.

MGAO WA FAIDA

Wakurugenzi waliamua na kulipa mgao wa faida wa asilimia 25 kwa kila hisa ya kawaida ya shilingi 2 kiwango ambacho kilikuwa ni senti 50. Kutokana na matokeo mazuri ya hesabu, wakurugenzi wanapendekeza mgao wa pili na wa mwisho wa faida wa asilimia 30 kwa kila hisa ya shilingi 2 kiwango ambacho ni senti 60. Hii itafanya jumla ya mgao wote uliolipwa kuwa asilimia 55 au shilingi 1.10 kwa kila hisa ya shilingi 2.



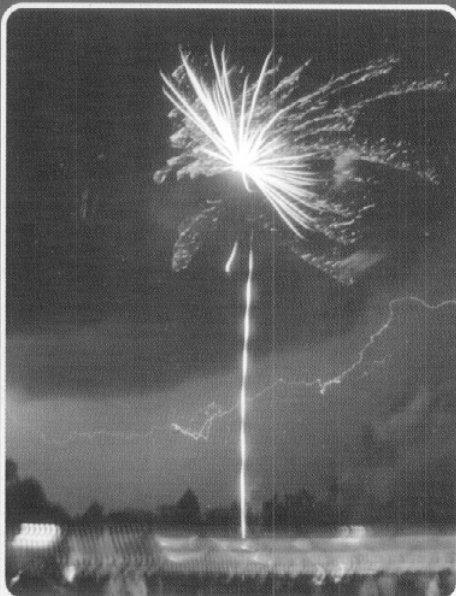
Mr. J V Bosse
Mwenyekiti



Ripoti Kutoka kwa Mwenyekiti



Caneyard operations



Fireworks celebration on production of 263,786 tonnes of sugar



Visitors being briefed on company operations

USIMAMIZI

Huu ulikuwa ni mwaka wa kwanza kwa shughuli za usimamizi wa kampuni kuwa chini ya wakenya. Kipindi hiki cha mpito kimekuwa tulivu na Halmashauri ina matumaini kwamba uongozi mpya wa kampuni utaendelea kutimiza matamano yenu, ya wenyehisa, wakulima, wakazi, wateja, wafanyakazi na washikadau wengine wa kampuni.

KWA JUMLA

Matokeo katika kipindi kilichomalizika Juni 30, 2004 yalikuwa ni ya kutia moyo ikilinganishwa na hasara iliyopatikana mwaka wa 2003. Ufanisi katika sekta ya kilimo cha miwa nchini Kenya hutegemea zaidi bei ya uuzaji sukari ambayo imeathiriwa zaidi na ile ya soko la kimataifa, uagizaji wa sukari ya bei duni na mikataba ya kimataifa kama ule wa COMESA. Halmashauri imebuni mikakati maalumu ili kukabiliana na changamoto hizi ambayo itapelekea kuwepo kwa ongezeko la uzalishaji, kutumia mbinu mwafaka, kupunguzwa kwa gharama, uvumishaji na kuimarisha mawasiliano katika huduma za usimamizi. Halmashauri ya wakurugenzi ina imani ya kuzidi kuwepo kwa matokeo mema mwaka huu.

SHUKURANI

Ningependa kuchukua fursa hii kuwashukuru wakurugenzi wenzangu, wasimamizi na wafanyakazi wa MSC kutokana na uwajibikaji na mchango wao ambao umepelekea kuwepo kwa mwaka mzuri kwa kampuni.

John V. Bosse

MWENYEKITI

Agosti 27, 2004

Managing Director's Report

The financial year ended June 2004 was a very successful year for Mumias Sugar Company. The management takes pride in the Company's all round achievement, which is attributable to a combination of the positive socio-political environment in which the Company operated and business development initiatives implemented during the year under review.

Operating and Trading Environment

Besides the slow economic recovery, the Company operated in a peaceful environment that was characterized by industrial harmony. Unlike the previous years when the Company's operations were disrupted by industrial unrest, in the year 2003/04 relations with cane cutters, cane transporters, employees, the local community and its leaders were cordial, leading to very limited unscheduled stoppages. The weather was conducive to cane growth and development.

The Sugar Industry

In the early part of the year, the world sugar market experienced surplus production. There are indications that the coming year will experience some deficit due to higher demand for ethanol produced from sugar, due to high petroleum prices. This might reduce dumping of sugar on the world market, some of which often finds its way into Kenya.

The import quota of 200,000 metric tones from COMESA was exceeded by unlicensed imports. The distribution throughout the year was, however, reasonably uniform resulting in stability in the price of Mumias Sugar through the year.

Sales and Marketing

The Company sold 276,000 metric tones of sugar at a stable average price of Kshs. 35,000/- per metric tonne. Among the initiatives responsible for the growth was increased market penetration resulting from a strengthened distribution network. The wide distribution network has ensured that Mumias sugar is now available in all parts of the country, including the North Provinces.

We also implemented various innovative sales and marketing programs that helped sustain the market leadership of the Mumias sugar brand. As part of the strategies to strengthen our market presence, the Company doubled the branded packaging capacity and introduced the 1/4 kg and 1/2kg packets, to add to the existing 2kg and 1kg pack. The 1/4 kg and 1/2kg packages have now been launched into the marketplace.



Dr. Evans Kidero
Managing Director

Production

The factory achieved production of 264,000 MT which was an increase of 11% production over 2002/03 production. The amount of cane processed increased by 10% (from 2.1 million metric tonnes in 2003 to 2.3 million metric tonnes in 2004); and the Overall Time Efficiency improved from 92.0% in 2003 to 97.3% in 2004).

The Company has finalised plans to invest in capacity expansion that will increase throughput and production by 10% by the end of 2004/05 financial year. Annual sugar production will therefore increase from the current 260,000 metric tonnes per year to 290,000 metric tonnes per year.

Consultations continue with Kenya Power and Lighting Company and during the next financial year. Mumias Sugar Company expects to sign a co-generation contract to sell surplus electric power to the national grid.

Agricultural Operations

There was adequate cane availability throughout the year and investments to ensure adequate supply for the future were undertaken. The acreage planted was 15% above budget while cane harvested increased from 2.1 million metric tons to 2.3 million metric tonnes. Farmers payments were on schedule and all farmers were paid within 45 days of cane delivery.

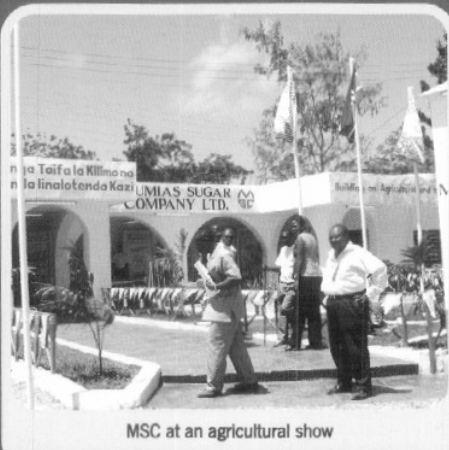
Mumias Sugar Company received a grant of Kshs 94 million from the Sugar Development Levy of Kenya Sugar Board which will go a long way in assisting the maintenance of the 4,800 kilometres of roads within the Sugar Cane Zone.

Human Resources

The company's management is driving culture change programs so as to prepare the company for future competitive challenges. All employees have been taken through various staff development programmes, amongst them performance management process and ISO 9001:2000 Quality Systems.

We are now preparing for ISO 9001:2000 certification, which is expected before end of June 2005.

