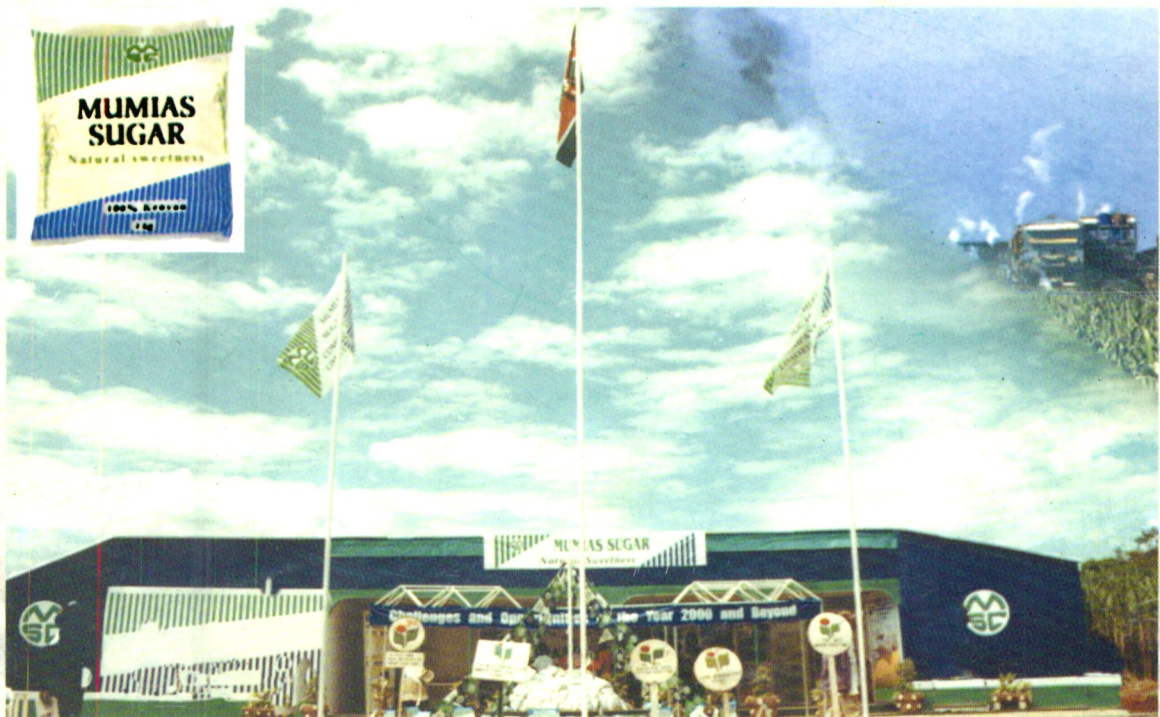




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MUMIAS SUGAR COMPANY LIMITED

FINANCIAL STATEMENTS 30TH JUNE 2003



ANNUAL REPORT & FINANCIAL STATEMENTS FOR 2002-2003

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MSC

MUMIAS SUGAR COMPANY LIMITED



**MUMIAS SUGAR
COMPANY LIMITED**

**FINANCIAL STATEMENTS
30TH JUNE 2003**

KENYA NATIONAL ASSEMBLY
Accession: 10013617

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**MUMIAS SUGAR COMPANY LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003**





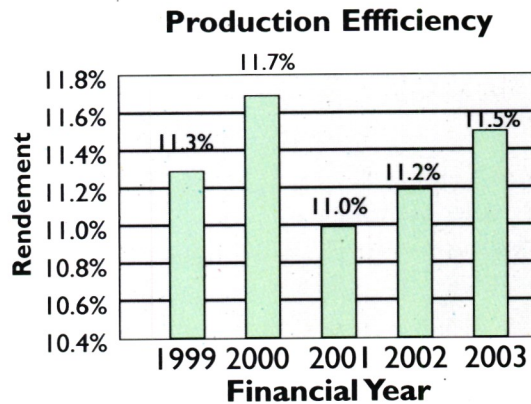
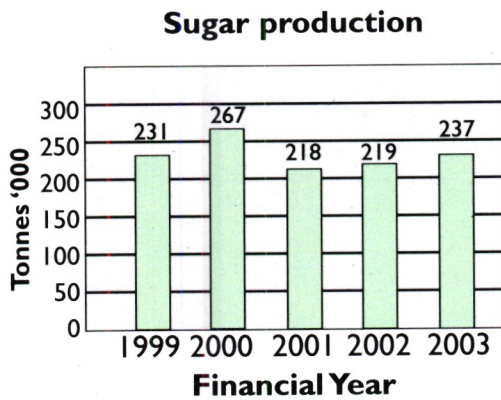
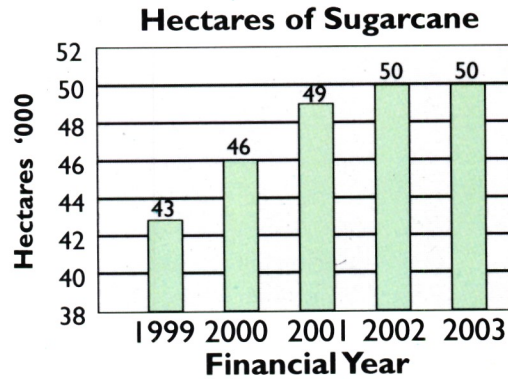
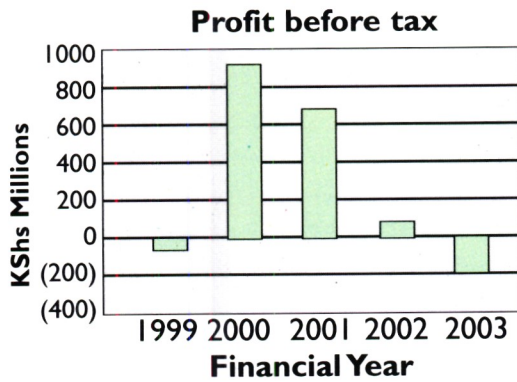
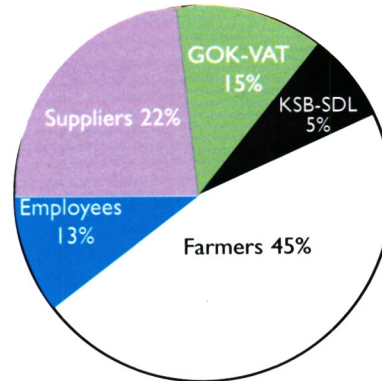
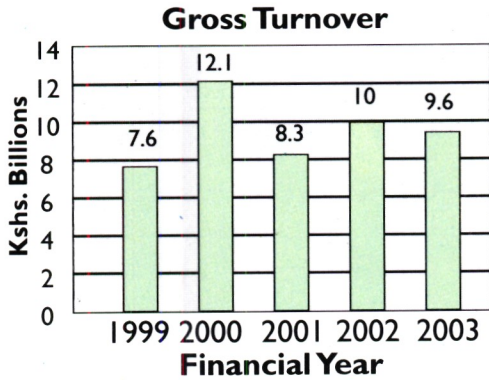
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Performance Charts 2002/2003

Gross Turnover Distribution





Notice of the Annual General Meeting (AGM)

Notice is hereby given that the thirty second 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 19th December 2003 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To receive, consider and, if thought fit, adopt the Annual Report and Financial Statements for the year ended 30th June, 2003 together with the Directors' and Auditor's reports thereon.
2. To note that the Board does not recommend payment of a dividend for the year ended 30 June 2003.
3. To elect directors:
 - (a) In accordance with Article 113 of the Company's Articles of Association, Mr. Michael K. Sang and Mr. Ben Yates are due for retirement by rotation and though eligible, have advised the Company of their intention not to offer themselves for re-election at the forthcoming AGM.
 - (b) Mr. Kungu Gatabaki is due to retire by rotation in accordance with article 113 and being eligible, offers himself for re-election.
 - (c) Mr. Joseph Magari who joined the Board on 3 January 2003 to fill a casual vacancy created by the resignation of Mr Joseph Kinyua retires in accordance with Article 114, and being eligible offers himself for election.
 - (d) Mr. James Chege who joined the Board on 21 July 2003 to fill a casual vacancy created by the resignation of Mr. John Kiarie retires in accordance with Article 114, and being eligible offers himself for election.
 - (e) Pursuant to Article 115, Mr. Rodger Speddy is being recommended for election to the Board as a director
4. To fix the remuneration of the Directors.
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: 14th November 2003



Notes:

1. Any member may by notice duly signed by him or her delivered to the Secretary of the company 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 47 of this report, must be duly completed by the member and either lodged at the Company's Share Registrar's, Image Registrars & Certified Public Secretaries, 8th Floor, Trans National Plaza, Mama Ngina Street, P. O. Box 9287, Postal Code 00100 G. P. O., NAIROBI or lodged at the Company's registered office at Mumias not later than 11.00 am on Wednesday 17th December, 2003 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 page 48 of this report for use by shareholders on the AGM day.





