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# MUMIAS SUGAR COMPANY LIMITED



**ANNUAL REPORT  
&  
FINANCIAL  
STATEMENTS  
FOR 2001/2002**

G57-46  
MSC

# MUMIAS SUGAR COMPANY LIMITED

KENYA NATIONAL ASSEMBLY  
Accession: 10012992

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**ANNUAL REPORT AND FINANCIAL  
STATEMENTS FOR 2001/2002**

# Annual Financial Report Statement

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## Notice of the Annual General Meeting

Notice is hereby given that the thirty first 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 6<sup>th</sup> December 2002 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 30<sup>th</sup> June, 2002 together with the Directors' and Auditor's reports thereon.
2. To declare a dividend.
3. To elect directors:
  - (a) In accordance with Article 113 of the Company's Articles of Association, Mr. Michael K. Sang and the Attorney General -Hon. Amos Wako are due for retirement by rotation and being eligible, offer themselves for re-election.
  - (b) The Permanent Secretary- Ministry of Agriculture, Mr. Godfrey Mate who joined the Board on 30 August 2002 to fill a casual vacancy created by the resignation of Prof.S.E Migot- Adhola has advised the Company of his intention to retire at the forthcoming AGM. Consequently he is not offering himself for election.
  - (c) The Permanent Secretary- Treasury, Mr Joseph Kinyua who joined the Board on 30 August 2002 to fill a casual vacancy created by the resignation of Mr. Mwaghazi Mwachofi retires in accordance with Article 114, and being eligible offers himself for election.
  - (d) Pursuant to Article 115, the following persons are being recommended for appointment to the Board as Directors:
    - (i) Mr. John V. Bosse
    - (ii) Dr. Caleb W.W. Wangia
    - (iii) Mr. Maurice R. Juma
    - (iv) Mr. Edwin S. Osundwa
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.

### 6. Special Business

- (a) Amendment of the Company's Articles of Association.

As the Nairobi Stock Exchange moves into the implementation of the Central Depository System (CDS), listed companies will need to amend their Articles of Association to embrace electronic records as evidence of ownership in compliance with the Central Depository Act 2000. It is therefore proposed that Article No. 31 of the Company's Articles of Association be amended by insertion of the following Articles:

- Annual Financial Report
- 31(a) The provisions of the Central Depositories Act 2000 (CD Act) as amended or modified from time to time shall apply to the Company to the extent that any securities of the Company are in part or in whole immobilized or dematerialised or are required by the regulations or rules issued under the CD Act to be immobilized or dematerialised in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the CD Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles of Association immobilization and dematerialization shall be construed in the same way they are construed in the CD Act”.
- 31(b) “Where any securities of the Company are forfeited pursuant to these Articles of Association after being immobilized or dematerialised, the Company shall be entitled to transfer such securities to a securities account designated by the directors for this purpose”.

By order of the Board  
M.J.R Guto  
Secretary  
Private Bag  
Mumias  
Dated: 18 October 2002

#### Notes:

1. Any member may by notice duly signed by him or her delivered to the Secretary not less than 3 and not more than 21 days before the day appointed for the AGM propose any other person for election to the Board, such notice to be accompanied by a notice signed by the person proposed of his or her willingness to be elected.

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 attached in this report, must be duly completed by the member and lodged at the Company's registered office not later than 11.00 am on Wednesday 4<sup>th</sup> December, 2002 failing which it will be invalid. In case of a corporate body, the proxy must be under its common seal. Shareholder Admission letter for use by shareholders on the AGM day is attached as part of the proxy form.

#### Explanatory note for the Special Resolution

The Special Resolution proposed is to apply the Central Depositories Act 2000 to the Company. The Central Depositories Act 2000 provides for electronic trading in securities listed on the Stock Exchange whereby the Share Certificate is gradually phased out as the physical evidence of share ownership. When the Central Depository Act is fully implemented, a shareholder will need to open an account with the Central Depository to be able to trade.

Initially the share certificates will be immobilised, meaning that they will still be the prima facie evidence of ownership, but they will be deposited at the Central Depository. Subsequently, the shares will be dematerialised which means that certificates will cease to exist. Instead, shares will only be represented by entries in the Securities Account of the Shareholder with the Central Depository, just like in the case of a bank.

All listed companies have been required to pass this resolution as an initial step towards implementation of the Act. The effect of this resolution will not be to invalidate certificates but it will open the way for introduction of electronic accounts and trading when the Capital Markets Authority, the NSE and your Board consider that time is ripe for it.

# Annual Financial Report Statement

## Arifa ya Mkutano Mkuu wa Mwaka

Arifa inatolewa sasa kuwa Mkutano Mkuu wa Mwaka wa 31 wa Wenyehisa wa Kampuni ya Sukari ya Mumias utafanyika katika Chuo cha Leba cha Tom Mboya, Ring Road, Milimani jijini Kisumu Ijumaa, Desemba 6, 2002 kuanzia saa tano asubuhi 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, 2002 pamoja na Ripoti za Wakurugenzi na Wakaguzi wa Kifedha baadaye.

