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MUMIAS SUGAR COMPANY LTD



ANNUAL REPORT 1986/87

Cover Picture: A tractor trailer hauling cane, approaches the factory.

Note: Mumias Sugar Company is a private company within the meaning of section 30 of the Companies Act, Cap. 486 of the Laws of Kenya, and is under no statutory obligation to publish its accounts. The Directors have, however, decided that the accounts should be published and circulated in view of the company's position in the Kenyan economy.

Production and design supervision by
Church Orr & Associates Limited
P O Box 30702 Nairobi Kenya
Printed by
Printing Industries Ltd.
P O Box 18598 Nairobi Kenya

Annual Review 1986/7

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Notice of Meeting

The sixteenth Annual General Meeting of the Company will be held in the Company's Board Room, at Mumias on 27th October, 1987 at 11.30 a.m.

1. To approve the minutes of the fifteenth Annual General Meeting.
2. To receive and consider the accounts for the year ended 30th June, 1987 and the report of the Directors and Auditors thereon.
3. To authorise the Board to fix the remuneration of the Auditors.

By order of the Board

M.J.R. Guto
Company Secretary



Part of the impressive Mumias Sugar Company factory complex.

Shareholders

| | No. of shares in '000s | Percentage |
|--|---------------------------|------------|
| Shareholders | | |
| Government of the Republic of Kenya | 6,015 | 70.76 |
| Commonwealth Development Corporation | 1,460 | 17.18 |
| Kenya Commercial Finance Company Limited | 425 | 5.00 |
| Booker McConnell PLC | 375 | 4.42 |
| East African Development Bank | 225 | 2.64 |
| | 8,500 | 100.00 |

Directors

Dr. R.K. Koech (appointed 15.7.86) — Chairman
 Dr. B.E. Kipkorir (alternate Mr. J.V. Bosse)
 Mr. C.S. Mbindyo (alternate Mr. E.B.M. Barua Chele)
 Mr. D. Namu (alternate Mr. M.M. Nzube)
 Mr. R. Kemoli (alternate Mr. K. Gatabaki)
 Mr. G. Moody-Stuart (alternate Mr. B. Yates)
 Mr. S.G. Ayany (resigned Chairman 15.7.86)
 Mr. J.A. Mudavadi

Company Secretary

Mr. M.J.R. Guto

Managing Agents

Booker Agriculture International Limited

Advocates

Kaplan & Stratton
 J.S. Behan

Auditors

Githongo & Company

Bankers

Barclays Bank of Kenya Limited
 Kenya Commercial Bank Limited

Registered Office

Mumias Sugar Company Limited
 Private Bag, Mumias, Kenya

Senior Management

General Manager
 Agricultural Manager
 Finance Controller
 Agricultural Services Manager
 Factory Manager
 Personnel & Training Manager

Mr. R.M. Glasford
 Mr. A.J.S. Oketch
 Mr. D.J.O. Nyakang'o
 Mr. F.T. Wabuke
 Mr. D. Eshitemi
 Mr. J.T. Otega

Chairman's Statement

It is a pleasure to report that Mumias Sugar Company's production for the financial year 1986/1987 passed the 200,000 tonnes sugar mark for the first time. During the period under review a total of 205,643 tonnes of sugar were produced exceeding the previous highest 12-month production total by 18,886 tonnes. A major offshore loan from the National Westminster Bank and a second CDC loan were fully repaid during the year, leaving the company relatively free of Long Term Debt and only marginally exposed to exchange losses.



Dr Richard K Koech, Chairman of the Board of Directors

Results:

The operating Profit for the year was shs 274,029,000, an increase of 21.8% over 1985/1986. This result reflects very favourable unit costs which were only 0.5% higher than in the 18-month period ended June 1986 despite a substantial increase in the cost of cane. The net profit before tax is shs 219,112,000 and the amount provided for taxation on the year's profit is shs 103,098,000 leaving shs 116,014,000 available for distribution.

Development Impact:

The commercial success of MSC over past years has enabled it to direct more resources towards activities which benefit not only the company's employees, but the community as a whole. The Social Centre and Stadia Complex, built at a cost of shs 8 million, is now complete and will provide sporting, social and cultural facilities of the highest standard for the community. A new clinic has been constructed from which MCH/FP services and advice will be available and the Board has approved a programme for the development of two new primary schools over the next 18 months. It is anticipated that this programme may be expanded to include assistance to existing schools in the cane zone to improve their facilities. Direct wages paid out during 1986/1987 totalled shs 182,819,624, while net payments to our contracted farmers were approximately shs 217,320,000.

Our contribution to the Exchequer in the form of taxes and dividends will exceed shs 345,000,000 for the financial year with contribution to foreign exchange savings of the same order, even on the basis of current low world market sugar prices.

Operations:

Operationally this has been a most successful year. Cane productivity stabilised and started to improve towards the end of the year. Cane harvested from the NE and Outgrowers totalled 1,655,141 tonnes, exceeding budget by 2.2%, which, with 74,312 tonnes bought from Nzoia and other non-contract sources, resulted in a record milling total of 1,729,453 tonnes of cane. Progress on land rehabilitation has been excellent and 6,500 hectares were planted with cane during the year. Our programme aimed at reducing dependency on cane variety Co 421 continues and the area of cane put under variety Co 945, which is higher yielding and more resistant to smut, has now been increased to 35% of the total hectareage.