Arifa ya Mkutano Mkuu wa Mwaka

Arifa inatolewa sasa kuwa Mkutano Mkuu wa Mwaka wa 32 wa Wenye hisa wa Kampunii ya Sukari ya Mumias utafanyika katika Chuo cha Leba cha Tom Mboya, Ring Road, Milimani jijini Kisumu Ijumaa, Desemba 19, 2003 kuanzia saa tano asubuhi ili kushughulikia maswala yafuatayo:

Shughuli za Kawaida

1. Kupokea, kujadili na, ikiwa itakubaliwa, kuidhinisha Ripoti ya Mwaka na Taarifa za Kifedha kwa mwaka uliomalizika Juni 30, 2003 pamoja na Ripoti ya Wakurugenzi na mhasibu.
2. Kutangaza kuwa halmashauri ya wakurugenzi haipendekezi mgao wowote wa faida kwa kipindi cha mwaka kilichomalizika Juni 30, 2003.
3. Kuchagua wakurugenzi:
 - a) Kwa mujibu wa kifungu cha 113 cha sheria za Kampuni, Bw Michael K Sang na Bw. Ben Yates wanapasa kustaafu na hata kama wanastahili, wameifahamisha kampuni nia yao ya kutotaka kuchaguliwa tena wakati wa mkutano mkuu ujao.
 - b) Bw. Kungu Gatabaki anatazamiwa kustaafu kwa mujibu wa kifungu cha 113 na kwa kuwa anastahili, ameamua kujitokeza ili kuchaguliwa tena.
 - c) Bw. Joseph Magari ambaye alijiunga na halmashauri Januari 3, 2003 ili kujaza nafasi iliyoachwa wazi baada ya kustaafu kwa Bw. Joseph Kinyua, atastaafu kwa mujibu wa kifungu cha 114 na kwa kuwa anastahili ameamua kujitokeza ili kuchaguliwa tena.
 - d) Bw. James Chege ambaye alijiunga na halmashauri Julai 21, 2003 ili kujaza nafasi iliyoachwa wazi baada ya kustaafu kwa Bw. John Kiarie, atastaafu kwa mujibu wa kifungu cha 114 na kwa kuwa anastahili ameamua kujitokeza ili kuchaguliwa tena.
 - e) Kwa mujibu wa kifungu cha 115, Bw. Rodger Speddy anapendekezwa kuchaguliwa ili kujiunga na Bodi kama mkurugenzi.
4. Kuamua mishahara ya wakurugenzi.
5. Kuazimia kuwa wakaguzi wa kifedha, Messrs Deloitte & Touche, wataendelea kutimiza wajibu wao kwa mujibu wa kifungu cha 159 (2) cha Sheria za Kampuni (Cap. 486) na kuidhinisha wakurugenzi kuamua mishahara yao.

Kwa amri ya Halmashauri
 MJR. Guto
 Katibu
 Private Bag
 Mumias
 Tarehe: Novemba 14, 2003



Tangazo La Mkutano mkuu wa 2003

MASWALA MUHIMU

1. Mwanachama yeyote anaweza kutuma jina la mtu anayependekeza kuchaguliwa wakati wa uchaguzi na kutuma pendekezo mwenyewe au kuliwasilisha kwa katibu kwa muda wa chini ya siku 3 wala zizidi 21 kabla ya siku ya kufanyika kwa mkutano wa pamoja wa mwaka. Iani hii iandamane na nyingine iliyotiwa sahihi na mtu anayependekezwa kuchaguliwa.
2. Mwanachama ambaye amehitimu masharti ya kuhudhuria lakini akashindwa kufanya hivyo anaweza kumtuma mwakilishi wake na kupiga kura kwa niaba yake. Si lazima mwakilishi huyo awe mwanachama wa kampuni. Ili kutuma mwakilishi, mwanachama sharti ajaze na kutia sahihi fomu iliyo katika ukurasa 48 wa ripoti hii na kuiwasilisha katika ofisi ya msajili wa hisa za kampuni; *Image Registrars na Certified Public Secretaries orofa ya nane, Trans National Plaza, Mama Ngina Street Slp 9287,00100, NAIROBI* au kuwasilisha katika ofisi ya kampuni iliyosajiliwa huko Mumias kabla ya saa tano asubuhi siku ya Jumatano Desemba 17, 2003. Baada ya hapo, fomu itakayowasilishwa haitakubaliwa. Endapo mwanachama ni kampuni, mwakilishi lazima ametambuliwa na kupewa ruhusa na kampuni. Barua ya kumsajili mwanahisa pia iko kwenye ukurasa wa 49 wa ripoti hii ili kutumika wakati wa siku ya mkutano wa pamoja wa mwaka.



Corporate Information

DIRECTORS

Mr M K Sang	-	Chairman
Mr J Magari	-	(alternate Mrs C Kimura)
Hon S A Wako	-	(alternate Mr D K Ameyo)
Mr B Yates	-	(alternate Mr R Speddy)

Mr J G Chege
Mr K Gatabaki
Dr C W Wangia
Ms G K Ngala
Mr M R Juma
Mr E S Osundwa
Mr J V Bosse

BOARD COMMITTEES

Board Audit Committee

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

Board Nominations Committee

Mr D K Ameyo	-	Chairman
Mr K Gatabaki		
Ms G K Ngala		
Mr E S Osundwa		

Board Tender Committee

Mr M R Juma	-	Chairman
Dr C W Wangia		
Mr J G Chege		
Mr R Speddy		

COMPANY SECRETARY

Mr M J R Guto

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
Nairobi

BANKERS

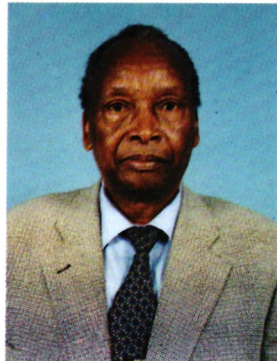
Barclays Bank of Kenya Limited
Kenya Commercial Bank Limited
The Co-operative Bank of Kenya Limited



Board of Directors



Dr. E. Kidero
(Managing Director)



Mr. M. K Sang
(Chairman)



Mr. P. Mutanda
(Ag. C. E. O)



Hon A. Wako
(Director)



Mr. j. Magari
(Director)



Mr. J. Bosse
(Director)



Mr. K. Gatabaki
(Director)



Dr. C. Wangia
(Director)



Mrs. G. Ngala
(Director)



Mr. E. Osundwa
(Director)



Mr. D. Ameyo
(Alt. Director)



Mr. J. Chege
(Director)



Mr. B. Yates
(Director)



Mrs. C. Kimura
(Alt. Director)



Mr. M. R. Juma
(Director)



Mr. M. J. R. Guto
Co. Secretary



Chairman's Statement



I am pleased to present to you our Annual Report and Financial Statements for the year ended 30 June 2003.

Business Environment

The year to 30 June 2003 proved to be a very difficult one for the Kenyan Sugar Industry. The growth in the economy in the period was less than 1%, which meant that there was no major impact on unemployment and poverty reduction. The sugar demand therefore was low, and in our estimation, the aggregate demand for the country was in the region of 550,000 tonnes, which is less than the official estimate of 600,000 tonnes. As local production is 400,000 tonnes the import quota of 200,000 tonnes is higher than the shortfall of 150,000 tonnes. This led to depressed prices throughout the year.

World Sugar production estimated at 135 million tonnes is in excess of demand at 130 million tonnes resulting in depressed world prices. This leads to some countries exporting at below production costs to earn the much needed foreign exchange. The various sugar protocols such as the African Caribbean Pacific-European Union (ACP-EU) have provisions to guard against unfair trade practices such as dumping and subsidised exports. But as was evident from the World Trade Organisation (WTO) talks in Cancun-Mexico, the issue of agricultural subsidies and restrictive quotas by the developed countries will continue to be a thorny and debatable matter in world trade.

Kenya is a member of the Common Markets for Eastern and Southern Africa (COMESA) which operates a free trade agreement for member countries. Kenya being a net importer of sugar has been giving preferential treatment for sugar from COMESA countries subject to quota restriction of 200,000 tonnes per year. Imports from COMESA are reflective of the low World prices, and at times below production costs, which has had a very adverse effect on local sugar selling prices resulting in our poor performance in the year ended 30th June 2003.

Financial Results

Due to the adverse economic climate and stiff competition from imported sugar, the financial results for the year were below our expectations.

Loss before tax and exceptional items was KShs. 106 million compared to KShs. 195 million profit in 2002. Loss before tax was KShs. 218 million compared to KShs. 105 million profit in 2002.

The effects of the influx of low cost and low priced imports, some of which may not have been subjected to the required Government taxes including VAT and Sugar Development Levy, resulted in the average sales price across the product range dropping from KShs. 32,700 / tonne in 2002 to KShs. 30,100/tonne in 2003, a fall of 8%. Had the price achieved in 2002 been maintained, revenue would have been higher by KShs. 692 million and we would have remained profitable. Selling price is our biggest challenge and we shall develop strategies and products to maintain a reasonable selling price as long as all those in the industry engage in fair trade practices.

Our balance sheet remains fundamentally strong and we paid off all term loans in the year.

Dividend

Due to the difficult trading conditions, the directors will not recommend the payment of a dividend to shareholders at the Annual General Meeting.

Contribution to Government Revenue and the economy



Chairman's Statement

Contribution to Government Revenue and the economy

The company continues to be a major contributor to the government revenue as it is the third highest payer of Value Added Tax (VAT) in the country as it paid Shs. 1.4 billion during the year. MSC is ranked 16th overall in taxes paid to the Government.

The company has contracted about 54,000 farmers with over 50,000 hectares under cane. It continues to be a major source of employment in the area arising from the services provided by cane cutters, cane hauliers, sugar transporters and other suppliers of the services. The Sugar industry provides for about 6 million people, which is about 20% of the national population. The government should provide greater assistance to the industry. The sugar Task Force made some recommendations to make the sector more competitive. These included reducing the high taxation on farm inputs, discouraging further subdivision of land, better marketing and transport systems, lowering of interest rates and reduction of VAT on sugar so as to make local sugar more competitive.

Management

During the year under review, company management was under Booker Tate Limited under a management agreement that expired on 30th June 2003. With effect from 1 July 2003, company management was placed under a transitional Executive Management Committee headed by Mr. Paul Mutanda, as the Acting Chief Executive Officer.