2. Kutangaza mgao wa faida.

3. Kuchagua wakurugenzi:

a) Kwa mujibu wa kifungu cha 113 cha Mkataba Anzilishi wa Kampuni, Bw Michael K Sang na Mkuu wa Sheria Mhe. Amos Wako wanapasa kustaaifu na maadamu wanaruhusiwa, wamejitokeza kuchaguliwa tena.

b) Katibu wa Wizara ya Kilimo, Bw Godfrey Mate ambaye alijiunga na Bodi mnamo Agosti 30, 2002 kujaza nafasi iliyoachwa baada ya kujiuzulu kwa Prof S.E Migot- Adhola ameifahamisha Kampuni kuwa anataka kustaaifu wakati wa Mkutano Mkuu wa Mwaka. Kwa hivyo, hatajitokeza kupigania uchaguzi.

c) Katibu wa Wizara ya Fedha, Bw Joseph Kinyua ambaye alijiunga na Bodi mnamo Agosti 30 kujaza nafasi iliyoachwa kufuatia kujiuzulu kwa Bw Mwaghazi Mwachofi anastaaifu kulingana na kifungu cha 114 na kwa vile anaruhusiwa, atajitokeza kuchaguliwa tena.

d) Kwa mujibu wa kifungu cha 115, watu wafuatao wanapendekezwa kuteuliwa kujiunga na Bodi kama wakurugenzi:

- i) Bw John V. Bosse
- ii) Dr. Caleb W.W. Wangia
- iii) Bw Maurice R. Juma
- iv) Bw Edwin S. Osundwa

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.

6. Shughuli Maalum

a) Kufanyia marekebisho Mkataba Anzilishi wa Kampuni. Soko la Hisa la Nairobi linapopiga hatua za kuanza kutekeleza Mfumo mmoja wa Uwekaji Mitaji (Central Depository System), kampuni zinazoorodheshwa zitahitajika kufanyia marekebisho Mikataba Anzilishi ya Kampuni kuanza kutumia rekodi za vyombo vya umeme kama sehemu ya umiliki kama inavyohitajika na Sheria ya Central Depository 2000. Kwa hivyo inapendekezwa kuwa kifungu cha 31 cha Mkataba Anzilishi kifanyiwe marekebisho wa kuongeza kifungu kifuatacho:

31(a) Maafikiano ya Sheria ya Central Depository ya 2000 (Sheria ya CD) ilivyorekebishwa au kubadilishwa kila mara itahusu Kampuni hadi Dhamana yoyote ya Kampuni ni baadhi ya sehemu yake au inahusika kikamilifu au kugeuza au kutakiwa na masharti au kanuni zilizotolewa kuambatana na Sheria ya CD kufanywa au kugeuzwa sehemu au yote, jinsi inavyowezekana. Maafikiano yoyote ya Vifungu hivi ambavyo havipatani na Sheria ya CD au masharti yoyote au kanuni zilizotolewa au kufanywa kufuatia hayo zitachukuliwa kugeuzwa kufikia mapatano kama hayo katika kuambatana na dhamana kama hizo. Kwa mujibu wa Vifungu kama hivyo vya umoja wa Ushirika na mageuzi vitafanywa katika sawa na inavyofanywa katika Sheria ya CD."

31(b) "Pale ambapo dhamana zozote za Kampuni zinatwaliwa kufuatia Vifungu hivi vya Ushirika baada ya kufanywa moja au kugeuzwa, kampuni itaidhinishwa kwenye akaunti ya dhamana iliyotengwa na wakurugenzi kwa haja hii."

Na amri ya Halmashauri

MJR. Guto

Katibu

Private Bag

Mumias

Tarehe: Oktoba 18, 2002

## TANGAZO LA MKUTANO MKUU WA MWAKA 2002

### Fahamu:

1. Mwanachama yeyote kufuatia ilani iliyowasilishwa naye au kutolewa kwa Katibu isiyopungua siku 3 au zaidi ya siku 21 kabla ya siku iliyoteuliwa kwa Mkutano Mkuu wa kila Mwaka anaweza akapendekeza mtu mwingine yeyote kuchaguliwa kwenye Halmashauri, ilani kama hiyo iandamane na sahihi ya ilani na mtu aliyependekezwa kupenda kuchaguliwa.

Mwanachama aliye na haki ya kuhudhuria au kupiga kura katika mkutano na ambaye hawezi kuhudhuria ana haki ya kuteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi hatakuwa tu mwanachama wa kampuni. Kwa ajili ya kuwa halali, fomu ya uwakilishi ambayo iko kwenye ripoti hii, sharti ikamilishwe na mwanachama huyo na kuwasilishwa katika afisi ya kusajili ya Kampuni kabla ya saa tano asubuhi mnamo Jumatano, Desemba 4, 2002, akikosa haitatumika. Iwapo kutakuwa na mshiriki mwingine, mwakilishi sharti awe chini ya chapa ya kawaida. Barua ya mwenye hisa kukubaliwa pia ipo kwenye ripoti hii kutumiwa na wenye hisa kwenye siku ya Mkutano Mkuu wa kila Mwaka.