Efforts to improve outgrower husbandry standards have been intensified and among steps taken was the initiation of a Socio-Economic Study of the outgrowers within

the sugar zone aimed at indentifying the social and economic constraints facing them. This study will be completed before the end of 1987. The Agriculture Department has also intensified research on intercropping in an effort to improve food production in the cane zone and increase farmers' income.

Factory operations continued at high levels of efficiency and the sugar recovery of 11.89% was highly satisfactory. Our import substitution programme was further advanced with the commissioning of additional machine tools, further increasing the range of components made in the factory workshop. The sheet metal

fabrications section was also expanded and work has begun on a further expansion of factory workshop facilities to enable the reshelling of mill rollers to be carried out on site.

Relations with outgrowers and MOCO continued to improve and it is evident that the enthusiasm of farmers to grow cane is increasing. I believe that as yields and income increase this enthusiasm will be maintained.

Our Manpower Development Programme proceeded as planned with intensification of skill improvement training. Recruitment of graduates as management trainees continues and seven managers were sponsored for overseas courses and seminars. The company Kenyanisation programme is approaching fulfillment and the number of expatriate staff reduced to three by the end of the period.

Managing Agents:

The Technical Management Agreement with Booker Agriculture International expired in December 1986 and a new agreement extending their services for a further three years has been negotiated.

Prospects for 1987/1988:

The cane supply situation for the coming year is indeed very encouraging. Cane productivity continues to increase steadily both on the Nucleus Estate and among outgrowers and, with the availability of non-contract cane from the Nzoia and Kabras areas, it is expected that the budgetted sugar production of 202,000 tonnes will be exceeded. Finance charges will be significantly lower than in the past and we project a strong cash position. The company is still hoping to proceed with the establishment of a power alcohol distillery and we are awaiting the decision of the Government on this aspect of our development.

The 1986/1987 results are most encouraging and with the excellent prospects for the year ahead the Board is recommending a dividend of 35% on the issued share capital amounting to shs 59,500,000, leaving shs 56,514,000 to be transferred to reserves.

The past few years have seen Mumias Sugar Company move from strength to strength. This achievement has been due to the skill, effort and commitment of all those who work for the company and I extend to them on behalf of my board, our sincere thanks for yet another excellent year's work.

Dr. R.K. Koech
Chairman

Report of the Directors

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 30 June, 1987 which disclose the state of affairs of the Company.

1. Principal Activities

The Company is a sugar manufacturing establishment incorporated under the Companies Act (Cap. 486).

2. Results of the period

(a) The Company produced 205,642 tonnes of sugar during the year (1985/6 18 months: 249,011 tonnes).

| (b) Profit | KShs.000's |
|-------------------------|------------|
| Profit before Taxation | 219,112 |
| Taxation | 103,098 |
| Distributable Profits | 116,014 |
| Proposed Dividend | 59,500 |
| Transferred to Reserves | 56,514 |

3. Dividends

The Directors recommend the payment of a dividend of 35 percent amounting to shs 59,500,000 (1985/6 shs 42,500,000).

4. Directors

In December, 1986 Mr. H. Mule resigned as Director and Mr. C.S. Mbindyo was appointed in his place. At the same time Mr. P.P. Mukuru resigned as alternate Director and Mr. E.B.M. Barua Chele was appointed in his place.

In February, 1987 Mr. W.W. Okelo resigned as Director and Mr. B. Obura was appointed in his place.

In June, 1987 Mr. B. Obura resigned as Director and Mr. J.A. Mudavadi was appointed in his place.

In June, 1987 Mr. J.M. Kamunge resigned as Director and Mr. D. Namu was appointed in his place.

The members of the Board of Directors as at 30 June, 1987 are shown on the inside front cover.

5. Auditors

The Auditors, Messrs, Githongo & Company, have indicated their willingness to continue in office in accordance with Section 159(2) of the Companies Act and subject to the provisions of the Section 29(2) (b) of the Exchequer and Audit (Amendment) Act 1985.

By order of the Board

M.J.R. Guto
Company Secretary



Dr. R.K. Koech
Chairman



Dr. B.E. Kipkorir
Director



Mr. C.S. Mbindyo
Director



Mr. D. Namu
Director



Mr. R. Kemoli
Director



Mr. J.A. Mudavadi
Director



Mr. G. Moody-Stuart
Director



Mr. M.J.R. Guto
Company Secretary

Report of the Auditors

Report of the Auditor-General (Corporations) on the Accounts of Mumias Sugar Company Limited for the year ended 30 June, 1987

The accounts of Mumias Sugar Company Limited for the year ended 30 June, 1987 have been examined on my behalf by the Company's authorised auditors in accordance with the provisions of Section 29 (2) (b) of the Exchequer and Audit (Amendment) Act, 1985 (Cap 412). The auditors have duly reported to me the results of the audit and on the basis of their report, I am satisfied that all the information and explanations that were required for the purpose of the audit were obtained. On the basis of that audit, I certify that in my opinion, proper books of account were kept by the Company and that the accounts, which are in agreement therewith, comply with the requirements of the Companies Act, and that the Balance Sheet and Profit and Loss Account, when read together with the notes thereon, show a true and fair view of state of affairs of the Company and of its results and sources and applications of funds for the year ended on that date.