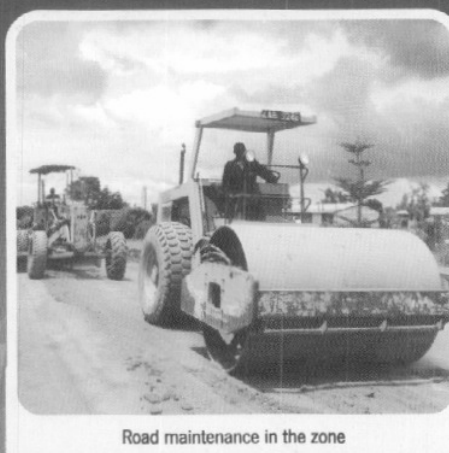
There are other human resource initiatives under implementation with the objective of making Mumias Sugar a world class Company in terms of the development and deployment of human capital.



MSC at an agricultural show



Equipment bought from Kenya Sugar Board Grant



Road maintenance in the zone

The Future

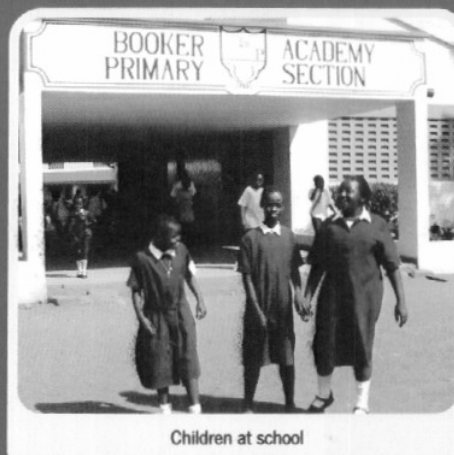
The prognosis of the economic situation for the 2004/05 financial year is not sterling. The weakening shilling against the international trading currencies, escalating oil prices and economic growth forecasts that are being constantly revised downwards do not augur well for robust national economic performance. The threat from dumping and cheap imported sugar will continue to be a challenge to our operations. The foregoing notwithstanding, the Management and the Board of Mumias Sugar Company have developed long-term strategic plans for delivery of a robust performance, for the Company. The strategies developed include, increased production capacity alongside elimination of wastage in order to improve productivity, diversification of our product portfolio, and co-generation and sales of excess electricity generated from sugar by products.

Conclusion

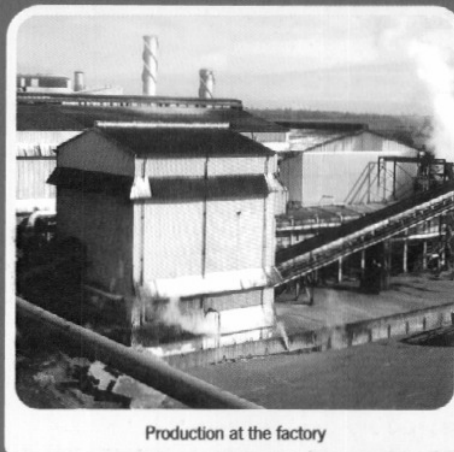
The management of Mumias Sugar Company is grateful and appreciative of the various supportive roles and contributions made by stakeholders of the Company. On behalf of the management, I wish to thank the Board of Directors of the Company, shareholders for their support; the employees of MSC for their loyalty, enthusiasm, and acceptance of positive change; customers for their continued loyalty to our products; farmers for being ever-present as our inseparable supply partners; transporters and contractors for their dedication; and to each and everyone who made a difference in MSC's operations.

MSC's fortunes are your fortunes. This is your Company.

Dr. Evans Kidero
Managing Director
27 August 2004



Children at school

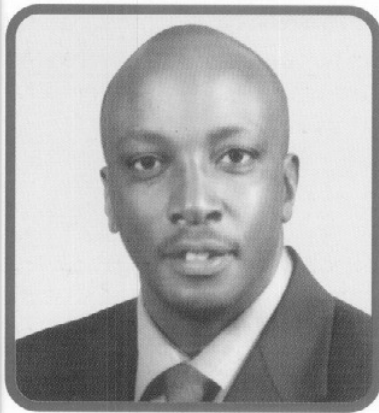


Production at the factory

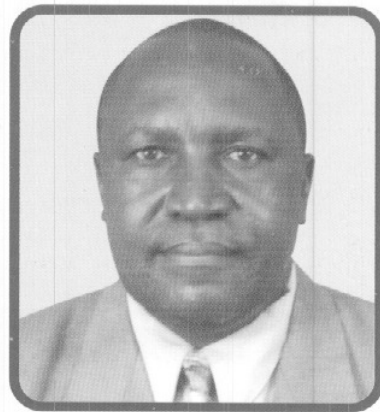


Our distribution network

Management



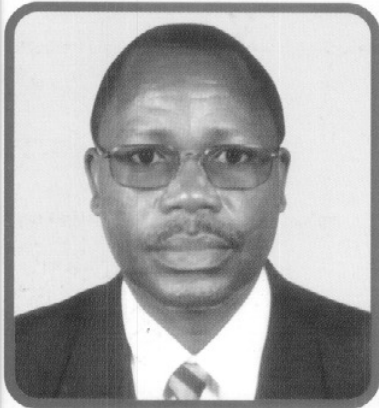
Mr. Peter Kebati
Head of Finance



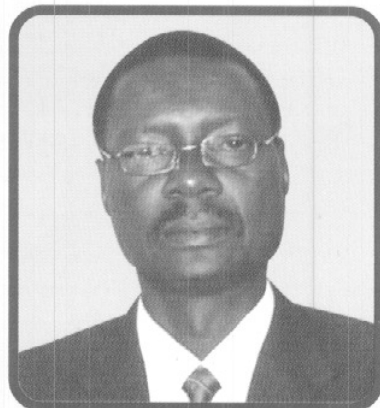
Mr. Aggrey Wanjala
Head of Agriculture



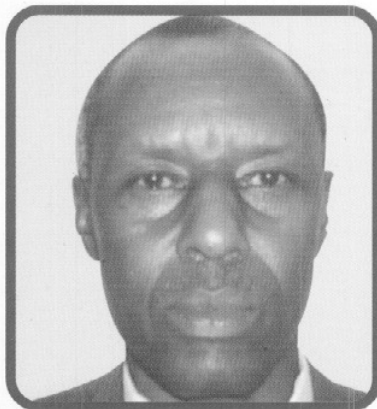
Dr. Evans Kidero
Managing Director



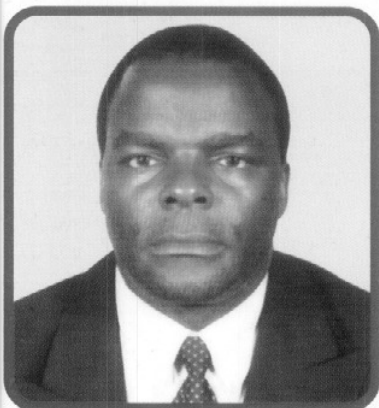
Mr. Edwin Muruka
Head of Human Resources



Mr. Dickson Mutoka
Head of Sales and Marketing



Mr. Meshak Guto
Company Secretary



Mr. Nashon Aseka
Head of Factory Operations



Mr. Evans Kaiga
Chief Internal Auditor

Corporate Governance

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

The Board of Directors

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

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

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

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

- Determines the company's vision and mission, provides strategic direction to the company and is responsible for the approval of strategic plans and the implementation of values in support thereof
- Approves the annual business plan and budget proposed by management
- Retains full and effective control over the company and monitors management with regard to the implementation of the approved annual budget and business plan
- Appoints the managing director, who reports to the Board and ensures that succession is planned
- Approves the company's financial statements, interim reports and preliminary reports, and returns required by Market Regulators, and is responsible for the integrity and reasonable presentation thereof
- Assesses the viability of the company on a going concern basis
- Determines the company's communication policy
- Determines director selection, orientation and evaluation
- Ensures that the company has appropriate risk management, internal control and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders
- Defines levels of delegation in respect of specific matters, with required authority to board sub-committees and management
- Monitors non-financial aspects pertaining to the business of the company
- Considers and, if appropriate, declares the payment of dividends to shareholders
- Regularly evaluates its own performance and effectiveness.