### Maelezo ya Maswala Muhimu

Maswala Muhimu yaliyopendekezwa ni kutumia Sheria ya Hazina Kuu ya 2000 katika Kampuni. Sheria ya hazina Kuu inashughulikia biashara, dhamana zilizoordheshwa kwenye Soko la Ubadilishanaji, ambapo cheti cha Hisa kinaondolewa kama ushahidi wa kushuhudiwa na umilikaji. Sheria ya hazina Kuu itakapotekelezwa kikamilifu, mtu atatakiwa kufungua akaunti na Central Depository ili kufanya biashara.

Kabla ya hayo, vyeti vya hisa vitakusanywa, kuonyesha kuwa bado vitakuwa ushahidi muhimu wa umilikaji, lakini vitahifadhiwa katika Hazina Kuu. Baadaye, hisa zitaondolewa - vyeti vitakoma na badala yake, hisa zitawakilisha na kuorodheshwa katika Akaunti ya Dhamana ya Mwenye Hisa na Central Depository, kama tu sawa na benki.

Kampuni zote zilizoordheshwa zinatakiwa kupitisha mapendekezo haya kama hatua za kwanza katika kutekeleza Sheria hii. Matokeo ya mapendekezo haya hayatakuwa kufutilia mbali vyeti bali itafungua njia ya kuanzisha akaunti za kuweka pesa moja kwa moja (electronic akaunti) na kufanya biashara wakati wa Mamlaka ya Masoko Kuu, NSE na Halmashauri yako kufikiria kuwa wakati wake umewadia.

# Annual Financial Report and Statement

## MUMIAS SUGAR COMPANY LIMITED

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### CORPORATE INFORMATION

#### DIRECTORS

Mr M K Sang	-	Chairman
Mr J K Kiarie	-	(alternate Mr J G Chege)
Mr M Mwachofi	-	(alternate Mrs E Koimett)
Prof S E Migot-Adholla	-	(alternate Mr A M Gakere)
Hon S A Wako	-	(alternate Mr D K Ameyo)
Mr F M. Chahonyo	-	(resigned on 26.2.2002)
Mr K Gatabaki		
Mr B Yates		

#### BOARD COMMITTEES

##### Board Audit Committee

Mr J.G Chege	-	Chairman
Mrs E. Koimett		
Mr K Gatabaki		

##### Board Nominations Committee

Mr D.K Ameyo	-	Chairman
Mr A. Gakere		
Mr K Gatabaki		

#### COMPANY SECRETARY

Mr M J R Guto

#### REGISTERED OFFICE

Mumias Sugar Company Limited  
Private Bag, Mumias, Kenya

#### MANAGING AGENTS

Booker Tate Limited

#### ADVOCATES

E K Owinyi  
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



Mr. M.K Sang (Chairman)



Hon S A Wako (Director)



Mr. J Kiarie  
(Director)



Mr. F M Chahonyo  
Director  
(Resigned on 26.2.2002)



Mr. B Yates  
(Director)



Mr. D K Ameyo  
(Alternate Director)



Mr. K Gatabaki  
(Director)



Mrs. E Koimett  
(Alternate Director)



Mr. A M Gakere  
(Alternate Director)



Mr. J Chege  
(Director)



Mr. MJR Guto  
(Company Secretary)

# Chairman's Statement



I am pleased to present to you our Annual Report and Financial Statements for the year ended 30 June 2002, the first as a public listed company on the Nairobi Stock Exchange.

## **Overview of the Year**

The year to 30 June 2002 proved to be a very difficult one for the Kenyan Sugar Industry. Despite cause for optimism in the early part of the year, the world sugar price dropped to around 6 cents/lb by the first quarter of 2002. The low world price triggered the importation into Kenya of low priced sugar under the COMESA Free Trade Agreements, putting local producers under intense pressure.

In an attempt to assist the local Sugar Industry, the Government of Kenya introduced a quota of 200,000 tonnes of imported sugar for the period March 2002 to February 2003. The quota was based on the shortfall between estimated consumption of 600,000 tonnes and production of 400,000 tonnes. Unfortunately, it is almost certain that consumption will be lower than that estimated, possibly close to 550,000 tonnes and production will be closer to 430,000 tonnes resulting in an oversupply situation in the market place. Whilst the quota system attempted to address the issue of tonnage of imports, the low price at which the sugar was landed in Mombasa from the COMESA Free Trade area forced down the price of local sugar to below the cost of production.

The low landed price reflected the very low world market price. It was well below the domestic selling prices in relevant COMESA countries.

The effect of all these factors has been to continue to drive down the Kenyan ex-factory price of sugar to the current level of approximately Shs 29 500 per tonne, which is below the Industry's cost of production.

Without Government action to control the flow of imports and provide price protection in accordance with WTO and COMESA rules, the Kenyan sugar industry could well move deeper into crisis over the coming year.

## **Sugar Act 2001**

The Sugar Act 2001 came into force in April 2002 "to provide for the development, regulation and promotion of the sugar industry, to provide for the establishment powers and functions of the Kenya Sugar Board, and for connected purposes".