A leading international firm of management consultants advertised the position of Managing Director locally and internationally. Following a rigorous selection and interview process, Dr. Evans Kidero was appointed the Managing Director with effect from 1 October 2003.

Booker Tate Limited

Booker Tate limited has been with the company since inception in 1973 when sugar production was 2,000 tonnes per year, which have grown considerably to the current 240,000 tonnes per year. Booker Tate has played a pivotal role in the growth of the company from technology transfer, cane development, farmer recruitment, training, management expertise and assistance in other areas. I would like to thank them most sincerely on behalf of your board for the invaluable input they have made to the development of the sugar industry in Mumias and Kenya as a whole. We shall continue to draw on their expertise whenever it is required.

Shareholding

The company has over 50,000 shareholders. The shareholders are the Government (38.04%), Commonwealth Development Corporation-CDC-(14.54%), Kenya Commercial Finance Company -KCFC (5.0%), Booker Tate (5%), East African Development Bank (2.65%), Outgrowers (20.25%) Institutional, MSC Staff, Public and other Investors (14.52%). The shares continue to be actively traded on the Nairobi Stock Exchange.

Strategy and Future Outlook

Despite the difficult trading condition under which we operated in the year to 30 June 2003, we are hopeful that the relatively good sugar prices that have prevailed since the commencement of the current financial year will be sustainable and we expect to return to profitability.

MSC will continue to make representations to the Government of Kenya, working with all sectors of the industry to promote a sensible approach to sustain the local Sugar Industry. Measures are needed to control the entry of low priced imported sugar in order to ensure stability and viability of the Kenya Sugar Industry of which MSC continues to be the industry leader accounting for 60% of local production.



Chairman's Statement

We are committed to working with the Kenya Sugar Board and growers to maintain a sensible sugar cane price formula that recognises the need for adequate returns to both growers and millers alike.

We cannot, however, just rely on external factors to provide a sustainable, acceptable return to the shareholders. We have already embarked on efficiency and cost reduction programmes to lower our cost of production. The Board is conducting a full Strategic Review to see how we can lower our cost of production by technology improvements, increasing throughput, cane research and development, product diversification and other initiatives. The Strategic Review will be completed by the end of December 2003 and will aim to provide the strategy to ensure we can achieve the returns required by our shareholders in an increasingly competitive industry.

Commitment to the Company's Stakeholders

The Company remains committed to the social responsibilities we have for our employees, farmers, shareholders and the wider community in which we operate. We will continue to work with the stakeholders to try to improve the standard of living of all Kenyans who rely on MSC to provide their livelihood.

Our aim is to produce and market sugarcane based and other products using the most efficient, innovative, environment friendly and best management practices for the benefit of shareholders, farmers, employees and other stakeholders.

Appreciation

This is the first full year as a publicly traded company. I would like to thank members of the Board, management, staff, farmers, suppliers, partners and stakeholders of MSC for their dedication and contribution in a difficult year for the Company. MSC aims to be not just the leader of the Kenya Sugar Industry but also a respected and competitive world class producer. This will require new ideas and provide new challenges.

Chairman's tenure of office

I feel proud and singularly privileged to have served MSC as Chairman for the last 12 years. As I intimated during the last AGM, even the best of times have to come to an end. It is now time for me to step aside for a new chairman to preside over MSC's next phase of development.

During my tenure there were many successes but the ones that I am most proud of are the Rationalisation of the factory by installation of a state of the art Diffuser technology and the successful floatation of the company on the Nairobi Stock Exchange.

As I retire at the end of today's AGM, Mumias Sugar Company and indeed all of you shareholders will forever have a very special place in my heart.

Thank you and may God bless you.

Michael K. Sang

Chairman

Taarifa ya Mwenye Kiti



Nina furaha kuwasilisha kwenu ripoti yetu ya mwaka na ile ya uhasibu kwa kipindi kwa mwaka kilichomalizika Juni 30, 2003.

MAZINGIRA YA BIASHARA

Kipindi chwa mwaka kilichomalizika Juni 30, 2003 kimekuwa kigumu sana kwa sekta ya sukari nchini Kenya. Kiwango cha ukuaji wa uchumi katika kipindi hicho kilikuwa chini ya asilimia 1 (1%). Hii ina maana kwamba hakukuwa na ongezeko lolote la nafasi za kazi au kupunguka kwa hali ya umaskini. Hivyo, mahitaji ya sukari yalikuwa madogo na kwa mujibu wa kadirio letu hitajiko la sukari nchini lilikuwa tani 550,000 kiasi ambacho ni kidogo ikilinganishwa na kiwango cha kawaida cha tani 600,000. Huku kiwango cha uzalishaji kikiwa tani 400,000, uagizaji wa tani 200,000 kutoka mataifa ya nje ni wa juu ikilinganishwa na tani 150,000 kuziba pengo linalohitajika. Hali hii ilipelekea kushuka kwa bei ya sukari kwa kipindi cha mwaka mzima.

Kiwango cha uzalishaji wa sukari kilichokadiriwa kuwa tani milioni 135 kote ulimwenguni ni zaidi kwa tani ya tani 130 milioni zinazohitajika na hivyo kusababisha kushuka kwa bei ya bidhaa hii katika masoko ya kimataifa. Hali hii imepelekea mataifa mengine kuuza sukari yao kwa bei ya chini ikilinganishwa na gharama za uzalishaji ili kuyapatia fedha za kigeni zinazohitajika.

Mikataba mbali mbali ya biashara ya sukari kama vile Africa Caribbean Pacific-European Union (ACP-EU) na ule wa muungano wa mataifa ya Ulaya (EU) una vizingiti ambavyo vimefanya kutokuwepo kwa usawa kwa shughuli za kibiashara kama vile uingizaji wa bidhaa zisizohitajika lakini kutokana na ushahidi uliotolewa wakati wa mazungumzo ya mkutano wa shirika la biashara ulimwenguni (WTO) uliofanyika Cancun-Mexico, swala kuhusu bidhaa duni za kilimo na vizingiti fulani kutoka mataifa yaliyoendelea vitazidi kuwa kikwazo katika biashara za kimataifa.

Taifa la Kenya ni mwanachama wa soko la pamoja kwa mataifa yaliyoko mashariki na kusini mwa bara la Afrika (COMESA) ambalo huendesha mkataba huru wa biashara kwa mataifa wanachama. Taifa la Kenya likiwa mojawapo wa waagizaji wa sukari kutoka nje, limekuwa liki-yaruhusu mataifa yaliyoko kwenye eneo la mkataba wa Comesa kuingiza sukari nchini ili kuziba pengo la tani 200,000 zinazohitajika kila mwaka. Bidhaa kutoka mataifa ya COMESA ni ya bei ya chini kwa kiwango cha kimataifa na wakati mwingine huwa chini ya kiwango cha uzalishaji hali ambayo imeathiri bei ya sukari humu nchini na kusababisha kampuni kutofanya vyema kwa kipindi cha mwaka kilichomalizika Juni 30, 2003.

RIPOTI YA UHASIBU

Kutokana na hali ya hewa na ushindani mkubwa kutokana na sukari inayoingizwa humu nchini, matokeo ya hesabu ya uhasibu yalikuwa kinyume na ilivyotarajiwa.

Hasara kabla ya ushuru na bidhaa maalumu ilikuwa milioni 106 ikilinganishwa na faida ya milioni 195 mwaka wa 2002. Hasara kabla ya faida ilikuwa milioni 218 ikilinganishwa na faida ya milioni 105 mwaka wa 2002.

Athari kutokana na bei duni na kuagizwa kwa sukari kwa bei ya chini nyingine ambayo haikutozwa ushuru wa ziada na ushuru unaotozwa sukari zili pelekea kiwango cha bei ya wastani kwa sukari kushuka kutoka tani 32,700 mwaka wa 2002 hadi shilingi 30,100 mwaka wa 2003 kiwango ambacho ni asilimia 8. Endapo bei iliyopatikana mwaka wa 2002 ingedhibitwa, kiwango cha pesa ambacho kingepatikana kingekuwa zaidi ya milioni 692 na tungezidi kupata faida. Changamoto kubwa kwetu ni bei ya bidhaa yetu kwenye masoko na tutazindua mikakati kabambe na bidhaa ili kudhibiti bei nzuri endapo wanaoendesha biashara hii wataendesha shughuli zao kwa njia za usawa.

Hati yetu ya hesabu kwa jumla imebaki kuwa imara na tumeweza kulipa mikopo ya muda katika kipindi hicho cha mwaka.



Taarifa ya Mwenye Kiti

MGAO WA FAIDA

Kutokana na mazingira magumu ya kibiashara, wakurugenzi hawatapendekeza malipo yoyote ya mgao wa faida kwa wenye hisa wakati wa mkutano wa pamoja wa mwaka.

MCHANGO KWA MAPATO YA SERIKALI NA UCHUMI

Kampuni inazidi kuwa miongoni mwa zile zinazoipatia serikali mapato makubwa kwa kuwa ndiyo ya pili kwa utoaji wa ushuru wa ziada (VAT) nchini na ililipa bilioni 1.4 katika kipindi hicho cha mwaka.

Kampuni imewapa kandarasi wakulima 54,000 walio na zaidi ya ekari 50,000 za miwa. Imekuwa ikizalisha nafasi nyingi za kazi kwa wakazi wa eneo hili kuanzia huduma zinazotolewa na wakataji miwa, wapakiaji wa miwa, wasafirishaji na watoaji wa huduma nyinginezo. Sekta ya miwa imekuwa ikihudumia zaidi ya watu milioni 6 idadi ambayo ni sawa na asilimia 20 ya hesabu ya kitaifa. Serikali haina budi kutoa mchango wake kuisaidia sekta hii. Kamati inayoshughulika na biashara ya sukari ili-toa mapendekezo fulani yenye lengo la kuifanya sekta hii kuwa imara. Mapendekezo hayo yalikuwa ni pamoja na kupunguza kiwango kikubwa cha ushuru kwa vifaa vya kilimo, kuzuia ugawaji zaidi wa ardhi, mbinu mwafaka za uuzaji na usafirishaji, kupunguzwa kwa ushuru wa mkopo na kupunguzwa ushuru wa ziada (VAT) kwa sukari ili kuifanya ile ya humu nchini kudhibiti vyema masokoni.