Directors attending a strategic planning workshop in Naivasha

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

Board Committees

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

Board Human Resource & Strategy Committee (BHRSC)

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

The responsibilities of the Committee are to:

- Review with the MD the priority needs for the Board and Company;
- Assist the Board in determining the company's vision and mission, providing strategic direction to the company, approval of strategic plans and implementation of values in support thereof
- Responsible for Information Technology (IT) governance for the Board by ensuring that:
 - IT strategy is aligned to the Business
 - IT Investment delivers value to the Business
 - IT performance is measured
 - IT related risks are managed
 - IT resources and sourcing is effectively managed
- Evaluate the performance of the Board, sub-committees of the Board, Directors and the Chairman
- Make recommendations to the Board in respect to appointment of new directors
- Determine, approve and develop the company's general policy on remuneration as well as specific policy on executive remuneration
- Review and approve remuneration packages of executive directors including bonus incentive schemes and increments
- Appraise the performance of the Managing Director
- Review the general levels of remuneration for directors of the board as well as its committees
- Regularly review the company's code of ethics and the effectiveness of ethic management principles
- Evaluate cases of unethical behaviour of senior managers and executives of the company
- Review employment equity, skills development and succession planning.

Board Audit Committee (BAC)

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

The main responsibilities of the committee are to:

- Review and recommend to the board, the company's annual reports, interim and preliminary reports, as well as filing of Regulatory requirement by NSE and CMA
- Review and make recommendations to the board relating to the viability of the company as a going concern
- Recommend appointment of external auditors
- Receive the external auditors' reports
- Evaluate and approve the external auditors' plans, scope of findings and reports
- Evaluate the effectiveness of the internal auditing function, including its purpose, activities, scope, adequacy and costs, and approve the annual internal audit plan
- Evaluate policies, procedures and systems introduced by management, thus ensuring that these are functioning effectively
- Review and approve the activities, scope, adequacy and effectiveness of the company's risk management and regulatory procedures
- Evaluate legal matters, which may affect the financial statements
- Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal control or auditing matters.

Board Tender Committee (BTC)

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

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

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

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

Risk Management

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

Internal Controls

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

Conduct of Business

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

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

Performance Reporting

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

Health, Safety and Employee Welfare

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



Booker Academy, a fully sponsored company institution.

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

Corporate Social Responsibility

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

Directors' Shareholding

The Directors' direct and indirect interest in the ordinary share capital of the Company is shown on page 49.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2004

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

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

RESULTS	Shs'000
Profit before taxation	1,138,550
Taxation charge	(347,099)
Net profit for the year carried to retained earnings	791,451

DIVIDENDS

An interim dividend of Shs 0.50 per share (2003-nil), totalling Shs 255 million was paid during the year. The directors recommend a second and final dividend of Shs 0.60 per share (2003-nil) totalling Shs 306 million (2003-nil), bringing the total dividend to Shs 1.10 per share (2003-nil) amounting to Shs 561 million (2003-nil) in respect of the year.

PRODUCTION

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

	Sugar production (tonnes)	Cane processed (tonnes)
2004	263,786	2,290,427
2003	237,084	2,064,893
2002	219,375	1,961,185
2001	217,834	1,988,285
2000	267,057	2,283,434

NUCLEUS ESTATE AND OUTGROWERS

The company's nucleus estate under cane, measuring approximately 3,481 (2003 - 3,502) hectares, provides an average of about 7% of the total cane processed annually.

At 30 June 2004, there were 54,741(2003 - 53,533) registered outgrowers, with 47,669 (2003 - 46,755) hectares of land under cane.

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 23.

Mr M K Sang retired as chairman on 19 December 2003 and was replaced by Mr J V Bosse on 25 February 2004.

Mr D Ameyo was on 21 April 2004 replaced by Mr A Mboya as an alternate to Hon S A Wako.

Mr J Magari resigned as director on 30th June 2004 and was replaced by Mr J Kinyua on the same date.

Mr F Kigen was appointed a director on 23 December 2003 and Mr R Speddy resigned as director on 18 June 2004.

In accordance with article 113, three Directors Mr. M Juma, Mr E Osundwa and Ms G Ngala will retire by rotation and being eligible, offer themselves for re-election.

In accordance with Article 114, Mr. Kinyua retires at the forthcoming Annual General Meeting and being eligible offers himself for election.

AUDITORS

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

BY ORDER OF THE BOARD

M J R GUTO

Secretary

27 August 2004

Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the 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 profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

John V Bosse
DIRECTOR
27 August 2004

James G Chege
DIRECTOR

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

Tel: + (254 - 20) 444 1344/05-12
Fax: + (254 - 20) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke

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

We have audited the financial statements on pages 26 to 48 for the year ended 30 June 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 21, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 30 June 2004 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

DELOITTE & TOUCHE

27 August 2004

Corporate Information

DIRECTORS

Mr J V Bosse - Chairman
Dr E Kidero - Managing Director
Mr J Kinyua - (alternate Mrs C Kimura)
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

BOARD COMMITTEES

Board Audit Committee

Mr J G Chege - Chairman
Mr K Gatabaki
Mrs C Kimura

Board Human Resource and Strategy Committee

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

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
Private Bag, Mumias, Kenya

REGISTERED OFFICE

Mumias Sugar Company Limited
Private Bag, Mumias, Kenya

ADVOCATES

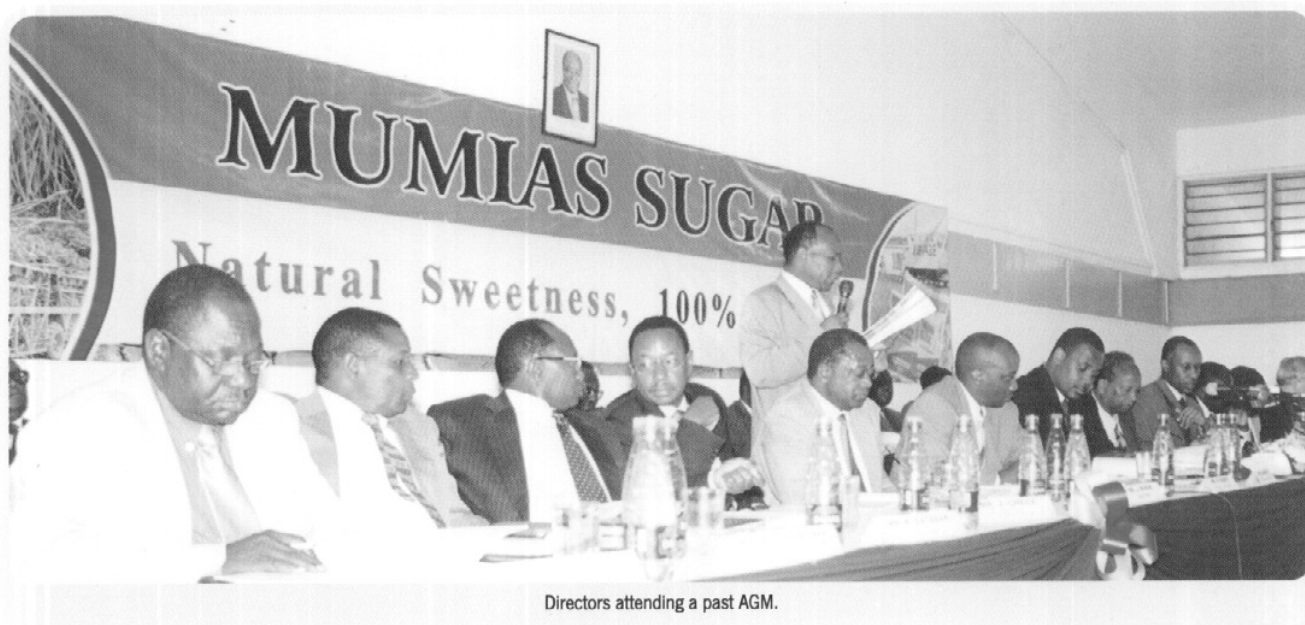
E K Owinyi & Company
Hamilton Harrison & Mathews
Kaplan & Stratton

AUDITORS

Deloitte & Touche
P O Box 40092
00100-Nairobi

BANKERS

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



Directors attending a past AGM.