The Kenya Sugar Board (KSB) replaced the Kenyan Sugar Authority. Unfortunately, many provisions of the Act have proven difficult to implement and, with the prevailing economic situation in the Sugar Industry, some provisions are unworkable. As a consequence, the Government has tabled an Amendment Bill which is awaiting debate in Parliament. In the meantime, the Sugar Industry continues to make representation through the KSB for further improvements to the Act

A key provision of the Act is to change the method of calculation of the cane price paid to farmers from the current Shs 2015/tonne to a formula based on cane quality and the net price of sugar. This would bring the basis of cane payments into line with International practice..

The KSB has formed a Sugar Cane Pricing Committee, in accordance with the Act, which is made up of representatives of the KSB, Kenya Sugar Manufacturers Association and Kenya Sugar Growers Association. The committee has started discussions on a formula and it is hoped that agreement will be reached within the next few months.

### **Financial Review**

The financial results for the year proved disappointing.

Profit before tax was Sh 105 million compared to Sh 685 million in 2001 and Sh 796.8 million projected in the Prospectus. Operating profit was Sh 196 million (Sh 1,132 million 2001) compared to Sh 1,170 million in the Prospectus.

The effects of the influx of low cost imports plus the state owned sugar factories being prepared to sell sugar well below their cost of production, resulted in the average sales price across the product range dropping from Sh 38,715/tonne in 2001 to Sh 32,695/tonne in 2002 a fall of 16%. The average sales price was 10% below that forecast in the Prospectus. The effect of this was a loss of revenue of Sh 1,442 million compared to 2001 and Sh 972 million compared to the Prospectus.

Total operating costs were below budget by 3.8% although 3.5% above 2001 costs. The reduction in relation to budget reflects management's drive to improve efficiency and introduce better cost management. This is continuing into the current year.

Our balance sheet remains fundamentally strong and we expect to pay off our remaining term loans within the current year.

### **The Way Forward**

Despite the difficult trading conditions under which we are now operating, we are hopeful that over the next three to six months the key issues of sugar and cane price can be resolved.

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 price stability and the viability of the Kenya Sugar Industry of which MSC continues to be the industry leader.

We are committed to working with the KSB and growers to establish a sensible 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 reduce still further our cost of production. The Board is conducting a full Strategic Review to see how we can improve our unit cost of production by technology improvements and increasing cane tonnage through the factory. The Strategic Review will be completed in the first quarter of 2003 and will aim to provide the strategy to ensure we can achieve the returns required by the 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 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.

# Annual Financial Report Statement

## **Corporate Governance**

The Board of Directors is committed to pursue policies and strategies conducive to good and sound corporate governance. Since privatisation, the Board and Senior Management have attended seminars on Corporate Governance and to date two Board Committees, Board Audit and Board Nominations, have been established.

## **Dividend**

Despite the difficult trading conditions, the Directors will recommend the payment of a dividend to Shareholders at the Annual General Meeting. The Company's policy is to distribute approximately 75% of profit after tax. Accordingly, the Directors are recommending Sh 0.10 per share, equivalent to a total of Sh 51 million.

## **Appreciation**

I would like to thank the management and staff of MSC for their commitment and contribution over an important year of the Company. With the privatisation of MSC, we have entered a new phase. MSC aims to be not just the leader of the Kenya Sugar Industry but also a respected and competitive world producer. This will require new ideas and provide new challenges.

## **Chairman's tenure of office**

I am proud to have served MSC as Chairman for the last eleven years which has seen the successful floatation of the Company on the Nairobi Stock Exchange. I believe it is now time for me to step aside and allow a new Chairman to be appointed to take the Company forward and to respond to the new challenges we face. When the new Board has settled in, I will be discussing with the Directors a suitable time to retire.

**Michael K. Sang**  
**Chairman**



Cane Receiving and handling Equipment at Mumias Factory

## TAARIFA YA MWENYEKITI



Nina furaha kuwasilisha kwenu Ripoti yetu ya Mwaka na Taarifa za Kifedha kwa mwaka uliomalizika Juni 30, 2002 ambao ulikuwa wa kwanza tangu Kampuni yetu kuorodheshwa ya Umma katika Soko la Hisa la Nairobi.

### **Mwaka ulivyokuwa**

Mwaka uliokamilika Juni 30, 2002 ulikuwa na majaribio mengi kwa sekta ya sukari nchini Kenya. Licha ya matumaini mwaka ulipoanza, bei ya sukari katika soko la ulimwengu ilipunguka kwa Sh4 (cent 6 za Amerika) katika robo ya kwanza ya 2002. Bei ya chini ya sukari ilisababisha uagizaji wa sukari nchini kwa bei chini kwa mujibu wa mikataba ya Bishahara Huru ya Soko la Pamoja na Afrika Mashariki na Kusini (COMESA), hali ambayo iliathiri vibaya kampuni za sukari nchini.