USIMAMIZI

Katika muda wa kipindi tunachoangazia, kampuni ilikuwa chini ya usimamzi wa Booker Tate Limited chini ya mkataba uliomalizika Juni 30, 2003. Kuanzia Julai 1, 2003, kampuni iliwekwa chini ya kamati ya mpito ikiongozwa na afisa mkuu mtendaji Bw. Paul Mutanda.

Kampuni kuu ya kimataifa inayotoa ushauri wa usimamizi ilitangaza nafasi ya mkurugenzi mkuu humu nchini na nje. Baada ya kufanyika kwa shughuli kali za uteuzi na mahojiano, Dkt. Evans Kidero alichaguliwa kuchukua wadhifa wa afisa mkuu kuanzia Oktoba 1, 2003.

BOOKER TATE LIMITED

Booker Tate wamekuwa wakisisimamia kampuni tangu ilipobuniwa mwaka wa 1973 wakati kiwango cha sukari kilikuwa tani 20,000 kwa mwaka na kukua hadi tani 240,000 kwa sasa. Booker Tate wametimiza wajibu mkubwa wa kuikuza kampuni kwa kuingiza teknolojia mpya za ukuzaji wa miwa, kuwashirikisha wakulima, kutoa mafunzo, mafunzo ya usimamizi na kusaidia katika nyanja mbali mbali. Kwa niaba ya halmashauri yenu, ningependa kutoa shukrani zangu kutokana na juhudi zao za kuen-deleza kilimo cha miwa Mumias na Kenya kwa jumla. Tutazidi kuwaomba msaada wao wakati wowote inapohitajika.

UANAHISA

Kampuni ina zaidi ya wanahisa 50,000. Wengi wa wenyehisa ni serikali (38.04%), Commonwealth Development Corporation-CDC- (14.54%) Kenya Commercial Finance Corporation-KCFC (5%), Booker Tate (5%) East African Development Bank (2.65%), Outgrowers (20.25%) Taasisi wafanyakazi wa Mumias Sugar na wawekaji rasimali wengineo (14.52%) Hisa zetu zinazidi kufanya vyema kwenye soko la hisa la Nairobi.

MIKAKATI NA HALI YA BAADAYE

Ingawa kumekuwa na hali ngumu ya biashara katika kipindi cha mwaka kilichomalizika Juni 30, 2003, tuna matumaini kwamba bei nzuri ya sukari ambayo imekuwepo tangu wakati wa kusomwa kwa bajeti ya mwaka huu itazidi kuimarika na kutupelekea kupata faida tena.



Taarifa ya Mwenye Kiti

Kampuni ya MSC itazidi kutoa mapendekezo yake kwa serikali ya Kenya na kushirikiana na sekta nyingine kudhibiti hali nzuri kwa kilimo cha sukari cha humu nchini. Hatua zinahitajika ili kudhibiti hali ya uagizaji wa sukari duni kutoka mataifa ya nje ili kuwepo kwa bei nzuri ya sukari ya humu nchini na wakati huo kuleta matumaini kwa kilimo cha miwa ambapo kampuni ya MSC imekuwa ikiongoza kwa kuchangia hadi asilimia 60% ya uzalishaji wa sukari humu nchini.

Tumejitolea kufanya kazi na halmashauri ya sukari nchini na wakuzaji ili kudhibiti bei nzuri ya sukari ambayo itawafaidi wakulima na wasagaji wa miwa.

Hata hivyo, hatuwezi kutegemea msaada kutoka nje ili kupata faida kwa wanahisa wetu. Tayari tumerejelea mbinu ambazo zitatuzesha kupunguza kiwango cha gharama za uzalishaji. Halmashauri inafanya mikakati kamili ambayo nia yake ni kupunguza gharama za uzalishaji kwa kuinua teknolojia, kuongeza mapato kwa kufanya utafiti. Mkakati huu unatarajiwa kukamilika ifikapo mwisho wa Desemba 2003 na unatazamiwa kuleta faida kwa wanahisa kwenye ushindani wa biashara.

WAJIBU WA KAMPUNI KWA WASHIKA DAU

Kampuni imezidi kuwajibikia maswala ya kijamii kwa watumishi wake, wakulima, washika dau na jamii nzima ambapo imekuwa ikihudumu. Tutazidi kufanya kazi na washika dau wote ili kuinua hali ya maisha ya wakenya wote ambao wamekuwa wakitegemea kampuni ya Mumias Sugar kuendeleza hali ya maisha yao. Nia yetu ni kukuza na kuvumisha bidhaa zinazotokana na miwa kwa kutumia mbinu mwafaka za kisasa chini ya mazingira ya urafiki na mbinu mwafaka za usimamizi kwa manufaa ya wenyehisa, wakulima, wafanyakazi na washika dau wengine.

SHUKRANI

Huu ulikuwa ni mwaka wa kwanza wa utekelezaji wa shughuli za biashara kama kampuni inayomilikiwa na umma. Ningependa kuwashukuru wanachama kwenye halmashauri, wasimamizi, wafanyakazi, wakulima, wauzaji, marafiki na washika dau wote wa kampuni ya Mumias kutokana na wajibu na mchango wao wakati wa kipindi hiki kigumu cha mwaka. MSC hailengi tu kuzidi kuongoza kwenye biashara ya sukari lakini pia kuwa kampuni shindani kwenye masoko ya kimataifa. Hali hii itahitaji mawazo mapya yatakayoleta changamoto mpya.

HATAMU YA KUTUMIKA OFISINI KAMA MWENYEKITI

Ninahisi furaha kubwa kwa kuitumikia kampuni ya MSC kama mwenyekiti kwa muda wa miaka 12 iliyopita. Kama nilivyosema kwenye mkutano mkuu wa mwaka jana, hata nyakati nzuri zina mwisho wake. Wakati umewadia kwangu kung'atuka ili kumpisha mwenyekiti mpya kuiongoza MSC katika kipindi kipya cha kuleta maendeleo.

Wakati wa kipindi cha uongozi wangu, tumeshuhudia mafanikio mengi lakini yale ninayofaharia zaidi ni upanuzi wa kiwanda kwa kuingizwa kwa teknolojia za kisasa za kusaga miwa na kuzidi kufanya vyema kwa hisa za kampuni kwenye soko la hisa la Nairobi.

Ninapoelekea kustaafu baada ya mkutano mkuu wa leo, daima nitazidi kuikumbuka kampuni ya MSC na wanahisa wote.

Ahsanteni nyote na Mungu awabariki.

Michael K. Sang

Mwenyekiti

MUMIAS SUGAR
COMPANY LIMITED





Chief Executive Officer's Statement



The year 2003 was a challenging one for the Company with the severe pressure on margins due to the effects of low priced imported sugar, this was in addition to industrial unrest in the Mumias Sugar Zone

Production

Cane milled grew by 5.2% from 1,961,185 tonnes in 2001/2 to 2,064,893 tonnes. Sugar production increased by 8% from 219,539 tonnes in 2001/2 to 237,084 tonnes. Rendement (which is the amount of sugar you extract from 100 tonnes of cane) achieved for the year was 11.55% against 11.22% in the previous year which indicated an improvement in our production efficiencies. Cane productivity decreased from 4.41 tc/ha/month in 2002 to 3.67 tc/ha/month in 2003 due to increase in cane age. Pol% cane (which is the amount of sugar naturally available from 100 tonnes of cane) increased from 12.95% to 13.39%. This increase in cane quality together with a small improvement in factory overall recovery resulted in the 3% increase in rendement.

Operational objective for 2003/4 is to mill 2,200,000 tonnes of cane producing 251,000 tonnes of sugar, at a rendement of 11.54%. Performance improvements will continue to be driven with investment in equipment to improve the recovery and throughput in the factory.

Sales and Marketing

The Mumias Sugar Branding exercise has been very successful with the 1kg and 2kg packs now constituting 27% of total sales. We will continue to invest on equity brand building and aggressive distribution activities so as to build a sustainable competitive advantage.

Operational Costs

During the year, Sales and Marketing expenditure increased by Kshs 76 million due to the increase in transportation costs for sugar distribution. The company spent over Shs 44 million in compensation to outgrower farmers for sugar cane that could not be transported to the factory owing to a contractors hauliers drivers strike that lasted 19 days in March 2003. Despite these factors, MSC's overall unit cost of production (including depreciation and excluding finance) declined to Kshs 30,676/tonne from Kshs 32,270/tonne in 2002, a decrease of 5%.

The efficiency and cost management measures that were initiated in 2002 are continuing to bear fruit. The price of cane has been reduced to Kshs 1,800 per tonne from Kshs 2,015 per tonne. The largest component of MSC's operating costs is the purchase of farmers' cane that accounts for 55% of total operating costs. This issue of cane price is still being addressed under the provisions of the Sugar Act 2001 by MSC working with the Kenya Sugar Board and will hopefully be resolved before the end of this financial year.

Employee Relations

MSC's total number of employees as at 30 June 2003 was 2,978. This compares to 3,241 as at June 2002. We will continue to rationalise our staff numbers. Our aim is to attract and retain the best staff by providing rewarding and challenging careers.