A.J. Okoth
Auditor-General (Corporations)

16th October, 1987



A stockpile of sugar sacks at the company's store awaiting collection and distribution.

Senior Management



Mr. A.J.S. Oketch
Agricultural Manager



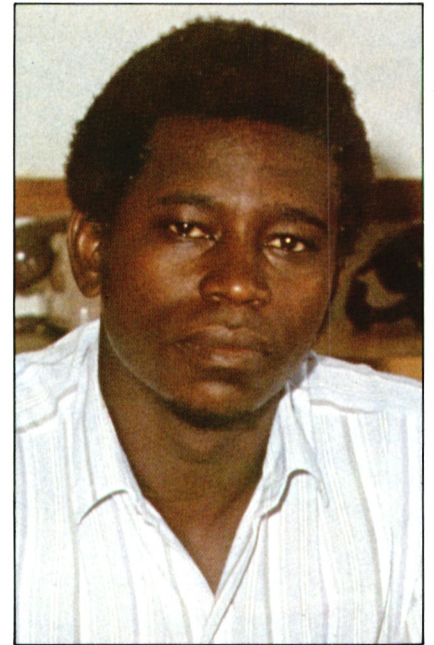
Mr. D.J.O. Nyakang'o
Finance Controller



Mr. R.M.D. Glasford
General Manager



Mr. F.T. Wabuke
Agricultural Services Manager



Mr. D.S. Eshitemi
Factory Manager

Profit and Loss Account

for the year ended 30 June, 1987

| | Note | 1987 Kshs'000 | 1986 Kshs'000 |
|--|------|------------------|------------------|
| Net turnover | 2 | 1,136,268 | 1,263,400 |
| Profit before taxation | 3 | 219,112 | 149,739 |
| Taxation | 4 | 103,098 | 76,258 |
| Profit after taxation | | 116,014 | 73,481 |
| Proposed dividend | 18 | 59,500 | 42,500 |
| | | 56,514 | 30,981 |
| Statement of retained Profits/reserves | | | |
| Transfer to reserve for the year | | 56,514 | 30,981 |
| Reserves as previously reported | | 144,761 | 114,211 |
| Prior year adjustment | 5 | — | (431) |
| As restated | | 144,761 | 113,780 |
| Reserves at the end of period | | 201,275 | 144,761 |

The comparative figures are for 18 months ended 30 June, 1986. The notes on pages 10 to 13 form an integral part of these accounts.



Cane cutters at an outgrower field stockpiling cane in readiness for transportation to the factory.

Balance Sheet

as at 30 June, 1987

| | Note | Kshs'000 | 1987 Kshs'000 | Kshs'000 | 1986 Kshs'000 |
|-------------------------------------|------|----------------|------------------|----------------|------------------|
| Fixed assets | 6 | | 475,405 | | 482,328 |
| Deferred expenditure | 7 | | 8,102 | | 42,260 |
| Investment (unquoted) at cost | 8 | | 169 | | 160 |
| | | | <u>483,676</u> | | <u>524,748</u> |
| Current assets | | | | | |
| Stocks, stores and growing cane | 9 | 194,192 | | 176,050 | |
| Debtors | 10 | 148,145 | | 149,140 | |
| Cash | | 186 | | 280 | |
| | | <u>342,523</u> | | <u>325,470</u> | |
| Current liabilities | | | | | |
| Creditors and accruals | 11 | 193,012 | | 154,539 | |
| Current maturity of long term loans | 12 | 15,758 | | 105,920 | |
| Tax | 4 | 108,598 | | 81,758 | |
| Dividends | 18 | 59,500 | | 42,500 | |
| Bank overdraft (secured) | 13 | 39,897 | | 97,860 | |
| | | <u>416,765</u> | | <u>482,577</u> | |
| Net current liabilities | | | (74,242) | | (157,107) |
| | | | <u>409,434</u> | | <u>367,641</u> |
| <i>Financed by:</i> | | | | | |
| Share capital | 14 | | 170,000 | | 170,000 |
| Reserves | | | 201,275 | | 144,761 |
| Shareholders' fund | | | <u>371,275</u> | | <u>314,761</u> |
| Long term loans | 12 | | 38,159 | | 52,880 |
| | | | <u>409,434</u> | | <u>367,641</u> |

The Notes on pages 10 to 13 form an integral part of these accounts.

Dr. R.K. Koech
Chairman

R. Kemoli
Director

Statement of Source and Application of Funds

for the year ended 30 June, 1987

| | 1987 Kshs'000 | 1986 Kshs'000 |
|---|------------------|------------------|
| Source of funds: | | |
| From operations | | |
| Net profit before taxation | 219,112 | 149,739 |
| Add charges not represented by cash payments: | | |
| Depreciation | 78,794 | 95,992 |
| Amortisation of deferred expenditure | 35,198 | 10,252 |
| | <u>333,104</u> | <u>255,983</u> |
| From other sources: | | |
| Sale of fixed assets | 1,862 | 2,532 |
| Increase in creditors | 38,473 | 38,608 |
| Decrease in debtors | 995 | — |
| | <u>41,330</u> | <u>41,140</u> |
| | <u>374,434</u> | <u>297,123</u> |
| Deduct application of funds: | | |
| Investment in shares | 9 | 160 |
| Tax paid | 76,258 | 56,709 |
| Deferred expenditure | 1,040 | 31,512 |
| Additions to fixed assets | 73,733 | 90,992 |
| Repayment of loans | 104,883 | 68,360 |
| Increase in debtors | — | 39,340 |
| Increase in stocks, stores and growing cane | 18,142 | 18,770 |
| Dividend paid | 42,500 | 34,000 |
| | <u>316,565</u> | <u>339,843</u> |
| | <u>57,869</u> | <u>(42,720)</u> |
| Represented by: | | |
| (Decrease)/Increase in bank overdraft | 57,963 | (42,700) |
| (Decrease) in cash balances | (94) | (20) |
| | <u>57,869</u> | <u>(42,720)</u> |

Note: The comparative figures are for 18 months ended 30 June, 1986.