Katika jaribio la kusaidia sekta ya sukari nchini, Serikali ya Kenya ilianzisha pima ya tani 200,000 pekee za sukari ya kuagizwa nchini kwa kipindi cha kati ya Machi 2002 na Februari 2003. Kipimo hicho kilifikiwa baada ya kulinganisha uhitaji wa tani 600,000 za sukari dhidi ya uwezo wa kampuni za sukari nchini kuzalisha tani 400,000 za sukari. Hata hivyo, ni wazi kuwa uhitaji wa sukari nchini hautazidi tani 550,000 na uzalishaji sukari utafikia tani 430,000, hali ambayo itarundika sukari katika soko nchini. Huku ikikubaliwa kuwa utaratibu wa pima ulikaribia kutatua tatizo la uagizaji sukari, bei ya chini ya sukari ya kuagizwa kutoka mataifa wanachama wa Soko Huru la COMESA ililazimisha kampuni za sukari nchini kuza sukari chini ya gharama zalishi.

Sukari iliyoagizwa iliakisi bei ya chini ya bidhaa hiyo katika soko la ulimwengu na ilikuwa chini katika baadhi ya mataifa wanachama wa COMESA.

Athari ya matukio hayo imekuwa ni kuendelea kusukuma chini bei ya sukari ya Kenya kufikia kiwango cha sasa cha Sh29,500 kwa kila tani, ambayo ni kati ya asilimia 10 na 15 pungufu ya gharama ya uzalishaji. Bila ya hatua ya Serikali kuingilia kati na kudhibiti uagizaji wa sukari na kuweka kiambaza cha bei kwa mujibu wa sheria za Shirika la Bishara Ulimwenguni (WTO) na COMESA, sekta ya sukari nchini ingejipata katika mzozo mkubwa mwaka ujao.

### **Sheria ya Sukari 2001**

Sheria ya Sukari ya 2002 ilianza kutekelezwa April 2002 ili "kuwezesha ustawishaji, usimamizi na uimarishaji wa Sekta ya Sukari, kuipa Bodi ya Sukari ya Kenya uwezo wa kuanzisha na kutekeleza wajibu wake na dhima zinazohusika."

Bodi ya Sukari ya Kenya (KSB) ilichukua mahali pa Halmashauri ya Sukari ya Kenya (KSA). Kwa bahati mbaya, vifungu vingi katika Sheria hiyo vilikuwa na utata kutekelezwa, na kutokana na hali ya kiuchumi katika sekta ya sukari, baadhi ya vifungu hivyo haingeweza kutekelezwa. Kutokana na hilo, Serikali imewasilisha Bungeni Mswada wa Marekebisho unaotarajiwa kujadiliwa. Huku hayo yakiendelea, sekta ya sukari inaendelea kuwasilisha mapendekezo yake kwa KSB ili kuboresha zaidi Sheria hiyo.

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Kifungu muhimu katika Sheria hiyo ni kubadilisha mfumo wa kufikia bei ya kulipa wakulima mazao ya miwa kutoka Sh2,015 za sasa kwa kila tani na kuazimia utaratibu unaotilia maanani thamani ya miwa na bei ya miwa baada ya ushuru kukatwa. Kifungu hicho kitawezesha malipo ya miwa kufikia kiwango cha kimataifa.

KSB imeanzisha Kamati ya kuamua Bei ya Miwa kama Sheria hiyo inavyohitaji. Kamati hiyo inashirikisha wawakilishi kutoka kwa KSB, Chama cha Wenye Viwanda vya Kusaga Sukari na Chama cha Wakuzaji Miwa. Kamati hiyo imeanza kuujadili mfumo huo na inatarajiwa kuwa muafaka utafikiwa katika kipindi cha miezi michache ijayo.

### **Hali ya Kifedha**

Matokeo ya kifedha ya mwaka uliomalizika yanavunja moyo.

Faida kabla ya ushuru kukatwa ilikuwa Sh105 milioni ikilinganishwa na Sh685 milioni mwaka wa 2001 na Sh796.8 milioni zilizobashiriwa katika kielelezo cha Kampuni. Faida ya kuendesha shughuli ilikuwa Sh196 milioni (Sh1,132 milioni mwaka wa 2001) ikilinganishwa na Sh1,170 milioni katika kielelezo cha Kampuni.

Athari ya mrundiko wa sukari ya kuagizwa yenye bei ya chini pamoja naviwanda vinavyomilikiwa na Serikali kuwa tayari kuuza sukari kwa bei iliyo chini ya gharama ya uzalishaji, ilisababisha bei ya uuzaji ya wastani ya sukari kupunguka kutoka Sh38,715 kwa tani moja mwaka 2001 hadi Sh32,695 mwaka wa 2002 asilimia 10 chini ya ubashiri katika kielelezo cha Kampuni. Athari ya hali hiyo ilikuwa kupotea kwa mapato ya Sh1,442 milioni ikilinganishwa na mwaka wa 2001 na Sh972 milioni katika kielelezo cha Kampuni.