Board of Directors



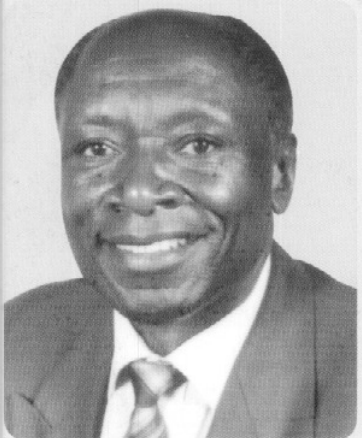
Mr John Bosse
Chairman



Dr Evans Kidero
Managing Director



Mr Joesph Kinyua
Director



Dr Caleb Wangia
Director



Ms Grace Ngala
Director



Mr Maurice Juma
Director



Mrs Catherine Kimura
Alternate Director



Hon Amos Wako
Director



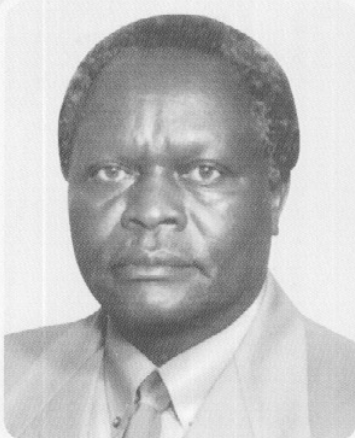
Mr James Chege
Director



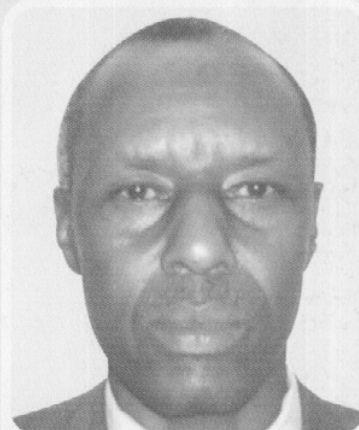
Mr Kungu Gatabaki
Director



Mr Edwin Osundwa
Director



Mr Francis Kigen
Director



Mr Meshack Guto
Company Secretary



Mr Apollo Mboya
Alternate Director

Income Statement for the Year Ended June 2004

	Note	2004 Shs'000	2003 Restated Shs'000
REVENUE FROM SALE OF SUGAR	2(a)	9,792,503	7,628,937
FAIR VALUE OF CANE HARVESTED		178,636	245,271
CANE PROCESSING AND TRANSPORT INCOME		289,313	376,101
INCOME FROM BOUGHT AND PROCESSED CANE		9,288,316	7,023,549
FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS		25,749	(42,866)
OPERATING INCOME	2(b)	9,782,014	7,602,055
COST OF PRODUCTION		(6,722,979)	(6,293,454)
GROSS PROFIT		3,059,035	1,308,601
OTHER OPERATING INCOME		55,077	66,160
MARKETING AND DISTRIBUTION COSTS		(618,959)	(486,671)
ADMINISTRATIVE EXPENSES		(570,985)	(684,603)
OTHER OPERATING EXPENSES		(629,556)	(335,970)
OPERATING PROFIT/(LOSS)	3	1,294,612	(132,483)
FINANCE INCOME/(COSTS) - NET	5	150,430	(7,322)
PROFIT/(LOSS) BEFORE TAXATION AND EXCEPTIONAL ITEMS		1,445,042	(139,805)
EXCEPTIONAL ITEMS	6	(306,492)	(105,053)
PROFIT/(LOSS) BEFORE TAXATION		1,138,550	(244,858)
TAXATION (CHARGE)/CREDIT	7	(347,099)	29,250
NET PROFIT/(LOSS) FOR THE YEAR		791,451	(215,608)
EARNINGS/(LOSS) PER SHARE - BASIC	8	Shs 1.55	(Shs 0.42)
- DILUTED	8	Shs 1.55	(Shs 0.42)

Balance Sheet 30 June 2004

		2004 Shs'000	2003 Restated Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	10	5,488,021	5,781,476
Intangible assets	11	3,535	13,292
Non-current receivables	13	56,072	18,954
Trade investment	14	-	1
		5,547,628	5,813,723
Current assets			
Inventories	15	840,943	1,231,479
Biological assets	16	176,642	150,893
Assets held for sale	17	156,027	178,584
Trade and other receivables	18	1,582,928	1,569,728
Taxation recoverable		-	37,738
Short term deposits	19	806,883	-
Cash and bank balances		36,286	39,708
		3,599,709	3,208,130
Total assets		9,147,337	9,021,853
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	1,020,000	1,020,000
Revaluation surplus		1,382,514	1,483,952
Retained earnings		2,693,591	2,361,702
Dividend proposed (gross)	9	306,000	-
		5,402,105	4,865,654
Non current liabilities			
Deferred income taxes	21	1,213,346	1,276,911
Deferred grant income	23	94,000	-
Provision for service gratuity	22	613,871	541,845
		1,921,217	1,818,756
Current liabilities			
Trade and other payables	24	992,075	1,688,336
Bank overdrafts	25	333,189	464,278
Dividends payable (gross)	26	77,634	47,163
Provision for staff leave pay	27	54,111	137,666
Taxation payable		367,006	-
		1,824,015	2,337,443
Total equity and liabilities		9,147,337	9,021,853

The financial statements on pages 26 to 48 were approved by the board of directors on 27th August 2004 and were signed on its behalf by:

John V Bosse }
James G Chege } Directors

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Statement of Changes in Equity for the Year Ended 30 June 2004

	Share capital Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Dividends Shs '000	Total Shs '000
At 1 July 2002					
- as previously reported	1,020,000	2,768,651	1,225,464	51,000	5,065,115
Prior year adjustments due to adoption of IAS 41:					
- fair value adjustment	-	-	78,748	-	78,748
- deferred tax on fair value adjustment	-	-	(23,624)	-	(23,624)
- deferred tax on cost of growing cane	-	-	(34,503)	-	(34,503)
As restated	1,020,000	2,768,651	1,246,085	51,000	5,085,736
Net loss for the year - restated	-	-	(215,608)	-	(215,608)
2003 dividend declared	-	-	-	(51,000)	(51,000)
Transfer of revaluation surplus**	-	(1,211,791)	1,211,791	-	-
Transfer of excess depreciation	-	(150,681)	150,631	-	-
Deferred tax on excess depreciation	-	45,204	(45,204)	-	-
Revaluation adjustment*	-	46,526	-	-	46,526
Deferred tax on the revaluation adjustment	-	(13,957)	13,957	-	-
At 30 June 2003	1,020,000	1,483,952	2,361,702	-	4,865,654
At 1 July 2003					
- as previously reported	1,020,000	1,483,952	2,355,104	-	4,859,056
Prior year adjustments due to adoption of IAS 41:					
- fair value adjustment	-	-	51,866	-	51,866
- deferred tax adjustment thereon	-	-	(15,560)	-	(15,560)
- deferred tax on cost of growing cane	-	-	(29,708)	-	(29,708)
As restated	1,020,000	1,483,952	2,361,702	-	4,865,654
Net profit for the year	-	-	791,451	-	791,451
Interim dividend declared	-	-	(255,000)	-	(255,000)
2004 proposed dividend-final	-	-	(306,000)	306,000	-
Transfer of excess depreciation	-	(144,809)	144,809	-	-
Deferred tax on excess depreciation	-	43,443	(43,443)	-	-
Surplus realised on disposal	-	(102)	102	-	-
Deferred tax on realised surplus	-	30	(30)	-	-
At 30 June 2004	1,020,000	1,382,514	2,693,591	306,000	5,402,105

* The revaluation reserve represents the net cumulative surplus arising from revaluations of property, plant and equipment. The revaluation surpluses are non-distributable.