Notes to the Accounts

1 Accounting Policies

(a) Basis of accounting:

The Company prepares its accounts on the historical cost basis.

(b) Stocks and stores:

Stocks of finished products are valued at net realisable value while stocks in process are valued at half of their net realisable value. Stores are valued at weighted average cost.

(c) Depreciation:

Depreciation is provided for on assets in use on the reducing balance method at the following annual rates:

| | |
|---|-----|
| Motor cycles | 50% |
| All plant and equipment and furniture other than the items shown separately | 40% |
| Caterpillar equipment for field use | 20% |

Factory fixed plant and equipment, industrial, residential and welfare building and utilities 10%
Land development and factory buildings 5%
Mill rollers have been depreciated employing the units of production method.

(d) Translation of foreign currencies:

Foreign currency balances have been translated at the middle market rate of exchange at the balance sheet date. Unrealised losses on translation of long term loans have been charged to deferred expenditure. Realised gains and losses on all foreign currency balances are taken up in arriving at the profit or loss for the year.

(e) Growing cane:

This is valued at the direct average cost of growing cane at the balance sheet date.

2 Turnover

Gross proceeds of sales
Deduct exercise duty on sugar
and marking fees

| | 1987 Kshs'000 | 1986 Kshs'000 |
|--|------------------|------------------|
| | 1,340,009 | 1,514,400 |
| | 203,741 | 251,000 |
| | <u>1,136,268</u> | <u>1,263,400</u> |

3 Profit before taxation

The profit before taxation is arrived after charging:

— Depreciation
— Auditors' remuneration
— Interest on loans
— Interest on overdrafts
— Amortisation of deferred expenditure
— Directors' emoluments
— Subsidy to outgrowers

| | | |
|--|---------------|---------------|
| | 78,794 | 95,992 |
| | 600 | 580 |
| | 7,283 | 24,108 |
| | 10,472 | 7,953 |
| | 35,198 | 10,252 |
| | 60 | 90 |
| | <u>40,295</u> | <u>63,560</u> |

4 Taxation

Tax payable from previous years
Tax based on current profit

Less payment during the year

| | | |
|--|----------------|---------------|
| | 81,758 | 62,209 |
| | <u>103,098</u> | <u>76,258</u> |
| | 184,856 | 138,467 |
| | <u>76,258</u> | <u>56,709</u> |
| | <u>108,598</u> | <u>81,758</u> |

Tax liability has not been agreed with the Income Tax Department since the inception of the Company.

5 Prior year adjustments

Profit Commission for prior years

| | | |
|--|----------|------------|
| | <u>—</u> | <u>431</u> |
|--|----------|------------|

Notes to the accounts (continued)

| 6 Fixed Assets | 1st July, 1986 Kshs'000 | Additions Kshs'000 | Disposals Kshs'000 | 30th June, 1987 Kshs'000 |
|--|--|-------------------------------|-------------------------------|---|
| In use | | | | |
| At Cost | | | | |
| Land and buildings: | | | | |
| Land development | 10,425 | 186 | — | 10,611 |
| Factory buildings | 123,828 | 156 | — | 123,984 |
| Other buildings | 101,173 | 807 | (27) | 101,953 |
| | <u>235,426</u> | <u>1,149</u> | <u>(27)</u> | <u>236,548</u> |
| Plant, machinery and equipment: | | | | |
| Factory | 574,210 | 19,247 | (487) | 592,970 |
| Agricultural | 120,720 | 23,799 | (8,007) | 136,512 |
| Other | 46,206 | 16,048 | (6,561) | 55,693 |
| | <u>741,136</u> | <u>59,094</u> | <u>(15,055)</u> | <u>785,175</u> |
| Total Cost | <u>976,562</u> | <u>60,243</u> | <u>(15,082)</u> | <u>1,021,723</u> |
| Depreciation | | | | |
| Land and buildings: | | | | |
| Land development | 3,489 | 347 | — | 3,836 |
| Factory buildings | 41,771 | 4,107 | — | 45,878 |
| Other buildings | 54,236 | 4,739 | (15) | 58,960 |
| | <u>99,496</u> | <u>9,193</u> | <u>(15)</u> | <u>108,674</u> |
| Plant, machinery and equipment: | | | | |
| Factory | 302,245 | 35,136 | (465) | 336,916 |
| Agricultural | 76,879 | 23,183 | (7,228) | 92,834 |
| Other | 28,794 | 11,282 | (5,512) | 34,564 |
| | <u>407,918</u> | <u>69,601</u> | <u>(13,205)</u> | <u>464,314</u> |
| Total depreciation | <u>507,414</u> | <u>78,794</u> | <u>(13,220)</u> | <u>572,988</u> |
| Net Book Value | | | | |
| In Use | | | | |
| Land and buildings: | | | | |
| Land development | 6,936 | | | 6,775 |
| Factory buildings | 82,057 | | | 78,106 |
| Other buildings | 46,937 | | | 42,993 |
| | <u>135,930</u> | | | <u>127,874</u> |
| Plant, machinery and equipment: | | | | |
| Factory | 271,965 | | | 256,054 |
| Agricultural | 43,841 | | | 43,678 |
| Others | 17,412 | | | 21,129 |
| | <u>333,218</u> | | | <u>320,861</u> |
| In Progress | 13,180 | | | 26,670 |
| Total net book value | <u>482,328</u> | | | <u>475,405</u> |