Gharama jumla za kuendesha shughuli zilikuwa chini ya bajeti kwa asilimia 3.8 hata ingawa asilimia 3.5 kuliko gharama za 2001. Upungufu katika bajeti hiyo unaonyesha msukumo wa wasimamizi wa Kampuni kuimarisha utendaji kazi na kuanzisha usimamizi mwema wa matumizi ya kifedha na juhudi hizo zitaendelea mwaka ujao.

Hali yetu ya kifedha ni thabiti na tunaratajia kulipa mikopo tunayodaiwa katika kipindi cha mwaka huu.

### **Mkakati wa Siku za Mbeleni**

Licha ya hali ngumu ya kibiashara ambamo tunaendesha shughuli zetu, tunatumaini kuwa maswala muhimu kuhusu bei ya sukari na miwa yatasuluhishwa katika kipindi cha miezi mitatu au sita ijayo.

Kampuni ya Sukari ya Mumias itaendelea kuwasilisha mapendekezo yake kwa Serikali, kushirikiana na wahusika wote katika sekta hii na kuimarisha utaratibu unaofaa kulinda sekta ya sukari nchini. Hatua zinahitajika kuchukuliwa kusimamia uagizaji wa sukari ya bei ya chini nchini ili kuhakikisha bei ya sukari ni thabiti na umuhimu wa sekta ya sukari nchini ambayo Kampuni ya Mumias inaendelea kuwa kiongozi.

Tumejitolea kushirikiana na KSB na wakulima wa miwa kuanzisha mfumo unaofaa wa bei ya miwa ambao unatambua haja ya malipo mema kwa wakulima na wasagaji.

Hata hivyo, hatuwezi kutegemea mazingira ya nje kuhakikisha wenye hisa wanaendelea kupata mapato mazuri. Tayari tumeanzisha mipango ya utendaji kazi kwa ustadi na upunguzaji gharama ili kupunguza zaidi gharama ya uzalishaji. Bodi inatekeleza Uchunguzi wa Mikakati ili kutafuta mbinu za kuimarisha gharama kwa kila tani ya sukari kwa kuimarisha teknolojia na tani za sukari kwa kitita cha miwa. Uchunguzi wa Mikakati utakamilika katika robo ya kwanza ya 2003 na itawezesha kampuni kuwapa wenye hisa mapato mazuri katika sekta inayoendelea kukabiliwa na ushindani

### **Kutimizia Wahusika wa Kampuni Mtarajio Yao**

Kampuni bado imejitolea kutimiza majukumu ya kijamii kwa wafanyakazi wake, wakulima na jamii pana ambamo tunaendesha shughuli zetu. Tutaendelea kushirikiana na wahusika ili kuimarisha kiwango cha maisha ya Wakenya wote wanaotegemea Kampuni ya Sukari ya Mumias kugharamia maisha yao.

### **Usimamizi wa Kampuni**

Bodi ya Wakurugenzi imejitolea kufuata sera na mikakati inayochangia usimamizi wema wa kampuni. Tangu kubinafsishwa, Bodi ya Wasimamizi Wakuu wamehudhuria semina kuhusu Usimamizi wa Kampuni na kufikia sasa Kamati za Bodi mbili, Kamati ya Ukaguzi ya Bodi na Kamati ya Uteuzi ya Bodi zimeanzishwa.

# Annual Financial Report Statement

## **Mgao**

Licha ya mzingira magumu ya kibiashara, Wakurugenzi watapendekeza malipo ya mgao kwa Wenye Hisa wakati wa Mkutano Mkuu wa Mwaka. Sera ya Kampuni ni kugawa asilimia 75 ya faida baada ya ushuru kukatwa. Kwa mujibu wa hilo, Wakurugenzi wanapendekeza mgao wa Sh0.10 kwa kila hisa, ambazo ni takribani Sh51 milioni.

## **Shukrani**

Ningependa kushukuru wasimamizi na wafanyakazi wa Kampuni ya Sukari ya Mumias kwa kazi nzuri waliyotimiza mwaka huu. Baada ya kubinafsishwa kwa Kampuni, tumeingia awamu mpya. Kampuni hailengi tu kuwa kiongozi wa viwanda vya sukari nchini lakini kampuni yenye hadhi ya shindani katika uzalishaji wa sukari. Hili litahitaji mbinu mpya na majaribio mapya.

## **Hatamu ya Mwenyekiti**

Nina furaha ya kutunukiwa fursa ya kuhudumu kama mwenyekiti wa Kampuni ya Sukari ya Mumias kwa miaka 11 iliyopita ambapo Kampuni imeorodheshwa katika Soko la Hisa la Nairobi. Ninaamini kwamba wakati wangu wa kusimama kando na kuruhusu mwenyekiti mpya kuteuliwa ili kuwezesha Kampuni kuendelea mbele na kukabiliana na majiribio mapya. Bodi mpya ikishaanza shughuli zake, nitashauriana na Wakurugenzi kuhusu wakati unaofaa wa kustaafu na kuteuliwa kwa Mwenyekiti ambaye ataiongoza Kampuni miaka ijayo.

**Michael K Sang**

**Mwenyekiti**

## CHIEF EXECUTIVE'S STATEMENT

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The year 2002 was a challenging one for the Company with the change from Government ownership to Public Company status coinciding with severe pressure on margins due to the effects of low priced imported sugar. Whilst this had a significant effect on profitability, the underlying operations of the Company remain strong.