** The retained earnings represent accumulated profits retained by the company after payment of dividends to the shareholders.

The prior year adjustments relate to changes in the fair value of cane plantations owned by the company following the adoption, during the year, of International Accounting Standard 41 on Agriculture.

* The revaluation adjustment relates to erroneous recording of revaluation surpluses in 2001.

** The transfer of revaluation surplus relates to accumulated excess depreciation not previously transferred from revaluation surplus to retained earnings.

Cash Flow Statement for the Year Ended 30 June 2004

	Note	2004 Shs'000	2003 Shs'000
OPERATING ACTIVITIES			
Cash generated from operations	28(a)	1,122,756	514,542
Interest paid		(15,068)	(147,035)
Interest received		159,574	144,939
Taxation paid		(5,920)	(146,719)
Net cash from operating activities		1,261,342	365,727
INVESTING ACTIVITIES			
Purchase of plant and equipment		(115,159)	(54,246)
Purchase of intangible assets		(1,076)	(950)
Proceeds from disposal of equipment and assets available for sale		13,972	3,641
Net cash used in investing activities		(102,263)	(51,555)
FINANCING ACTIVITIES			
Loans repaid	28(b)	-	(230,048)
Dividends paid		(224,529)	(81,262)
Net cash used in financing activities		(224,529)	(311,310)
INCREASE IN CASH AND CASH EQUIVALENTS		934,550	2,862
BALANCE AT BEGINNING OF THE YEAR		(424,570)	(427,432)
BALANCE AT END OF THE YEAR	28(c)	509,980	(424,570)

Notes to the Financial Statements for the Year Ended 30 June 2004

ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are set out below:

BASIS OF PREPARATION

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

Adoption of International Accounting Standard No. 41 on Agriculture

Following the adoption of IAS 41 on agriculture during the year, the biological cane plantations and agricultural produce (harvested cane) have been stated at their fair values less estimated point-of-sale costs. Previously, the company's biological assets were stated at cost.

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

The change in valuation of biological assets and agricultural produce has been applied retrospectively by adjusting the opening balance of revenue reserves as at 1 July 2002. Where applicable, other comparative figures have been restated accordingly.

Revenue recognition

Income attributable to own harvested cane is recognised at fair value at the point of harvest. Fair value of cane is determined based on the cane price existing in the market less point of sale costs.

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

Other income

Grants related to equipment are recognised in the income statement on a systematic basis over the useful lives of the equipment.

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

Taxation

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

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

Property, plant and equipment

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

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

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

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

Land developments	25 %
Buildings	2.5 % - 5 %
Factory plant and machinery	5 % - 10 %
Heavy mobile machinery	12.5 % - 25 %
Motor vehicles	20 %
Other equipment and fixtures	12 % - 33.3 %

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

Leasehold land

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

Intangible assets

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

Inventories

Finished sugar and molasses stocks 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.

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 stock obsolescence where applicable. Cost is calculated on the weighted average cost basis and includes the direct purchase cost, insurance, freight and other incidental costs.

Assets held for sale

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

Leases

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

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

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

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Financial instruments

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

Investments

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

Bank borrowings

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

Impairment

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Retirement benefits obligations

Defined benefits scheme

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

Defined contribution scheme

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

Service gratuity

Unionisable employees who resign or whose services are terminated after five years of continuous service with the company are entitled to fifteen days gratuity payment for each completed year of service. Unionisable employees whose termination of service is occasioned by retirement, medical grounds or death are entitled to thirty (2003-twenty-four) days gratuity payment for each completed year of service.

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

Deferred grant income

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

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.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives figures have been adjusted for change in presentation to ensure compliance with International Accounting Standard No. 41 on Agriculture.

2 (a) REVENUE FROM SALE OF SUGAR

	2004 Shs'000	2003 Shs'000
Gross sales	12,134,937	9,573,879
Less: taxes and discounts		
Value added tax	(1,647,303)	(1,426,149)
Sugar development levy	(695,131)	(518,793)
	(2,342,434)	(1,944,942)
Net sales	9,792,503	7,628,937

(b) RECONCILIATION OF REVENUE FROM SALE OF SUGAR TO OPERATING INCOME

Revenue from sale of sugar	9,792,503	7,628,937
Fair value adjustment on biological assets	25,749	(42,866)
Net (increase)/decrease in actual cost of biological assets	(36,238)	15,984
Operating income	9,782,014	7,602,055

3 OPERATING PROFIT/(LOSS)

Operating profit /(loss) is arrived at after:

charging:

Staff costs (note 4)	1,376,045	1,189,023
Subsidy to out-growers	393,535	311,408
Depreciation of property, plant and equipment (note 10)	404,114	432,660
Amortisation of intangible assets (note 11)	10,833	8,231
Assets impairment loss on equipment held for sale (note 17)	23,000	23,000
Operating lease rentals (note 29)	13,765	16,085
Management fees	24,875	54,468
Directors' emoluments - fees	2,088	550
- other	41,400	5,672
Auditors' remuneration	3,300	3,150
Provision for bad and doubtful debts	4,737	43,630
Cost of lost cane from transporters' strike	-	43,607

and crediting:

Reversal of impairment provision on intangible assets	-	11,001
Profit on disposal of equipment and assets available for sale	9,915	2,275
Bad debts recoveries	3,345	79

Notes to the Financial Statements for the Year Ended 30 June 2004 continued

4 STAFF COSTS

	2004 Shs'000	2003 Shs'000
Salaries and allowances	1,119,534	1,119,057
Termination benefits	-	19,068
Pension - defined benefit scheme	47,718	45,056
Pension - statutory defined contribution scheme	6,854	7,397
Pension administration fee	-	1,833
Group life insurance cover	11,057	10,498
Staff gratuity provision/(writeback)	266,988	(58,067)
(Writeback)/provision for leave pay	(76,106)	44,181
	<u>1,376,045</u>	<u>1,189,023</u>

The average number of employees during the year comprised:

	Number	Number
Permanent employees	2,789	2,978
Registered seasonal employees	10,079	12,275
	<u>12,868</u>	<u>15,253</u>

The usage of registered seasonal employees varies depending on the cane cutting requirements. The average actual usage is approximately 90% of those registered.

5 FINANCE INCOME/(COSTS) - NET

	2004 Shs'000	2003 Shs'000
Interest income:		
On MOCO current account	150,915	130,577
On Busia Sugar Company Limited loan	-	95
On advances to farmers	1,652	582
On short term deposits	4,632	12,212
On staff loans	2,375	1,473
	<u>159,574</u>	<u>144,939</u>
Interest expense:		
On bank overdrafts	(15,068)	(108,200)
On loans	-	(18,528)
On outgrowers development service charge	-	(20,307)
	<u>(15,068)</u>	<u>(147,035)</u>
Net exchange gains/(losses)	5,924	(5,226)
	<u>150,430</u>	<u>(7,322)</u>

6 EXCEPTIONAL ITEMS

	2004 Shs'000	2003 Shs'000
Tax back charges and penalties	13,741	105,053
Staff rationalisation expenses	292,751	-
	<u>306,492</u>	<u>105,053</u>