The company continues to provide a full range of welfare facilities including housing, non contributory healthcare scheme and education institutions.

In March 2003, there occurred an industrial unrest between cane haulage contractors and their drivers. MSC had to incur an expenditure of KShs. 44 million to compensate farmers and cane cutters for the cane that had been harvested and not delivered due to the strike.

In the same month, there was interference with cane delivery to protest the implementation of the cane/sugar pricing formulae as stipulated by the Sugar Act 2001. This led to the pre-

mature closure of the factory for the Annual Out of Crop Maintenance in April 2003.

I would like to thank all employees for their dedicated contribution and commitment to MSC over the last year. The challenges we faced were mainly of an external nature but as a result of everyone's resolute efforts, MSC is in a strong position to meet the challenges of the future and take full advantage of the opportunities.

Paul M. Mutanda

Ag. Chief Executive Officer



Report of the Directors for the Year Ended 30th June 2003

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2003.

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.

	Shs'000
RESULTS	
Loss before taxation	(217,976)
Taxation credit	16,391
	<hr/>
Net loss for the year carried to retained earnings	<u>(201,585)</u>

DIVIDENDS

The directors do not propose the payment of a dividend 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)
2003	237,084	2,064,893
2002	219,375	1,961,185
2001	217,834	1,988,285
2000	267,057	2,283,434
1999	230,708	2,047,000

NUCLEUS ESTATE AND OUTGROWERS

The company's nucleus estate under cane, measuring approximately 3,502 (2002 - 3,450) hectares, provides an average of only about 8% of the total cane processed annually.

At 30 June 2003, there were 53,533 (2002 - 54,045) registered outgrowers, with 46,755 (2002 - 47,031) hectares of land under cane.



Report of the Directors

(Continued)

DIRECTORS

The current members of the Board are shown on page 8.

Mr G Mate was appointed on 30 August 2002 in place of Prof Migot-Adholla and resigned on 23 December 2002.

Mr J Kinyua was appointed on 30 August 2002 in place of Mr M Mwachofi who resigned on the same date.

Mr J Magari was appointed on 3 January 2003 in place of Mr J Kinyua who resigned on the same date. Mr Magari being eligible offers himself for election pursuant to Art 114.

Dr C W Wangia, Ms G K Ngala, Mr M R Juma, Mr E S Osundwa and Mr J V Bosse were appointed on 23 December 2002.

Mr J K Kiarie resigned on 21 July 2003 and was replaced by Mr J G Chege on the same date. Mr Chege being eligible offers himself for election pursuant to Art 114.

In accordance with Article 113, three directors (Mr. Sang, Mr. Ben Yates and Mr. K. Gatabaki) will retire by rotation, and although being eligible, Mr. Sang and Mr. Yates have advised the company of their intention not to offer themselves for re-election. Mr. K. Gatabaki however has advised the company that he will offer himself for re-election.

MANAGEMENT

During the year under review, the company management was under Booker Tate Limited under a management agreement which expired on 30 June 2003. With effect from 1 July 2003, the company management was placed under a transitional Executive Management Committee headed by Mr Paul Mutanda, Acting Chief Executive Officer, pending the recruitment of a Managing Director. The process of recruitment is now complete and Dr. Evans Kidero is the Managing Director with effect from 1.10.2003.

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



Corporate Governance

Corporate governance is the system by which organisations are run and the laws, regulations and best practices with which they are required to comply.

Mumias Sugar Company's Board of Directors is responsible for the governance of the company and is accountable to the shareholders for ensuring that the company complies with the law, the highest standards of corporate governance and business ethics: The Directors attach great importance to the need to conduct the business and operations of the Company with integrity and in accordance with generally accepted corporate practice and principles of good corporate governance.

Board of Directors

The full Board meets at least six times a year. The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The Board nonetheless retains responsibility for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues.

Committees of the Board

The Board has three standing Committees which meet regularly under the terms of reference set by the Board.

Audit Committee

The Board has constituted an Audit Committee which meets four times a year or as necessary. Its responsibilities include review of financial information in particular half year and annual financial statements, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The External and Internal Auditors, the Chief Executive Officer and the Finance Controller attends all meetings of the Committee with other members of the management attending as required.

Board Nominations Committee (BNC)

There is a Board Nominations Committee which meets not less than three times in a year. The Committee is responsible for recommending persons of calibre, credibility and who have necessary skills and expertise for appointment to the Board. The BNC also reviews on an annual basis the required skills and expertise which the Directors bring to the Board. The BNC is also responsible for appointments to all Senior management positions in the company.

Board Tender Committee

The Board has established a Board Tender Committee which deals with procurement of goods and services above a given threshold. The Tender Committee operates within the terms of reference set by the Board and in accordance with the best procurement practices.

Internal Controls

The Company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties.

In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out to audit and review the activities of the group.

A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly senior management meetings are held by the executive management to monitor performance and to agree on measures for improvement.



STRATEGIC PLANNING AND BUSINESS REVIEW WORKSHOP FOR EXECUTIVE MANAGEMENT COMMITTEE MEMBERS FROM 18-20 AUGUST 2003
AT ABERDARE COUNTRY CLUB-NYERI.

Seated L-R: Prof. EAosa (Facilitator), N Aseka (HFO), P Mutanda (Ag. C E O), Mr T Mutugu (Facilitator), N Ong'uti (Ag. HR)
Standing L-R: M Guto (Co. Sec.), P Kebati (Ag. FC), D Mutoka (HSM), E Ogola (Ag. CIA), T. Kyui(RTM), A Wanjala (Ag. HA), E Kivai (FA)



Statement of the 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 loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

DIRECTOR
M K Sang

DIRECTOR
J G Chege

16, September, 2003



Report of the Auditors to the Members of Mumias Company Limited

We have audited the financial statements on pages 24 to 45 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 22, 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 2003 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act.

Deloitte & Touche

16, September, 2003





Income Statement for the Year Ended 30th June 2003

		2003	2002
	Note	Shs'000	Shs'000
SALES	2	7,628,937	7,847,233
COST OF SALES		(6,232,952)	(6,026,794)
GROSS PROFIT		1,395,985	1,820,439
OTHER OPERATING INCOME		66,160	89,542
MARKETING AND DISTRIBUTION COSTS		(486,671)	(411,182)
ADMINISTRATIVE EXPENSES		(684,603)	(750,104)
OTHER OPERATING EXPENSES		(396,472)	(552,727)
OPERATING (LOSS)/PROFIT	3	(105,601)	195,968
FINANCE COSTS - NET	5	(7,322)	(52,323)
(LOSS)/PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS		(112,923)	143,645
EXCEPTIONAL ITEMS	6	(105,053)	(39,093)
(LOSS)/PROFIT BEFORE TAXATION		(217,976)	104,552
TAXATION CREDIT/(EXPENSE)	7	16,391	(39,436)
NET (LOSS)/ PROFIT FOR THE YEAR		(201,585)	65,116
(LOSS)/EARNINGS PER SHARE - BASIC	8	(Shs 0.40)	Shs 0.13
- DILUTED	8	(Shs 0.40)	Shs 0.13



Balance Sheet 30th June 2003

	Note	2003 Shs'000	2002 Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	9	5,781,476	6,120,928
Intangible assets	10	13,292	6,676
Non-current receivables	11	18,954	93,279
Trade investment	12	1	1
		<u>5,813,723</u>	<u>6,220,884</u>
Current assets			
Inventories	13	1,330,506	1,980,231
Assets held for sale	14	178,584	201,578
Trade and other receivables	15	1,569,728	1,083,646
Taxation recoverable		37,738	-
Cash and bank balances		39,708	39,025
		<u>3,156,264</u>	<u>3,304,480</u>
Total assets		<u>8,969,987</u>	<u>9,525,364</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	1,020,000	1,020,000
Revaluation surplus		1,483,952	2,768,651
Retained earnings		2,355,104	1,225,464
Dividend proposed (gross)	21	-	51,000
		<u>4,859,056</u>	<u>5,065,115</u>
Non current liabilities			
Deferred income taxes	18	1,231,643	1,289,978
Retirement benefit obligations	19	541,845	625,343
		<u>1,773,488</u>	<u>1,915,321</u>
Current liabilities			
Trade and other payables	20	1,688,336	1,610,476
Borrowings	17	464,278	696,505
Unpaid dividends (gross)	21	47,163	77,425
Provision for staff leave pay	22	137,666	93,485
Taxation payable		-	67,037
		<u>2,337,443</u>	<u>2,544,928</u>
Total equity and liabilities		<u>8,969,987</u>	<u>9,525,364</u>

The financial statements on pages 24 to 45 were approved by the board of directors on 16th, September 2003 and were signed on its behalf by:

Director
M K Sang

Director
J G Chege





Statement of Changes in Equity for the Year Ended 30th June 2003

	Share Capital Shs '000	Revaluation Surplus Shs '000	Retained earnings Shs '000	Dividends Shs '000	Total Shs '000
At 1 July 2001	1,020,000	2,869,056	1,102,939	362,100	5,354,095
Net profit for the year	-	-	65,116	-	65,116
2002 dividend paid	-	-	-	(284,675)	(284,675)
2002 unpaid dividend transferred to current liabilities	-	-	-	(77,425)	(77,425)
2002 dividend proposed-final	-	-	(51,000)	51,000	-
Transfer of excess depreciation	-	(152,075)	152,075	-	-
Deferred tax on excess depreciation	-	45,623	(45,623)	-	-
Revaluation surplus realised on disposal of revalued plant and equipment	-	(2,795)	2,795	-	-
Deferred tax on realised revaluation surplus	-	838	(838)	-	-
Other deferred tax movement	-	8,004	-	-	8,004
At 30 June 2002	<u>1,020,000</u>	<u>2,768,651</u>	<u>1,225,464</u>	<u>51,000</u>	<u>5,065,115</u>
At 1 July 2002	1,020,000	2,768,651	1,225,464	51,000	5,065,115
Net loss for the year	-	-	(201,585)	-	(201,585)
2002 dividend declared	-	-	-	(51,000)	(51,000)
Transfer of revaluation surplus **	-	(1,211,791)	1,211,791	-	-
Transfer of excess depreciation	-	(150,681)	150,681	-	-
Deferred tax on excess depreciation	-	45,204	(45,204)	-	-
Revaluation adjustment *	-	46,526	-	-	46,526
Deferred tax on revaluation adjustment	-	(13,957)	13,957	-	-
At 30 June 2003	<u>1,020,000</u>	<u>1,483,952</u>	<u>2,355,104</u>	<u>-</u>	<u>4,859,056</u>