### **Production**

Cane milled in 2002 was 1,961,185 tonnes compared to 1,988,285 tonnes in 2001 but we were able to increase sugar production from 217,834 tonnes in 2001 to 219,539 tonnes in 2002. Rendement for the year was 11.22% compared to 10.89% in 2001.

Cane productivity increased from 3.82 tc/ha/month in 2001 to 4.41 tc/ha/month reflecting more favourable rainfall and pol% cane increased from 12.56% to 12.95%. This increase in cane quality together with a small improvement in factory overall recovery resulted in the 3% increase in rendement.

These performance improvements are expected to continue into this year with investment in equipment to improve the recovery and throughput in the factory. We are expecting to mill 2,300,000 tonnes of cane in 2003 producing 264,000 tonnes of sugar, at a rendement of 11.48%.

### **Sales and Marketing**

Whilst sugar price dropped by 16% in the year, the investment in branded products which started in 2001 has shown considerable benefit. Sales of branded sugar increased from 17,599 tonnes in 2001 to 35,918 tonnes in 2002. MSC is recognized as the premier sugar in the market place which enables us to receive a price premium over other sugars. We now have a good foundation on which to build. Sales of the standard 50 Kg bag increased from 154,804 tonnes to 203,746 tonnes, giving total sales of 239,664 tonnes (2001 172,403 tonnes), an increase of 39%.

We are continuing to strengthen our brand image and set up a much stronger distribution system to ensure Mumias sugar is available throughout Kenya. We will therefore be in a very good position to take advantage of any improvement in market conditions.

### **Cost of Production**

During the year, Sales and Marketing expenditure increased by Shs 140 million due to the continuation of our marketing campaign for branded products and the increase in transportation costs for sugar distribution. The Company adopted the full International Accounting Standards for the revaluation of assets prior to privatization and an additional depreciation charge of Shs 40 million was necessary. Despite these factors and an increase in employment costs, MSC's overall unit cost of production (including depreciation and excluding finance) remained steady at Shs 32,000/tonne.

Management has already embarked on several efficiency and cost management programmes to remove further costs from the business. The largest component of MSC's operating costs is the purchase of farmers cane which accounts for 64% of total operating costs. This issue is being addressed under the provisions of the Sugar Act 2001 by MSC working with the Kenya Sugar Board and will hopefully be resolved this financial year.



# Annual Financial Report Statement

## **Employee Relations and Development**

MSC's total number of employees at 30 June 2002 was 3105. This compares to 3241 at June 2001.

The Company continues to provide a full range of facilities to its employees including housing, health care and education.

We have a well developed Training School which organized training courses for 446 employees in the year of which 350 were in-house. The courses covered all areas of the business.

Employee relations over the year were generally good with no serious disputes.

I would like to thank all employees for their contribution and commitment to MSC over the last year. The difficulties we have faced were mainly of an external nature but as a result of everyone's efforts, MSC is in a strong position to take full advantage of any improvement in market conditions.

**Dennis J Driscoll**  
**Chief Executive Officer**



**Computerized Control Room for the Diffuser at Mumias Factory**

## REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2002

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2002.

### 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.

### STATUS OF THE COMPANY

During the year, the status of the company changed from that of a private limited liability company to a public limited liability company with its shares listed in, and shares transferable through, the Nairobi Stock Exchange.

<b>RESULTS</b>	Shs'000
Profit before taxation	104,552
Taxation	39,436
Net profit for the year carried to retained earnings	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">65,116</div>

### DIVIDENDS

The directors propose the payment of a first and final dividend of Shs 51,000,000 (2001 Shs 362,100,000), representing Shs 0.10 (2001 - Shs 0.71) dividend per share 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)
2002	219,375	1,961,185
2001	217,834	1,988,285
2000	267,057	2,283,434
1999	230,708	2,047,000
1998	219,731	2,179,000

### NUCLEUS ESTATE

The company's nucleus estate, measuring approximately 3,450 hectares, provides an average of only about 8% of the total cane processed annually. Out-growers provide the bulk of the cane processed.

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### REPORT OF THE DIRECTORS (Continued)

#### DIRECTORS

The directors who served during the year are shown on page 8.

Mr F M Chahonyo resigned on 26 February 2002.

Mr M K Sang and the Attorney General- Hon. Amos Wako retire in accordance with Article 113 and, being eligible, offer themselves for re-election.

#### AUDITORS

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

#### BY ORDER OF THE BOARD

MJR GUTO  
Secretary

20 September 2002



# Annual Financial Report

## CORPORATE GOVERNANCE

Corporate governance is the process by which companies are directed, controlled and held to account.

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.

All the seven members of the Board are non-executive including the Chairman of the Board.

### **Committees of the Board**

The Board has two 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 Auditor, the Chief Executive Officer and the Finance Controller attend meetings of the Committee.