The Company has never been granted title to the Nucleus Estate land and therefore no value has been included for this in the accounts other than land development cost.

Notes to the accounts (continued)

| | 1987 Kshs'000 | 1986 Kshs'000 |
|--|------------------|------------------|
| 7 Deferred expenditure | | |
| Losses, less gains on translation of foreign currency loans outstanding at 30th June, 1987 | 8,102 | 42,260 |
| 8. Investments | | |
| Cost of 194596 shares of Kshs. 20 each in K.G.G.C.U. Ltd. (Valuation Shs. 3,891,920) | 169 | 160 |
| 9. Stocks, stores and growing cane | | |
| This comprises: | | |
| Stocks | 24,916 | 11,380 |
| Stores | 137,872 | 133,890 |
| Growing cane (see note below) | 31,404 | 30,780 |
| | <u>194,192</u> | <u>176,050</u> |
| Growing Cane: | | |
| With effect from 1st July, 1986 Nucleus Estate growing cane ceased to be insured against fire as insurance companies declined to provide cover. No provision has been made in the accounts for any possible losses on burnt cane which cannot be salvaged. | | |
| 10. Debtors | | |
| This comprises: | | |
| Department of Trade & Supplies for Sugar Sales | 89,954 | 67,072 |
| Claims on Government for construction and maintenance of roads | 2,969 | 1,993 |
| With-holding tax paid on behalf of UK | | |
| Financiers and due for refund | 622 | 2,114 |
| Mumias Outgrowers Company Limited | 36,656 | 33,534 |
| Other debtors and deposits | 17,944 | 44,427 |
| | <u>148,145</u> | <u>149,140</u> |
| A grant of Kshs. 4,000,000 was obtained from the Government of Kenya and has been utilised to reduce the debt due from the Government in respect of road maintenance claims. | | |
| 11. Creditors and accruals | | |
| Trade creditors | 67,578 | 71,646 |
| Outgrowers farmers for cane | 65,900 | 45,716 |
| Accrued interest | 3,115 | 17,342 |
| Excise duty payable | 22,478 | 5,951 |
| Accrued salaries, wages etc | 4,587 | 3,882 |
| Other creditors | 29,354 | 10,002 |
| | <u>193,012</u> | <u>154,539</u> |

Notes to the accounts (continued)

| 12 Long term loans | Interest | Payment | 1987 Kshs'000 | 1986 Kshs'000 |
|---|-----------------|----------------|--------------------------|--------------------------|
| Repayable in Kenya Shillings | | | | |
| Government of Kenya | 2½% pa | 1983/92 | 32,526 | 40,120 |
| Repayable in Pound Sterling | | | | |
| National Westminster Bank Ltd | 7½% pa | 1979/87 | — | 52,987 |
| | 10½% pa | 1984/87 | — | 15,137 |
| Commonwealth Development Corporation (secured) | 8½% pa | 1986 | — | 20,035 |
| | 10 % pa | 1981/88 | 21,391 | 30,521 |
| | | | <u>53,917</u> | <u>158,800</u> |
| Less repayable in 1987/88 | | | <u>15,758</u> | <u>105,920</u> |
| | | | <u>38,159</u> | <u>52,880</u> |
| 13 Bank overdraft | | | | |
| Overdraft utilised | | | 39,897 | 97,860 |
| Overdraft facilities | | | <u>105,000</u> | <u>105,000</u> |
| 14 Share capital | | | | |
| Authorised share capital 12,000,000 Ordinary shares of Kshs. 20 each | | | <u>240,000</u> | <u>240,000</u> |
| Issued and fully paid 8,500,000 Ordinary shares of Kshs. 20 each | | | <u>170,000</u> | <u>170,000</u> |
| 15 Capital committments | | | | |
| Authorised and contracted for but not provided for in the accounts | | | <u>9,629</u> | <u>1,049</u> |
| 16 Contingent liabilities | | | | |
| Guarantees to banks in respect of vehicle loans given to employees | | | <u>1,855</u> | <u>2,608</u> |
| 17 Loan Security | | | | |
| All the Company's assets, both movable and immovable, are the subject of a floating charge to secure long term loans and overdrafts. | | | | |
| 18 Dividend | | | | |
| Proposed dividend at the rate of 35% of issued share capital at 30th June, 1987 is subject to exchange control approval for remittance to foreign shareholder. (1985/86:25%) | | | 59,500 | 42,500 |

Sugar From Mumias

In 1967 the Government of Kenya commissioned the company now known as Booker Agriculture International to study the feasibility of growing cane at Mumias and to initiate a pilot project.