* 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 30th June 2003

		2003	2002
	Note	Shs'000	Shs'000
OPERATING ACTIVITIES			
Cash generated from operations	23(a)	527,244	1,279,635
Interest paid		(134,306)	(187,054)
Interest received		144,939	125,575
Taxation paid		(146,719)	(184,016)
		<hr/>	<hr/>
Net cash from operating activities		365,727	1,034,140
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of plant and equipment		(54,246)	(149,781)
Purchase of intangible assets		(950)	(6,870)
Proceeds from disposal of plant and equipment		3,641	23,876
		<hr/>	<hr/>
Net cash used in investing activities		(51,555)	(132,775)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Loans repaid	23(b)	(230,048)	(242,815)
Dividends paid		(81,262)	(284,675)
		<hr/>	<hr/>
Net cash used in financing activities		(311,310)	(527,490)
		<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS		2,862	373,875
BALANCE AT BEGINNING OF THE YEAR		(427,432)	(801,307)
		<hr/>	<hr/>
BALANCE AT END OF THE YEAR	23(c)	(424,570)	(427,432)
		<hr/> <hr/>	<hr/> <hr/>





Notes to the Financial Statements For the Year Ended 30th June 2003

I ACCOUNTING POLICIES

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

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis of accounting as modified to include the revaluation of certain property, plant and equipment.

REVENUE RECOGNITION

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

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 revaluation are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; 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 their estimated residual values over their estimated useful lives.

The annual rates generally in use are:

Land development	2½%
Buildings	2½% - 5%
Factory plant and machinery	5% - 10%
Heavy mobile machinery	12½% - 25%
Motor vehicles	20%
Other equipment and fixtures	12½% - 33⅓%

Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

I ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve 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.

TRADE INVESTMENT

Trade investment is stated at cost less provision 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.

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.

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

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

TRADE RECEIVABLES

Trade receivables are carried at anticipated realisable value. 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.



Notes to the Financial Statements For the Year Ended 30th June 2003

Continued)

I ACCOUNTING POLICIES (Continued)

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 in the year in which they arise

RETIREMENT BENEFIT OBLIGATIONS

Defined benefit scheme

The company operates a defined retirement benefit 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 on 1 July 2001. 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 from December 2002. Previously, the rate was Sh 80 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 twelve 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 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.

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.



Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

	2003 Shs'000	2002 Shs'000
2 SALES		
Gross sales	9,573,879	10,044,270
Less: taxes and discounts		
Value added tax	1,426,149	1,421,244
Sugar development levy	518,793	604,225
Sales discounts	-	171,568
	<u>1,944,942</u>	<u>2,197,037</u>
Net sales	<u>7,628,937</u>	<u>7,847,233</u>
3 OPERATING (LOSS)/PROFIT		
Operating (loss)/profit is arrived at after: charging:		
Staff costs (note 4)	1,209,813	1,463,015
Subsidy to out-growers	311,408	246,766
Depreciation of property, plant and equipment (note 9)	432,660	454,406
Amortisation of intangible assets (note 10)	8,231	7,077
Assets impairment loss on equipment held for sale (note 14)	23,000	23,000
Operating lease rentals (note 24)	16,085	16,043
Management fees		
- fixed	54,468	49,749
- performance related	-	3,234
Directors' emoluments - fees	550	350
- other	5,672	3,999
Auditors' remuneration	3,150	3,000
Provision for bad debts	43,630	25,610
Stock obsolescence and adjustments	60,502	-
Cost of lost cane from transporters' strike	43,607	-
	<u>2,708,585</u>	<u>3,312,069</u>
and crediting		
Stock obsolescence and adjustments	-	5,745
Reversal of impairment provision on intangible assets (note 10)	11,001	-
Profit on disposal of plant and equipment	2,275	7,130
Bad debts recoveries	79	21,011
	<u>13,347</u>	<u>33,896</u>



Notes to the Financial Statements For the Year Ended 30th June 2003

	2003 Shs'000	2002 Shs'000
4 STAFF COSTS		
Salaries and allowances		
- Management staff	239,375	231,539
- Supervisory and clerical	317,705	322,860
- Manual grade	511,087	519,036
- Casual labour	36,615	53,259
Termination benefits	19,068	21,488
Pension - defined benefit scheme	45,056	49,960
Pension - statutory defined contribution scheme	7,397	5,761
Pension administration fee	1,833	3,870
Group life insurance cover	10,498	10,771
Staff gratuity	(58,067)	163,472
Provision for leave pay	79,246	80,999
	<hr/>	<hr/>
	1,209,813	1,463,015
	=====	=====
 The average number of employees during the year comprised:		
	Number	Number
Permanent employees	2,978	3,105
Registered seasonal employees	12,275	12,637
	<hr/>	<hr/>
	15,253	15,742
	=====	=====

The usage of registered seasonal employees varies depending on the cane cutting requirements. The average actual usage is approximately 50% of those registered.



Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

	2003 Shs'000	2002 Shs'000
5 FINANCE INCOME/(COSTS) - NET		
Interest income:		
On MOCO current account	130,577	100,643
On Busia Sugar Company Limited loan – current year	9,414	12,737
- prior year overprovision	(9,319)	-
On advances to farmers	582	7,084
On short term deposits	12,212	2,844
On staff loans	1,473	2,267
	<hr/>	<hr/>
	144,939	125,575
	<hr/>	<hr/>
Interest expense:		
On bank overdrafts	(108,200)	(122,389)
On loans	(18,528)	(56,240)
On outgrowers development service charge	(20,307)	-
	<hr/>	<hr/>
	(147,035)	(178,629)
	<hr/>	<hr/>
Net exchange gains/(losses):		
On foreign currency borrowings	-	(1,337)
On other exchange transactions	(5,226)	2,068
	<hr/>	<hr/>
	(5,226)	731
	<hr/>	<hr/>
	(7,322)	(52,323)
	<hr/>	<hr/>
	=====	=====
6 EXCEPTIONAL ITEMS		
VAT back charges and penalties	105,053	-
Privatisation expenses	-	39,093
	<hr/>	<hr/>
	105,053	39,093
	<hr/>	<hr/>
	=====	=====

VAT back charges and penalties arose from a VAT audit done by the Kenya Revenue Authority (KRA) covering the period from 1995 to 2002 and represent additional VAT assessments and penalties arising therefrom. The above amount includes VAT of Shs 18,384,000 on cane transportation, which cannot be recovered from outgrowers. It also includes Shs 58,370,000 in respect of interest and penalties for which the company has applied to the KRA for waiver.



Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

	2003 Shs'000	2002 Shs'000
7 TAXATION		
(a) Tax credit/(expense)		
Current taxation based on the adjusted profit for the year at 30% - current year	(42,825)	(151,101)
- prior year over-provision	881	87
Total current tax charge	(41,944)	(151,014)
Deferred tax credit - current year	63,521	115,364
- prior year under-provision	(5,186)	(3,786)
Total deferred tax credit (note 18)	58,335	111,578
	16,391	(39,436)
	=====	=====
(b) Reconciliation of expected tax based on accounting profit to tax credit/(expense)		
Accounting (loss)/profit before taxation	(217,976)	104,552
	=====	=====
Tax at the applicable rate of 30%	(65,393)	(31,366)
Tax effect of expenses not deductible for tax purposes	82,326	(4,590)
Tax effect of income not taxable	(4,847)	219
Prior year under/(over) provision of deferred tax	5,186	(3,786)
Prior year overprovision of current tax	(881)	87
	16,391	(39,436)
	=====	=====

8 EARNINGS PER SHARE

The basic (loss)/earnings per share has been calculated on the net loss for the year of Shs 201,585,000 (2002 – profit of Shs 65,116,000) divided by 510,000,000 ordinary shares in issue during the year.

The fully diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share.