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

7 TAXATION

	2004 Shs'000	2003 Shs'000
(a) Tax charge/(credit)		
Current taxation based on the adjusted profit/(loss) for the year at 30%		
- current year	427,969	42,825
- prior year over-provision	(17,305)	(881)
Total current tax charge	<u>410,664</u>	<u>41,944</u>
Deferred tax credit		
- current year	(63,565)	(76,380)
- prior year under-provision	-	5,186
Total deferred tax credit (note 21)	<u>(63,565)</u>	<u>(71,194)</u>
	<u>347,099</u>	<u>(29,250)</u>
(b) Reconciliation of expected tax based on accounting profit to tax charge/(credit)		
Accounting profit/(loss) before taxation	<u>1,138,550</u>	<u>(244,858)</u>
Tax at the applicable rate of 30%	341,565	(73,457)
Tax effect of expenses not deductible for tax purposes	23,792	44,749
Tax effect of income not taxable	(953)	(4,847)
Prior year underprovision of deferred tax	-	5,186
Prior year overprovision of current tax	(17,305)	(881)
	<u>347,099</u>	<u>(29,250)</u>

8 EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2004	2003 Restated
Earnings/(loss) for purposes of basic and diluted earnings per share (Sh'000)	791,451	(215,608)
Number of ordinary shares (thousands)	510,000	510,000
Earnings/(loss) per share		
Basic (Shs)	1.55	(0.42)
Diluted (Shs)	1.55	(0.42)

There were no potential dilutive shares outstanding at 30 June 2004 and 30 June 2003.

9 PROPOSED DIVIDEND

At the annual general meeting to be held on 12 November 2004, a second and final dividend is to be proposed in respect of 2004 of Shs 0.60 per share (2003 – nil) amounting to a total of Shs 306,000,000 (2003 – nil).

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 2003	490,000	1,742,137	4,010,675	257,087	250,953	393,526	1,150	7,145,528
Additions	-	-	49,391	10,400	15,248	19,622	20,498	115,159
Transferred to current assets (note 17)	-	-	-	(4,397)	(23,465)	(70)	-	(27,932)
Transfers from capital work in progress	-	17,849	-	-	-	-	(17,849)	-
Disposals	-	-	-	(1,051)	(20,051)	(3,334)	-	(24,436)
At 30 June 2004	490,000	1,759,986	4,060,066	262,039	222,685	409,744	3,799	7,208,319
COMPRISING								
Cost	-	76,519	122,904	253,928	213,067	363,685	3,799	1,033,902
Valuation - 1996	-	-	-	8,111	9,618	46,059	-	63,788
Valuation - 2001	490,000	1,683,467	3,937,162	-	-	-	-	6,110,629
	490,000	1,759,986	4,060,066	262,039	222,685	409,744	3,799	7,208,319
DEPRECIATION								
At 1 July 2003	24,500	126,540	534,496	200,808	206,187	271,521	-	1,364,052
Charge for the year	12,250	64,100	254,296	22,607	18,776	32,085	-	404,114
Transferred to current assets (note 17)	-	-	-	(4,397)	(21,640)	(70)	-	(26,107)
Disposals	-	-	-	(1,051)	(17,501)	(3,209)	-	(21,761)
At 30 June 2004	36,750	190,640	788,792	217,967	185,822	300,327	-	1,720,298
NET BOOK VALUE								
At 30 June 2004	453,250	1,569,346	3,271,274	44,072	36,863	109,417	3,799	5,488,021
At 30 June 2003	465,500	1,615,597	3,476,179	56,279	44,766	122,005	1,150	5,781,476
NET BOOK VALUE (Cost basis)								
At 30 June 2004	397,984	696,490	2,211,257	43,611	34,132	98,704	3,799	3,485,977
At 30 June 2003	408,740	709,429	2,309,478	55,373	41,028	109,324	1,150	3,634,522

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

Included in factory plant and heavy mobile machinery are assets with an original cost and carrying value of Shs 15,900,000 (2003-nil) acquired under a Road Maintenance Unit package financed by the Kenya Sugar Board.

10 PROPERTY, PLANT AND EQUIPMENT (Continued)
Fully depreciated plant and equipment

	Cost/valuation		Normal annual depreciation charge	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
Factory plant and machinery	40,658	31,003	1,815	1,332
Heavy mobile machinery	111,654	112,578	22,784	25,787
Motor vehicles	129,331	147,586	27,535	30,430
Other equipment and fixtures	182,109	84,324	45,325	26,691
	<u>463,752</u>	<u>375,491</u>	<u>97,459</u>	<u>84,240</u>

11 INTANGIBLE ASSETS

	Willow software Shs'000	Other software Shs'000	Total Shs'000
COST			
At 1 July 2003	29,910	17,223	47,133
Additions	-	1,076	1,076
At 30 June 2004	<u>29,910</u>	<u>18,299</u>	<u>48,209</u>
AMORTISATION			
At 1 July 2003	22,576	11,265	33,841
Charge for the year	7,334	3,499	10,833
At 30 June 2004	<u>29,910</u>	<u>14,764</u>	<u>44,674</u>
NET BOOK VALUE			
At 30 June 2004	-	3,535	3,535
At 30 June 2003	<u>7,334</u>	<u>5,958</u>	<u>13,292</u>

As at 30 June 2004, intangible assets with a cost of Shs 29,910,000 (2003 – Shs 18,909,000) were fully amortised. The normal annual amortisation charge on these assets would have been Shs 9,970,000 (2003 – Shs 6,303,000).

12 PREPAID OPERATING LEASE RENTALS

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

13 NON CURRENT RECEIVABLES

	2004 Shs'000	2003 Shs'000
Staff accounts	88,173	18,954
Less: receivable within one year (included under note 18)	(32,101)	-
	<u>56,072</u>	<u>18,954</u>

Included in staff accounts is a balance of Shs 3,483,000 (2003 – Shs 871,000) due from officers of the company.

The effective interest rate on staff loans during the year was 5% (2003-5%).

14 TRADE INVESTMENT

	2004 Shs'000	2003 Shs'000
194,596 unquoted shares of Shs 20 each in Kenya Farmers Association (KFA)	-	1

The investment in KFA, previously stated at a nominal value, was written off during the year as no benefit is expected to accrue from it in the foreseeable future.

15 INVENTORIES

	2004 Shs'000	2003 Restated Shs'000
Sugar and molasses	317	278,725
Sugar in process	3,037	15,660
	<u>3,354</u>	<u>294,385</u>
Mechanical and electrical spares	582,238	742,334
Fertilisers, chemicals and fuels	164,197	66,176
Other consumables	55,880	59,177
Goods in transit	35,274	69,407
	<u>840,943</u>	<u>1,231,479</u>

Growing cane previously accounted for under inventories at lower of cost and net realisable value is now disclosed separately in the balance sheet as biological assets at fair value following the adoption of IAS 41 on Agriculture during the year.

16 BIOLOGICAL ASSETS

	2004 Shs'000	2003 Shs'000
Carrying amount at the beginning of the year:		
Costs transferred from inventories	99,027	115,011
Fair value adjustment	51,866	78,748
As restated	150,893	193,759
Gains arising from changes in fair value attributable to physical changes	84,161	123,355
Gain /(loss) arising from changes in fair value attributable to price changes	2,135	(24,475)
Additions	107,855	87,809
Cane harvested during the year	(168,402)	(229,555)
Net gain/(loss) during the year	25,749	(42,866)
Carrying amount at the end of the year	176,642	150,893

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

- The expected market price of cane will remain constant based on an industry rate of Shs 1,800 per tonne.
- Cane at age of six months and below is assumed to be immature and has no reliably determinable market value. Immature growing cane has been stated at cost.

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.