The Mumias area was seriously underdeveloped. Land utilisation was poor with small areas of subsistence food crops but bush and rough grazing predominating. The remoteness of the area and poor communications had prevented development of an active market economy.

However, land adjudication had been carried out and farmers had freehold title to their land, so it would be possible to establish a viable sugar scheme at Mumias with a factory supplied by cane from both a nucleus estate and outgrower farmers. Government accepted the idea, and on July 1, 1971 incorporated Mumias Sugar Company with the Government of Kenya (71%) as the majority shareholder, and minority interests held by the Kenya Commercial Finance Company (5%), East African Development Bank (3%), the Commonwealth Development Corporation (17%) and Booker McConnell (4%). Booker Agriculture International (BAI) a subsidiary of Booker McConnell, provided management under contract.

The major objectives of the Mumias Sugar Scheme were:

- (i) Creation of wage-earning employment;
- (ii) Creation of an import-saving industry;
- (iii) Achievement of self-sufficiency in sugar production;
- (iv) Provision of a further source of cash income for farmers.

The scheme was unique because of its dependence on sugar cane grown by small scale farmers with average cane holdings today of 1.04 ha.

Factory Development:

The original Mumias factory, built by Fletcher and Stewart, had a rated milling capacity of 80 tonnes of cane per hour (45,000 tonnes of sugar per year), with provision for expansion to 125 tonnes per hour (75,000 tonnes sugar per year).

It was originally intended to do this expansion in 1978/79, but the early success of Mumias in growing cane and producing sugar encouraged Government to bring forward the date for this expansion to 1975/76, and in fact, production at the 125 tonnes per hour rate began in July 1976.

Before this expansion was commissioned, management had been asked to consider a further increase in factory capacity. Two alternatives were proposed, either to increase capacity to 170 tonnes cane per hour or to raise capacity to 300 tonnes cane per hour. Government chose the latter expansion, which meant building the equivalent of a very large new factory. Work began in August 1976. Approval was given in 1979/80 for a further final expansion to 350 tch but completion delayed to early 1985. This gives Mumias a current potential capacity of 210,000 tonnes sugar per year.

Cane Supply:

Cane is supplied from a nucleus estate and from local farmers who have contracts under the Mumias Outgrower Scheme. The nucleus covers about 4,400 hectares next to the factory of which almost 3,397 hectares are planted. The nucleus initially supplied over 50% of the cane, but from the beginning it was intended the main supply should come from outgrowers.

There are now more than 32,000 contracted outgrowers, growing on 34,184 hectares.

Mumias is a rain-fed scheme, so yields vary from year to year both with rainfall and the growth period which is from 17/20 months for ratoon cane to 19/24 months for plant cane.

Cane yields were exceptionally high during the early years but have declined from 1980. This decline coincided with the large increase in demand to supply the expanded factory and the 1979/81 drought. This trend has now been reversed and cane productivity has started to rise. Intensive efforts continue to be made to improve farmers's inputs and husbandry practices and it is expected average yields will stabilise at around 90 tc/ha and thus provide adequate supply from the already established cane area.

The Outgrowers Scheme:

The outgrower scheme is highly successful and, although now copied elsewhere, was unique in the sugar industry when it was started.

Each outgrower voluntarily enters a contract with the company to grow cane. The farmer's plot is inspected, surveyed and prepared by the company. Mumias ensure a farm is not completely contracted for cane and that the farmer retains an area large enough to produce sufficient food crops for his family. The company makes available both seed and fertiliser. The planting, fertiliser application, weeding and general crop maintenance are the responsibility of the farmer.

The company maintains a large outgrower service department which provides extension services, supported by an agronomy team with excellent laboratory facilities and a ready force against cane pests and diseases. The company organises the cutting and transportation of mature cane.

To pay for these goods and services the farmer is provided with credit. At the start of the scheme this was provided by the company but in 1975 the Mumias Outgrowers Company (MOCO) was formed and took over the credit responsibility. Finance was made available through loans from the Kenya Government, the Kenya Commercial Bank, the Commonwealth Development Corporation and a British Government grant to the Kenya Government of £3,200,000 which was made available to the Mumias Outgrowers Company in the form of a loan. MOCO also helps the farmers in their relations with the company and Government bodies.

From its inception the outgrower scheme has been wholeheartedly supported by the Provincial and District Administration. These officers have been, and continue to be, extremely helpful in determining land ownership, helping securing rights of way, identification of individuals, helping in organising of field days, and in many other ways.



The MOCO offices in Mumias township. The company maintains close working relations with MOCO, which represents the outgrowers.

Sugar From Mumias (continued)

Personnel, Training and Welfare:

It has been the objective of MSC from Day one to train Kenyans for all technical, supervisory and managerial positions. Training has as a result received prime emphasis, and the record of the last 14 years indicates the success of this policy.

The company carries out training at all levels in agriculture, personnel, management, engineering, sugar technology and accountancy. A Training Centre, the first of its kind in the sugar industry in Kenya, was opened in 1977. A Management Training Scheme is operated in-plant for university graduates who are training in technical skills to assume substantive positions in the factory under the company's Kenyanization programme.

The company also operates Craft Apprenticeship and Technical Apprenticeship Schemes under the Directorate of Industrial Training and for several years now has trained more apprentices than the rest of the Sugar Industry put together. Currently there are 57 Craft Apprentices and 41 Technician Apprentices undertaking sandwich courses at Industrial Training Centres and the Kenya Mombasa Polytechnic respectively. Expansion of MSC's Centre is now being completed to meet increasing needs.