MUMIAS SUGAR
COMPANY LIMITED

MUMIAS SUGAR COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENT (Cont)

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 2002	490,000	1,742,137	3,996,660	258,150	252,241	326,444	7,866	7,073,498
Additions	-	-	9,140	20,289	4,129	16,337	4,351	54,246
Transferred to current assets (note 14)	-	-	-	(19,527)	(300)	(1,192)	-	(21,019)
Transfers from capital work in progress	-	-	4,875	-	-	-	(4,875)	-
Transfers to intangible assets (note 10)	-	-	-	-	-	-	(2,896)	(2,896)
Disposals	-	-	-	(1,825)	-	(6,348)	-	(13,134)
Reclassification	-	-	-	-	-	156	-	-
Adjustment *	-	-	-	-	-	58,129	(3,296)	54,833
At 30 June 2003	490,000	1,742,137	4,010,675	257,087	250,953	393,526	1,150	7,145,528
COMPRISING								
Cost	-	58,670	73,513	249,505	240,343	347,477	1,150	970,658
Valuation – 1996	-	-	-	7,582	10,610	46,049	-	64,241
Valuation – 2001	490,000	1,683,467	3,937,162	-	-	-	-	6,110,629
At 30 June 2003	490,000	1,742,137	4,010,675	257,087	250,953	393,526	1,150	7,145,528
DEPRECIATION								
At 1 July 2002	12,250	62,469	270,739	195,527	190,081	221,504	-	952,570
Charge for the year	12,250	64,071	267,752	26,633	20,170	41,784	-	432,660
Transferred to current assets (note 14)	-	-	-	(19,527)	(300)	(1,173)	-	(21,000)
Disposals	-	-	-	(1,825)	(3,608)	(6,348)	-	(11,781)
Reclassification	-	-	(3,995)	-	(156)	4,151	-	-
Adjustment *	-	-	-	-	-	11,603	-	11,603
At 30 June 2003	24,500	126,540	534,496	200,808	206,187	271,521	-	1,364,052
NET BOOK VALUE								
At 30 June 2003	465,500	1,615,597	3,476,179	56,279	44,766	122,005	1,150	5,781,476
At 30 June 2002	477,750	1,679,668	3,725,921	62,623	62,160	104,940	7,866	6,120,928
NET BOOK VALUE (Cost basis)								
At 30 June 2003	408,740	709,429	2,309,478	55,373	41,028	109,324	1,150	3,634,522
At 30 June 2002	417,026	768,540	2,449,639	61,379	61,692	86,436	7,866	3,852,578

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



Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

9 PROPERTY, PLANT AND EQUIPMENT (Cont)

The company owns 4,413.82 hectares of leasehold land. The value of the land is not reflected under property, plant and equipment as the land was allocated by the Government of Kenya at no purchase consideration.

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.

Fully depreciated plant and equipment

	Cost/valuation		Normal annual Depreciation charge	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Factory plant and machinery	31,003	-	1,332	-
Heavy mobile machinery	112,578	119,198	25,787	28,717
Motor vehicles	147,586	148,742	30,430	30,665
Other equipment and fixtures	84,324	57,027	26,691	18,585
	<u>375,491</u>	<u>324,967</u>	<u>84,240</u>	<u>77,967</u>

10 INTANGIBLE ASSETS

	Willow software Shs'000	Other software Shs'000	Total Shs'000
COST			
At 1 July 2002	18,909	13,377	32,286
Additions	-	950	950
Transfer from property, plant and equipment (note 9)	-	2,896	2,896
Reversal of impairment provision	11,001	-	11,001
At 30 June 2003	<u>29,910</u>	<u>17,223</u>	<u>47,133</u>
AMORTISATION			
At 1 July 2002	18,909	6,701	25,610
Charge for the year	3,667	4,564	8,231
At 30 June 2003	<u>22,576</u>	<u>11,265</u>	<u>33,841</u>
NET BOOK VALUE			
At 30 June 2003	<u>7,334</u>	<u>5,958</u>	<u>13,292</u>
At 30 June 2002	<u>-</u>	<u>6,676</u>	<u>6,676</u>



Notes to the Financial Statements For the Year Ended 30th June 2003 (Continued)

2003 Shs'000	2002 Shs'000	
II NON CURRENT RECEIVABLES		
Staff accounts	18,954	23,279
Busia Sugar Company Limited	70,000	70,000
	<u>88,954</u>	<u>93,279</u>
Less: receivable within one year (included under note 15)	(70,000)	-
	<u>18,954</u>	<u>93,279</u>
	=====	=====

Included in staff accounts is an balance of Shs 871,227 (2002 - Shs 1,326,301) due from an officer of the company.

The Busia Sugar Company Limited (BSC) balance represents a disbursement for the development of land for cane to be produced for Mumias Sugar Company Limited and will be recovered through offset against proceeds due to Busia Sugar Company Limited arising from the sale to Mumias Sugar Company Limited of the cane harvested from the development of land.

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

	2003	2002
Staff loans	5%	5%
Loan to BSC	15%	15%
	=====	=====

	2003 Shs'000	2002 Shs'000
	1	1
	=====	=====

12 TRADE INVESTMENT

194,596 unquoted shares of Shs 20 each
in Kenya Farmers Association (KFA)

1	1
=====	=====

The investment in KFA is stated at a nominal value as no benefit is expected to accrue from it in the foreseeable future.



Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

	2003 Shs'000	2002 Shs'000
13 INVENTORIES		
Inventories		
Mechanical and electrical spares	1,024,705	1,020,917
Sugar and molasses	278,725	707,986
Sugar in process	15,660	33,201
Fertilisers, chemicals and fuels	66,252	90,545
Other consumables	59,448	39,053
Goods in transit	69,407	181,489
Growing cane (see note below)	99,027	115,011
	<hr/>	<hr/>
	1,613,224	2,188,202
Less: provision for obsolescence	(282,718)	(207,971)
	<hr/>	<hr/>
	1,330,506	1,980,231
	<u>=====</u>	<u>=====</u>

With effect from 1 July 1988, Nucleus Estate growing cane ceased to be insured against fire as insurance companies declined to provide cover. No provision has been made in the financial statements for possible losses in the event of any burnt cane which cannot be salvaged.



Notes to the Financial Statements For the Year Ended 30th June 2003 (Continued)

14 ASSETS HELD FOR SALE

	Factory Plant and Equipment	Heavy mobile machinery	Motor vehicles fixtures	Other equipment And	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
COST OR VALUATION					
At 1 July 2002	303,644	11,683	839	6,850	323,016
Transferred from property, plant and equipment (note 9)	-	19,527	300	1,192	21,019
Disposals	-	-	(743)	-	(743)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	303,644	31,210	396	8,042	343,292
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION/IMPAIRMENT					
At 1 July 2002 - depreciation	59,986	11,683	801	3,500	75,970
At 1 July 2002 - impairment	45,468	-	-	-	45,468
Transferred from property, plant and equipment (note 9) Impairment	-	19,527	300	1,173	21,000
charge for the year	23,000	-	-	-	23,000
Disposals	-	-	(730)	-	(730)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	128,454	31,210	371	4,673	164,708
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE					
At 30 June 2003	175,190	-	25	3,369	178,584
	=====	=====	=====	=====	=====
At 30 June 2002	198,190	-	38	3,350	201,578
	=====	=====	=====	=====	=====

Included in assets held for sale under factory plant and equipment is mill 'B' at a net carrying amount of Shs 162,720,000 (2002 - Shs 185,720,000). The mill is currently out of use and no depreciation has been charged on it. The directors estimate that the value of the mill is not less than its net carrying amount.



Notes to the Financial Statements For the Year Ended 30th June 2003 (Continued)

	2003 Shs'000	2002 Shs'000
15 TRADE AND OTHER RECEIVABLES		
MOCO current account	1,014,230	703,992
Trade receivables	401,559	229,723
Busia Sugar Company Limited	93,332	12,737
Other receivables and prepayments	37,150	93,162
Staff accounts	19,253	24,398
Advances to farmers	4,204	19,634
	<u>1,569,728</u>	<u>1,083,646</u>

Included in staff accounts is a balance due from an officer of the company amounting to Shs 509,683 (2002 - Shs 528,998).

Included in the amount due from Busia Sugar Company (BSC) is a loan of Shs 70 million (see note 11).

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

	2003	2002
Staff loans	5%	5%
Loan to BSC	15%	15%
	====	====

	2003 Shs'000	2002 Shs'000
16 SHARE CAPITAL		
Authorised:		
545,000,000 ordinary shares of Shs 2 each	<u>1,090,000</u>	<u>1,090,000</u>
Issued and fully paid:		
510,000,000 ordinary shares of Shs 2 each	<u>1,020,000</u>	<u>1,020,000</u>



Notes to the Financial Statements For the Year Ended 30th June 2003 (Continued)

18 DEFERRED INCOME TAXES

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

	2003 Shs'000	2002 Shs'000
The net deferred taxation liability is attributable to the following items:		
Accelerated capital allowances	772,952	810,938
Provision for service gratuity	(162,553)	(187,603)
Provision for staff leave pay	(41,300)	(28,045)
Unrealised exchange differences	(458)	440
Revaluation surplus	663,002	694,248
	1,231,643	1,289,978
	=====	=====
The movement on the deferred tax account during the year was as follows:		
Balance at beginning of the year	1,289,978	1,409,560
Net credit to income statement - note 7 (a)	(58,335)	(111,578)
Net credit to revaluation reserve	-	(8,004)
	1,231,643	1,289,978
	=====	=====

19 RETIREMENT BENEFIT OBLIGATIONS

(a) Provision for service gratuity:

Balance at the beginning of the year	625,343	487,453
Provision during the year	(58,067)	163,472
Paid during the year	(25,431)	(25,582)
	625,343	541,845
	=====	=====

625,343





Notes to the Financial Statements For the Year Ended 30th June 2003

19 RETIREMENT BENEFIT OBLIGATIONS (Continued)

(b) Staff retirement benefit scheme

Contributions to the company staff retirement benefit scheme are determined by the rules of the scheme and totalled Shs 45,056,000 (2002 – Shs 49,960,000) in the year.

An actuarial valuation was last carried out on 1 July 2001 by Alexander Forbes Financial Services (East Africa) Limited (formerly Hymans Robertson (Kenya) Limited). The valuation indicated a past service deficit of Shs 110,898,000. To eliminate the deficit, the actuaries recommended that: -

- The Scheme definition of pensionable pay be amended to the revised definition of basic salary (basic pay inclusive of all allowances) but this be combined with a reduction in the pension accrual fraction from 1/36ths to 1/60ths and that for the individuals to be negatively affected, "added years" be credited to ensure no diminution in accrued benefits.
- The maximum pension at retirement be limited to 60% of final salary;
- Insured lumpsum death benefit be reduced from four times current basic pay to two times the revised basic salary and;
- The employer's rate of contribution to the scheme be decreased from 23.6% to 14.1% of members' salaries per annum with effect from 1 July 2001 and that the benefits payable on leaving service be modified to deferred pensions or its actuarial equivalent cash value.