17 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 2003	303,644	31,210	396	8,042	343,292
Transferred from property, plant and equipment (note 10)	-	4,397	23,465	70	27,932
Disposals	-	(11,430)	(11,773)	(2,388)	(25,591)
At 30 June 2004	303,644	24,177	12,088	5,724	345,633
DEPRECIATION/IMPAIRMENT					
At 1 July 2003 - depreciation	59,986	31,210	371	4,673	96,240
At 1 July 2003 - impairment	68,468	-	-	-	68,468
Transferred from property, plant and equipment (note 10)	-	4,397	21,640	70	26,107
Impairment charge for the year	23,000	-	-	-	23,000
Disposals	-	(11,430)	(11,338)	(1,441)	(24,209)
At 30 June 2004	151,454	24,177	10,673	3,302	189,606
NET BOOK VALUE					
At 30 June 2004	152,190	-	1,415	2,422	156,027
At 30 June 2003	175,190	-	25	3,369	178,584

Included in assets held for sale under factory plant and equipment is mill 'B' at a net carrying amount of Shs 139,720,000 (2003 – Shs 162,720,000). The directors are currently undertaking a feasibility study on the viability of upgrading and recommissioning of the mill in order to increase the production capacity. The directors estimate that the value of the mill is not less than its net carrying amount.

18 TRADE AND OTHER RECEIVABLES

	2004 Shs'000	2003 Shs'000
MOCO receivables	711,844	1,014,230
Trade receivables	801,471	401,559
Busia Sugar Company Limited (BSC)	534	93,332
Other receivables and prepayments	35,749	37,150
Staff accounts	32,101	19,253
Advances to farmers	1,229	4,204
	<u>1,582,928</u>	<u>1,569,728</u>

Included in staff accounts is a balance due from officers of the company amounting to Shs 3,455,000 (2003 – Shs 510,000).

The effective interest rates on staff loans and the loan to BSC during the year were:

	2004	2003
Staff loans	5%	5%
Loan to BSC	-	15%

19 SHORT TERM DEPOSITS

	2004	2003
Kenya Commercial Bank Limited	806,883	-

The effective interest rate on short term deposits as at 31 March 2004 was 1.16% and they mature within 90 days of the acquisition date.

20 SHARE CAPITAL

	2004 Shs'000	2003 Shs'000
Authorised:		
545,000,000 ordinary shares of Shs 2 each	1,090,000	1,090,000
Issued and fully paid:		
510,000,000 ordinary shares of Shs 2 each	1,020,000	1,020,000

21 DEFERRED INCOME TAXES

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

	2004 Shs'000	2003 Restated Shs'000
The net deferred taxation liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	737,789	772,952
Revaluation surpluses	619,530	663,002
Fair value gain on biological assets	12,413	15,560
Unrealised exchange gains	3,428	-
Cost of growing cane	40,580	29,708
	<u>1,413,740</u>	<u>1,481,222</u>
Deferred tax assets:		
Provision for service gratuity	(184,161)	(162,553)
Provision for staff leave pay	(16,233)	(41,300)
Unrealised exchange losses	-	(458)
	<u>(200,394)</u>	<u>(204,311)</u>
	<u>1,213,346</u>	<u>1,276,911</u>
The movement on the deferred tax account during the year was as follows:		
Balance at beginning of the year:		
As previously reported	1,231,643	1,289,978
Prior year adjustment:		
- fair value adjustment on biological assets	15,560	23,624
- cost of growing cane	29,708	34,503
	<u>1,276,911</u>	<u>1,348,105</u>
As restated		
Net credit to income statement - note 7 (a)	(63,565)	(71,194)
Balance at end of the year	<u>1,213,346</u>	<u>1,276,911</u>

22 RETIREMENT BENEFITS OBLIGATIONS

	2004 Shs'000	2003 Shs'000
(a) Provision for service gratuity:		
Balance at the beginning of the year	541,845	625,343
Provision/(writeback) during the year	266,988	(58,067)
Paid during the year	(194,962)	(25,431)
Balance at the end of the year	613,871	541,845

(b) Staff retirement benefit scheme

Contributions to the company staff retirement benefit scheme are determined by the rules of the scheme and totalled Shs 47,718,000 (2003 – Shs 45,056,000) in the year. An actuarial valuation was last carried out as at 31 March 2004 by Alexander Forbes Financial Services. The valuation indicated a past service deficit of Shs 34,030,000 representing a funding level of 95%. While this is above the 80% minimum funding level allowed by the Retirement Benefit Authority, to eliminate the deficit, the actuaries recommended that the employer's rate of contribution to the scheme be maintained at 14.1% of members' salaries per annum.

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

The next actuarial valuation is scheduled for 1 April 2007.

(c) Statutory contribution scheme

The company's contributions to the statutory National Social Security Fund scheme are determined by statute and totalled Shs 6,854,000 (2003 – Shs 7,397,000) in the year.

23 DEFERRED GRANT INCOME

The deferred grant income of Shs 94,000,000 represents funds received during the year for purposes of purchase of equipment under a Roads Maintenance Unit package financed by the Kenya Sugar Board.

24 TRADE AND OTHER PAYABLES

	2004 Shs'000	2003 Shs'000
Trade payables	484,606	403,003
Out-growers	106,726	783,916
Sugar development levy	30,118	157,565
Value added tax	32,121	54,281
Accruals	190,688	96,332
Prepaid sales	23,877	56,104
Other payables	123,939	137,135
	992,075	1,688,336

25 BANK OVERDRAFTS

Bank overdrafts are secured by legal charges and debentures over all of the company's assets. The effective interest rate on bank overdrafts during the year was 13.61% (2003 - 15.5%)

Undrawn facilities

The company had undrawn committed borrowing facilities amounting to Shs 358,594,000. (2003 – Shs 801,942,000). The borrowing facilities consist of bank overdrafts and letters of credit.

26 DIVIDENDS PAYABLE

The dividends payable of Shs 77,364,000 (2003 – Shs 47,163,000) relate substantially to dividends payable to farmer shareholders who had unresolved share certificate issues at the balance sheet date.

27 PROVISION FOR STAFF LEAVE PAY

	2004 Shs'000	2003 Shs'000
Balance at the beginning of the year	137,666	93,485
(Writeback)/ provision during the year	(76,106)	44,181
Paid during the year	(7,449)	-
	54,111	137,666

28 NOTES TO THE CASH FLOW STATEMENT
**(a) RECONCILIATION OF OPERATING PROFIT/(LOSS)
TO CASH GENERATED FROM OPERATIONS**

	2004 Shs'000	2003 Restated Shs'000
Operating profit/(loss)	1,294,612	(132,483)
Depreciation (note 10)	404,114	432,660
Amortisation charge (note 11)	10,833	8,231
Assets impairment charge (note 17)	23,000	23,000
Profit on disposal of equipment and assets available for sale	(9,915)	(2,275)
Exceptional items (note 6)	(306,492)	(105,053)
Exchange gains/(losses)	5,924	(5,226)
Fair value (gain)/loss on biological assets	(25,749)	42,866
Reversal of impairment provision – Willow software	-	(11,001)
Adjustment to capital work in progress	-	3,296
Trade investments written off	1	-
Cash generated from operations before working capital changes	1,396,328	254,015
(Increase)/decrease in non current receivables	(37,118)	74,325
Decrease in inventories	390,536	633,741
Increase in trade and other receivables	(13,200)	(486,082)
Increase/(decrease) in provision for service gratuity	72,026	(83,498)
(Decrease)/increase in trade and other payables	(696,261)	77,860
(Decrease)/increase in provision for staff leave pay	(83,555)	44,181
Kenya Sugar Board grant	94,000	-
Cash generated from operations	1,122,756	514,542

**(b) ANALYSIS OF CHANGES IN LONG
TERM LOANS DURING THE YEAR**

Balance at the beginning of the year	-	230,048
Loans repaid	-	(230,048)
Balance at the end of the year	-	-

**(c) ANALYSIS OF THE BALANCES OF
CASH AND CASH EQUIVALENTS**

Short term deposits	806,883	-
Cash and bank balances	36,286	39,708
Bank overdrafts	(333,189)	(464,278)
	509,980	(424,570)

29 OPERATING LEASE ARRANGEMENTS

The company as lessee:

Minimum lease payments under operating leases recognised in the income statement (note 3)

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

Within one year

In the second to fifth years inclusive

2004 Shs'000	2003 Shs'000
13,765	16,085
3,881	1,560
3,888	4,451
7,769	6,011

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

30 CAPITAL COMMITMENTS

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

Authorised and contracted for

Authorised but not contracted for

2004 Shs'000	2003 Shs'000
11,420	1,859
1,068,836	455,077
1,080,256	456,936

The capital commitments relate mainly to expenditure on Phase 1 of the factory rehabilitation and expansion plan. The company intends to finance these commitments from internally generated funds and bank loans and overdrafts.