MSC enjoys excellent industrial relations and the whole work force has responded well to the considerable demands made on it.

Medical facilities from a fully equipped company health centre are available free to all employees. This centre is staffed by a full-time qualified medical officer, three medical assistants and three nurses. A medical laboratory and a minor operations theatre have recently been added and a qualified laboratory technician and Public/Environmental Health Officer have been recruited.

MSC has all along strived to improve the quality of health of its employees by responding positively to their health and welfare needs. To this effect the Management is already implementing the Presidential directive on mosquito/malarial control by putting into use modern equipment for fogging within and around the estates to supplement other mosquito control programmes.

The company has also launched a Family Planning and Maternal Child Care Programme as an integral part of its existing Health Care Services to improve the life quality of its people and at the same time help curb the alarming national population growth rate and to promote national development efforts. A new clinic will shortly be opened to replace the temporary facility which has been in use over the past year.

The Mumias Complex Primary School, which was established for children of employees, continues to achieve outstanding results but is now overcrowded. The Company will continue to fully support Government efforts to improve educational opportunities in the district. Plans are being drawn up to provide more primary school places and for development of a Secondary School.

Construction of a new shs 8 million Social Centre and Sports Complex is now complete. This facility will add to the social welfare of employees and their families. The stadia facilities include an international sized athletics track and soccer pitch which will be the home ground of Mumias Football Club. A well equipped children's playground has also been provided. Apart from other sporting activities such as basketball and netball, social, educational and cultural groups will become active.

During the past 12 years, MSC built and maintained more than 3,500 housing units on five separate sites centred on local communities. Major roads have been improved in these areas and maintenance is carried out by the company on behalf of the Government.

Under the Mumias Sugar Roads Scheme, financed by a grant from the British Government, a 316 km network of feeder roads and more than 2,000 kms of access roads and tracks within a 24-km radius of Mumias township have been constructed and improved to ease cane, personnel and product transport. They also

allow access by vehicle to areas which were previously only accessible by foot path.

Factory Production:

Mumias factory accounted for 52% of all sugar produced in Kenya in 1986. Since operations began in 1973, production has increased every year until 1982 when low yields reduced cane supply. Today Mumias is one of the largest producers in Africa.

Operating efficiencies in the factory are high by any standards, and far out perform those of most other factories in Kenya.

Mumias produces mill white sugar to a standard specified by the Kenya Bureau of Standards. All sugar produced is sold to the Government via the Ministry of Commerce and is subject to an excise levy of shs 1,000/-per tonne.

The Future:

No further factory expansion is envisaged beyond the 350 tch level and expansion of outgrowers cane cultivation has been programmed to satisfy this capacity.

There are plans, however, to expand the factory workshop to reshell our own mill rollers, and to increase the machine tool and foundry capacity to widen the range of components presently manufactured.

A feasibility study on utilisation of MSC molasses has been completed and proposals for the construction of a Power Alcohol Distillery at Mumias put forward to the Government. A decision on the future of this proposal is awaited.

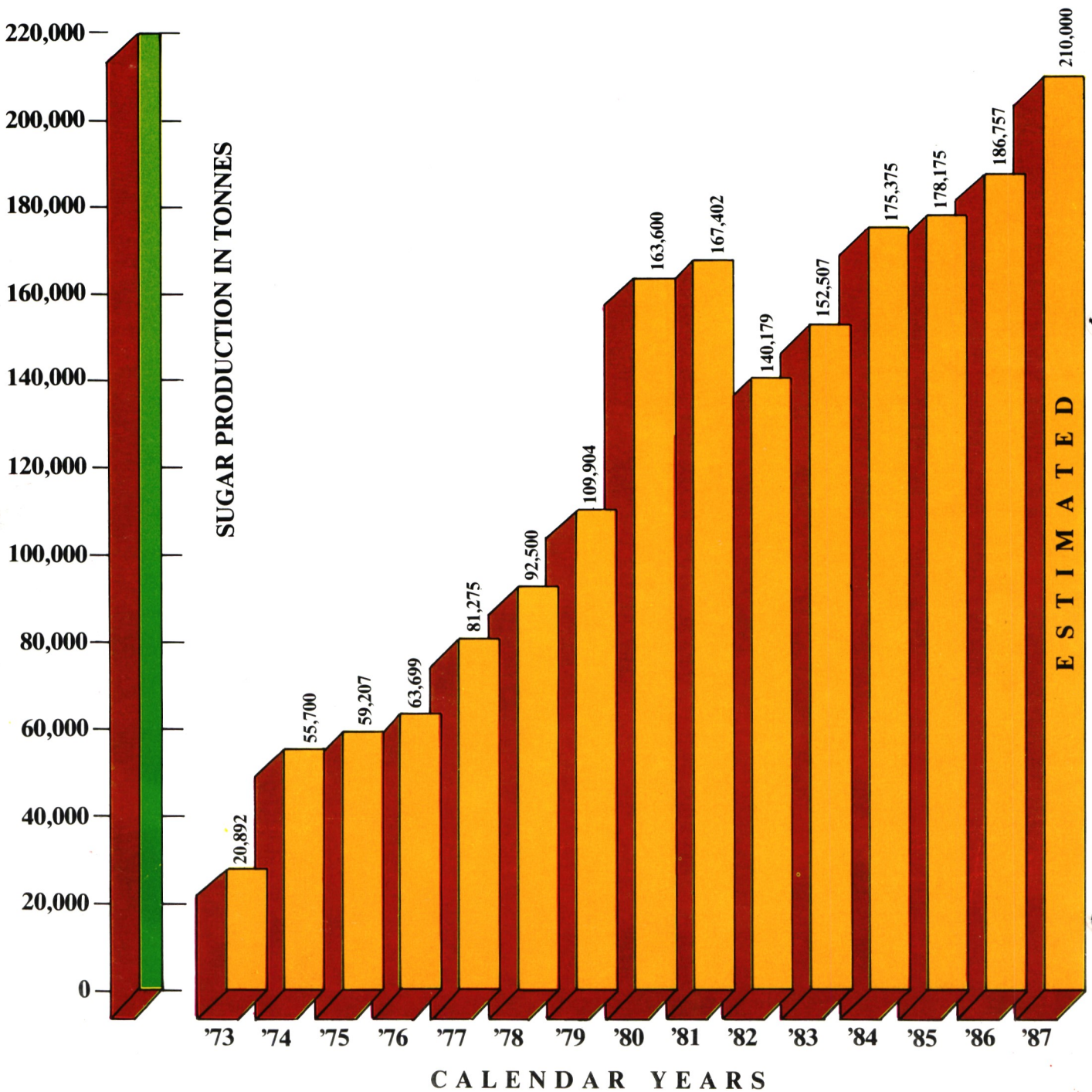
MSC currently employs 5,400 permanent workers with a further 9,000 employed on a contract basis to cut outgrower cane. Taken together with the contracted farmers and others engaged in spin-off activities, it is conservatively estimated that there are upwards of 400,000 Kenyans dependent in some way for their livelihood on Mumias Sugar Scheme.