These recommendations were adopted by the scheme trustees and the contribution rate adjusted accordingly. The actuarial valuation was based on the following parameters:

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 July 2004.

(c) Statutory contribution scheme

The company's contributions to the statutory National Social Security Fund scheme are determined by statute and totalled Shs 7,397,000 (2002 – Shs 5,716,000) in the year.

20 TRADE AND OTHER PAYABLES

	2003 Shs'000	2002 Shs'000
Trade payables	403,003	396,833
Out-growers	758,811	431,967
Sugar development levy	157,565	115,931
Value added tax	54,281	133,309
Accruals	96,332	145,635
Prepaid sales	56,104	248,943
Accrued interest	25,105	12,376
Other payables	137,135	125,482
	<u>1,688,336</u>	<u>1,610,476</u>



Notes to the Financial Statements For the Year Ended 30th June 2003 (Continued)

21 DIVIDENDS (GROSS)

	2003 Shs'000	2002 Shs'000
First and final proposed	-	51,000
	=====	=====

The unpaid dividends of Shs 47,163,000 (2002 – Shs 77,425,000) relate substantially to dividends payable to farmer shareholders who had unresolved share certificate issues at the balance sheet date.

	2003 Shs'000	2002 Shs'000
22 PROVISION FOR STAFF LEAVE PAY		
Balance at the beginning of the year	93,485	98,683
Provision during the year	81,878	80,999
Paid during the year	(37,697)	(86,197)
	-----	-----
Balance at the end of the year	137,666	93,485
	=====	=====

23 NOTES TO THE CASH FLOW STATEMENT

(a) RECONCILIATION OF OPERATING PROFIT/(LOSS) TO CASH GENERATED FROM OPERATIONS

Operating (loss)/profit	(105,601)	195,968
Depreciation (note 9)	432,660	454,406
Amortisation charge (note 10)	8,231	7,077
Assets impairment charge (note 14)	23,000	23,000
Profit on disposal of plant and equipment	(2,275)	(7,130)
Exceptional items (note 6)	(105,053)	(39,093)
Realised exchange (losses)/gains	(229)	2,068
	-----	-----
Cash generated from operations before working capital changes	250,733	636,296
Decrease/(increase) in non current receivables	74,325	(16,361)
Decrease in inventories	649,725	547,234
Increase in trade and other receivables	(486,082)	(152,835)
(Decrease)/increase in provision for service gratuity	(83,498)	137,890
Increase in trade and other payables	77,860	132,609
Increase/(decrease) in provision for staff leave pay	44,181	(5,198)
	-----	-----
Cash generated from operations	527,244	1,279,635
	=====	=====





Notes to the Financial Statements For the Year Ended 30th June 2003

(Continued)

	2003 Shs'000	2002 Shs'000
23 NOTES TO THE CASH FLOW STATEMENT (Cont.)		
(b) ANALYSIS OF CHANGES IN LONG TERM LOANS DURING THE YEAR		
Balance at the beginning of the year	230,048	471,526
Adjustment for foreign exchange loss	-	1,337
Loans repaid	(230,048)	(242,815)
	<u> </u>	<u> </u>
Balance at the end of the year	-	230,048
	=====	=====
(c) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	39,708	39,025
Bank overdrafts	(464,278)	(466,457)
	<u> </u>	<u> </u>
	(424,570)	(427,432)
	=====	=====
24 OPERATING LEASE ARRANGEMENTS		
Minimum lease payments under operating leases recognised in the income statement (note 3)	16,085	16,043
	=====	=====
At the balance sheet date, the company had outstanding commitments under operating leases, payable as follows:		
Within one year	1,560	1,405
In the second to fifth years inclusive	4,451	6,011
	<u> </u>	<u> </u>
	6,011	7,416
	=====	=====

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.



Notes to the Financial Statements For the Year Ended 30th June 2003 (Continued)

	2003 Shs'000	2002 Shs'000
25 CAPITAL COMMITMENTS		
Commitments at the year-end for which no provision has been made in these financial statements:		
Authorised and contracted for	1,859	28,639
Authorised but not contracted for	455,077	646
	456,936	29,285
	=====	=====
26 CONTINGENT LIABILITIES		
Bank guarantees in favour of third parties	84,295	-
	=====	=====

A significant number of the company's former employees have sued the company challenging the amount that they were paid when their services were terminated under the Voluntary Early Retirement Scheme (VERS) three years ago. The potential liability that might arise from this suit in the event of judgement against the company is estimated to be approximately Shs 100 million. The directors, on the advice of the company's legal consultants, are of the opinion that the liability will not crystallise.

The company has applied for waiver of interest and penalties on additional VAT assessments arising from a recent VAT audit conducted by the Kenya Revenue Authority. In the event that the waiver application is unsuccessful, a liability of Shs 35,000,000, not provided in these financial statements, will crystallise.

A potential tax liability estimated at Shs 26,000,000 exists in respect of management fees paid to the former managing agents of the company. This liability has not been provided for in these financial statements, as it is the subject of a difference of interpretation of the relevant tax legislation.

27 INCORPORATION

The company was incorporated in Kenya in 1971 and operated under the State Corporations Act until 1996 when it was exempted from the Act. It now operates under the Companies Act.

28 CURRENCY

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





Five Year Summary Review

	1998/99 Shs'000	1999/00 Shs'000	2000/01 Shs'000	2001/02 Shs'000	2002/03 Shs'000
Turnover	6,407,988	9,905,072	6,659,315	7,847,233	7,628,937
Payments to cane farmers	3,535,453	3,643,944	3,593,048	3,728,832	4,034,640
Profit/(loss) before taxation and exceptional items	(44,557)	1,375,539	1,126,900	143,645	(112,923)
Exceptional items	-	(441,271)	(441,679)	(39,093)	(105,053)
Profit/(loss) before taxation	(44,557)	934,268	685,221	104,552	(217,976)
Taxation	(95,893)	(360,520)	(202,421)	(39,436)	16,391
Profit/(loss) after taxation	(140,450)	573,748	482,800	65,116	(201,585)
Shareholders funds at period end	3,840,659	4,323,496	5,354,095	5,065,115	4,859,056
Return on capital employed	(1.16%)	21.61%	12.80%	2.06%	(4.49%)
Number of shares, '000	51,000	51,000	51,000	510,000	510,000
Dividends	102,000	430,311	362,100	51,000	-
Dividends per share, KShs	2.00	8.44	7.10	0.10	-
Earnings/(loss) per share, KShs	(2.75)	11.25	9.47	0.13	(0.40)
Direct revenue to Government by way of Value Added Tax and Income Tax	914,133	1,362,419	1,871,926	1,798,321	1,890,896
Subsidy to farmers	292,138	237,228	375,456	246,766	311,408
Staff costs:					
Management	353,535	408,027	480,956	494,331	479,375
Skilled	314,715	467,174	344,837	407,823	483,300
Unskilled	281,901	233,587	172,418	203,911	225,728
Casual labour	50,130	54,389	45,377	53,259	36,621
Area under cane (Ha)					
Nucleus estate	3,384	3,446	3,433	3,450	3,502
Outgrowers	39,375	42,504	45,231	47,031	46,755
Cane processed (Thousand Tonnes)	2,047	2,283	1,988	1,961	2,065
Sugar produced (Tonnes)	230,708	267,057	217,834	219,375	237,084
Increase/(decrease) in production over previous period	5.00%	15.76%	(18.43%)	0.71%	8.07%
Number of registered farmers at period end	45,118	47,392	51,274	54,045	53,533
Number of employees at period end:					
Permanent	4,531	3,920	3,240	3,105	2,978
Seasonal	12,579	12,579	14,389	12,637	12,286
Category of permanent employees:					
Management	418	427	447	459	454
Skilled	2,501	1,934	1,609	1,482	1,427
Unskilled	1,612	1,559	1,184	1,164	1,097

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 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 19 December 2003 and at any adjournment thereof.

*Strike out as appropriate
Signature(s)

Signed this ----- day of ----- 2003

Notes

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

Cut Here 

Shareholders admission letter for MSC AGM on 19/12/2003

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 24 hours before the meeting will be admitted to the meeting.

Name

Signature

Share account number

Annual General Meeting of Mumias Sugar Company to be held at Tom Mboya Labour College, Ring Road, Milimani, Kisumu on Friday 19th of December 2003 at 11 a.m.





FOMU YA UWAKILISHI

Nambari ya

Hisa ya Mwanachama

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

UWAKILISHI

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, Desemba 19 2003 na kuahirishwa kwokwote baadaye:

*Futa ifaavyo

Sahihi

Imetiwa sahihi, leo tarehe _____ Mwezi wa _____ 2003

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 hatakiwi tu awe mwanachama wa Kampuni.
4. Katika hali ya wamilikaji wa pamoja, sahihi ya mmlikaji 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 19/12/2003

Tafadhali kamilisha barua hii na ufahamu kuwa barua hii ya kukubaliwa sharti itolewe katika Mkutano Mkuu wa kila Mwaka na wewe au mwakilishi wako kwa ajili ya kuandika huhudhuria. Tafadhali ufahamu kuwa wenye hisa pekee waliosajiliwa au wawakilishi wao waliothibitishwa kwa Kampuni masaa 48 kabla ya mkutano ndiyo watakaoruhusiwa 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, Desemba 19 2003 saa tano asubuhi.



**MUMIAS SUGAR
COMPANY LIMITED**