31 RISK MANAGEMENT POLICIES

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

Credit risk

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

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

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

Price Risk

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

32 RELATED PARTY TRANSACTIONS

The company continuously transacts with Mumias Outgrowers Company (MOCO), the farmer's representative. The processes and dealings between MOCO and about 50,000 outgrower farmers contracted to supply sugar cane to Mumias Sugar Company Limited (MSC) are mostly recorded and maintained by MSC. These are all at arms length with prices negotiated between MSC and MOCO.

The company operates a company car loan scheme for managerial employees. The balance on that fund was Shs 77,952,791 (2003 – Shs 29,999,669).

33 CONTINGENT LIABILITIES

	2004 Shs'000	2003 Shs'000
a) Bank guarantees in favour of third parties	22,100	84,295
b) Legal case		

The case where a significant number of the company's former employees had sued the company challenging the amount that they were paid when their services were terminated under the Voluntary Early Retirement Scheme (VERS) where there was a potential liability of approximately Shs 100 million was decided in favour of the company. The former employees have however lodged an appeal but, in the opinion of the company's lawyers, chances of the appeal succeeding are remote.

34 INCORPORATION

The company is incorporated in Kenya under the Companies Act.

35 CURRENCY

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

Shareholding and Directors Information for the Year Ended 30 June 2004

SHAREHOLDING INFORMATION

The top ten shareholders on the company's share register as at 27 August 2004 were as follows:

	Number of shares	Percentage holding
1 Permanent Secretary, Treasury	193,999,220	38.04
2 Kenya Commercial Finance Company Ltd	25,500,000	5.00
3 Kanouti Trustees Limited	21,977,296	4.31
4 CDC Group PLC	16,265,223	3.19
5 Karim Jamal	13,060,798	2.56
6 Sunil Narshi Shah	8,500,000	1.67
7 Secumart Investments Ltd		
A/C Clients (FKK) (JW)	6,112,000	1.20
8 Secumart Investments Ltd		
A/C Clients (FKK)	5,600,000	1.10
9 Kamal Narshi Shah	5,255,660	1.03
10 Secumart Investments Ltd A/C		
J.W. & Others	5,000,000	0.98

DIRECTOR'S SHAREHOLDING

The directors' direct and indirect interests in the ordinary share capital of the company as at 27 August 2004 were as follows:

	Number of shares	Percentage holding
Permanent Secretary, Treasury	193,999,220	38.04
Hon A S Wako	350,000	0.07
Dr C W Wangia	7,140	-
E S Osundwa	11,146	-
Mr. James Chege	136,248	0.03
Mr. Maurice R Juma	18,750	-

Five Year Summary Review

FIVE YEAR SUMMARY REVIEW

	1999/00	2000/01	2001/02	2002/03	2003/04
	Shs'000	Shs'000	Restated Shs'000	Restated Shs'000	Shs'000
Turnover	9,905,072	6,659,315	7,847,233	7,628,937	9,792,503
Cane purchases from outgrowers	3,643,944	3,593,048	3,728,832	3,818,128	3,989,035
Profit/(loss) before taxation and exceptional items	1,375,539	1,126,900	183,300	(139,805)	1,445,042
Exceptional items	(441,271)	(441,679)	(39,093)	(105,053)	(306,492)
Profit/(loss) before taxation	934,268	685,221	144,207	(244,858)	1,138,550
Taxation	(360,520)	(202,421)	(97,563)	29,250	(347,099)
Profit/(loss) after taxation	573,748	482,800	46,644	(215,608)	791,451
Shareholders funds at period end	4,323,496	5,354,095	5,085,736	4,865,654	5,402,105
Return on capital employed	21.61%	12.80%	2.84%	(5.03%)	21.08%
Number of shares, '000	51,000	51,000	510,000	510,000	510,000
Dividends	430,311	362,100	51,000	-	561,000
Dividends per share, Shs	8.44	0.71	0.10	-	1.10
Earnings/(loss) per share, Shs	11.25	9.47	0.09	(0.42)	1.55
Direct revenue to Government by way of Value Added Tax and Income Tax	1,362,419	1,871,926	1,798,321	1,890,896	2,057,967
Subsidy to farmers	237,228	375,456	246,766	311,408	393,535
Staff costs:					
Management	408,027	480,956	494,331	479,375	558,060
Skilled	467,174	344,837	407,823	483,300	625,059
Unskilled	233,587	172,418	203,911	225,728	368,993
Casual labour	54,389	45,377	53,259	36,621	31,247
Area under cane (Ha)					
Nucleus estate	3,446	3,433	3,450	3,502	3,481
Outgrowers	42,504	45,231	47,031	46,755	47,669
Cane processed (Thousand Tonnes)	2,283	1,988	1,961	2,065	2,291
Sugar produced (Thousand Tonnes)	267	218	219	237	264
Increase/(decrease) in production over previous period	15.76%	(18.43%)	0.71%	8.07%	11.39%
Number of registered farmers at period end	47,392	51,274	54,045	53,533	54,741
Number of employees at period end:					
Permanent	3,920	3,240	3,105	2,978	2,789
Seasonal	12,579	14,389	12,637	12,286	10,079
Category of permanent employees:					
Management	427	447	459	454	454
Skilled	1,934	1,609	1,482	1,427	1,522
Unskilled	1,559	1,184	1,164	1,097	813

Proxy Form

Share Member No. _____

The Company Secretary
Mumias Sugar Company Limited
Private Bag
MUMIAS

I/We _____ of _____

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

of _____

Or failing him _____

of _____

as my/our proxy to vote for me/us on *my/our behalf at the Annual General Meeting of the Company to be held on Friday 12 November 2004 and at any adjournment thereof.

Signature(s)

Signed this _____ day of _____ 2004.

Notes

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

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Shareholders admission letter for MSC AGM on 12.11.2004

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 12th November 2004 at 11.00 a.m.

Nambari ya Hisa ya Mwanachama _____

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

Mimi/sisi _____ wa _____

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

wa _____

Au kumkosesha _____ wa _____

Kama mwakilishi * wangu/wetu *kunipigia/kutupigia kura kwa niaba * yangu/yetu katika Mkutano Mkuu wa kila Mwaka wa kampuni hii utakaofanyika mnamo Ijumaa, Novemba 12, 2004 na kuahirishwa kwokwote baadaye:

*Futa ifaavyo

Sahihi _____

Imetiwa sahihi, leo tarehe _____ Mwezi wa _____ 2004

Fahamuo

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

Kata Hapa

Barua ya kukubaliwa kwa mwenye hisa kuingia katika Mkutano Mkuu wa kila Mwaka wa MSC mnamo 12.11.2004

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 waliotibitishwa kwa Kampuni masaa 48 kabla ya mkutano ndiyo watakoruhusiwa katika mkutano.

Jina _____

Sahihi _____

Nambari ya akaunti ya hisa _____

Mkutano Mkuu wa kila Mwaka wa Mumias Sugar Company Limited kufanyika katika Tom Mboya Labour College, Ring Road, Milimani, Kisumu, mnamo Ijumaa, Novemba 12, 2004 saa tano asubuhi.