The Mumias scheme represents a massive Government investment in land, equipment and people with total assets today in excess of shs 1,200 million. Its contribution over the last 10 years towards savings in foreign exchange is in excess of shs 2,000 million. In the 86/87 financial year, MSC contributed in excess of shs 335 million in Excise Duty, Tax on profit, and dividends to Government. Mumias Outgrowers last year received net payments from the company totalling shs 202,532,847. The Scheme is, undoubtedly, one of the most successful Agro-Industrial ventures in Kenya today, and is making a vital contribution to the economy.



Mumias Sugar Company owes much of its success to rigorous training programmes for technical, supervisory and managerial staff. These trainees are pictured outside the company's expanded Training Centre.

Sugar Production from 1973 to 1987



Five-year Period Summary

| Kshs'000 | 31 Dec. 1982 | 31 Dec. 1983 | 31 Dec. 1984 | 30 June 1985/86 | 30 June 1986/87 |
|---|-----------------|-----------------|-----------------|--------------------|--------------------|
| Gross turnover | 677580 | 817280 | 1016420 | 1514400 | 1340009 |
| Excise on Sugar & Marking Fee | 146980 | 155480 | 172500 | 251000 | 203741 |
| Net turnover | 530600 | 661800 | 843920 | 1263400 | 1136268 |
| Payments to cane farmers | 188180 | 279620 | 325000 | 488400 | 471805 |
| Profit/(Loss) before taxation | (8580) | 45400 | 165940 | 149739 | 218960 |
| Taxation | — | — | (65409) | (76258) | (103030) |
| Profit/(Loss) after taxation | (8580) | 45400 | 100531 | 73481 | 115930 |
| Equity as at period end | 188720 | 217120 | 283780 | 314761 | 371191 |
| Profit after tax as a percentage of equity | — | 20.9% | 35.4% | 23.3% | 31.2% |
| Dividends | — | 17000 | 34000 | 42500 | 59500 |
| Dividends as a percentage of equity | — | 7.8% | 12% | 13.5% | 16% |
| Direct revenue to Government by way of excise on sugar and Income Tax | 146980 | 155480 | 237909 | 327258 | 306771 |
| Subsidy to farmers | 44860 | 42160 | 29340 | 70265 | 41198 |
| Area under cane (ha) | | | | | |
| Nucleus Estate | 3300 | 3251 | 3152 | 3368 | 3281 |
| Outgrowers | 27400 | 30356 | 29865 | 30692 | 34184 |
| Cane crushed — thousand tonnes | 1294 | 1358 | 1483 | 2084 | 1730 |
| Sugar produced — tonnes | 140179 | 152507 | 175375 | 249011 | 205643 |
| Increase/(decrease) in production over previous period | (16.3%) | 10.7% | 15% | 42% | (17.4%) |
| Number of registered farmers at period end | 20761 | 26016 | 27005 | 30576 | 32816 |
| Number of employees at period end: | | | | | |
| Permanent | 4626 | 5225 | 5087 | 5446 | 5428 |
| Seasonal | 8072 | 5537 | 8350 | 9931 | 9235 |

The 1985/86 figures are for 18 months ended 30 June, 1986. All the other comparative periods cover 12 months.

MUMIAS SUGAR COMPANY LIMITED

PRIVATE BAG, MUMIAS, TELEPHONE: MUMIAS 45, 46, 47, 48, 49, 50.
TELEX: 31021, MUSUCO KE