#### **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.

### **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.



**CORPORATE GOVERNANCE WORKSHOP - MOUNT KENYA SAFARI CLUB - NANYUKI**

**FEB 11TH - 13 TH 2002**

**FRONT: L To R :- M SANG (CHAIRMAN MSC), P. MUTANDA-HA, D-AMEYO (DIRECTOR), K.GATABAKI (DIRECTOR), A GAKERE (DIRECTOR)  
K. KIHANYA(HSM), DR GUMBE(FACILITATOR), PROF. ESHWANI (FACILITATOR), K. GATAMA (FACILITATOR), J.CHEGE(DIRECTOR)  
BACK: L To R:- N. ASEKA(HFO), A MARRIOT (FC), M. GUTO(CO.SEC), D. DRISCOLL(CEO), B. YATES (DIRECTOR)**

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



One of Mumias Sugar Outlets

# Annual Financial Report Statement

## REPORT OF THE AUDITORS TO THE MEMBERS OF MUMIAS SUGAR COMPANY LIMITED

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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 2002 and of its profit and cash flows for the year then ended in accordance with International Accounting Standards and comply with the Companies Act.

**DELOITTE & TOUCHE**

20 September 2002

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 Shs'000	2001 Shs'000
SALES	2	7,847,233	6,659,315
COST OF SALES		(6,026,794)	(4,289,844)
GROSS PROFIT		1,820,439	2,369,471
OTHER OPERATING INCOME		89,542	117,798
MARKETING AND DISTRIBUTION COSTS		(411,182)	(269,006)
ADMINISTRATIVE EXPENSES		(750,104)	(781,441)
OTHER OPERATING EXPENSES		(552,727)	(305,148)
OPERATING PROFIT	3	195,968	1,131,674
FINANCE COSTS (NET)	5	(52,323)	(4,774)
EXCEPTIONAL ITEMS	6	(39,093)	(441,679)
PROFIT BEFORE TAXATION		104,552	685,221
TAXATION	7	(39,436)	(202,421)
NET PROFIT FOR THE YEAR		65,116	482,800
EARNINGS PER SHARE	8	Shs 0.13	Shs 0.95



# MUMIAS SUGAR COMPANY LIMITED

## BALANCE SHEET 30 JUNE 2002

	Note	2002 Shs'000	2001 Shs'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	9	6,120,928	6,437,891
Intangible assets	10	6,676	6,883
Non-current receivables	11	93,279	76,918
Trade investment	12	1	1
		6,220,884	6,521,693
<b>Current assets</b>			
Inventories	13	1,980,231	2,527,465
Assets held for sale	14	201,578	228,986
Trade and other receivables	15	1,083,646	930,811
Cash and bank balances		39,025	6,181
		3,304,480	3,693,443
<b>Total assets</b>		9,525,364	10,215,136
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	16	1,020,000	1,020,000
Revaluation reserve		2,768,651	2,869,056
Retained earnings		1,225,464	1,102,939
Dividend proposed (gross)	21	51,000	362,100
		5,065,115	5,354,095
<b>Non current liabilities</b>			
Borrowings	17	-	224,650
Deferred income taxes	18	1,289,978	1,409,560
Retirement benefit obligations	19	625,343	487,453
		1,915,321	2,121,663
<b>Current liabilities</b>			
Trade and other payables	20	1,610,476	1,486,292
Borrowings	17	696,505	1,054,364
Unpaid dividend (gross)	21	77,425	-
Provision for staff leave pay	22	93,485	98,683
Taxation payable		67,037	100,039
		2,544,928	2,739,378
<b>Total equity and liabilities</b>		9,525,364	10,215,136

The financial statements on pages 24 to 45 were approved by the board of directors on 20 September 2002 and were signed on its behalf by:

M K SANG

K GATABAKI

)  
)  
)

# MUMIAS SUGAR COMPANY LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2002

	Share capital Shs '000	Revaluation reserve Shs '000	Retained earnings Shs '000	Dividends Shs000	Total Shs000
<b>At 1 July 2000</b>	1,020,000	2,046,912	927,792	226,311	4,221,015
Net profit for the year	-	-	482,800	-	482,800
2000 final dividend - paid	-	-	-	(226,311)	(226,311)
2001 dividend proposed - final	-	-	(362,100)	362,100	-
Revaluation surplus on revaluation of property, plant and equipment	-	1,228,938	-	-	1,228,938
Deferred tax on revaluation surplus	-	(368,681)	-	-	(368,681)
Transfer of excess depreciation	-	(53,606)	53,606	-	-
Deferred tax on excess depreciation	-	16,082	-	-	16,082
Revaluation surplus realised on disposal of revalued plant and equipment	-	(841)	841	-	-
Deferred tax on realised surplus	-	252	-	-	- 252
<b>At 30 June 2001</b>	<u>1,020,000</u>	<u>2,869,056</u>	<u>1,102,939</u>	<u>362,100</u>	<u>5,354,095</u>
<b>At 1 July 2001</b>	1,020,000	2,869,056	1,102,939	362,100	5,354,095
Net profit for the year	-	-	65,116	-	65,116
2001 dividend paid	-	-	-	(284,675)	(284,675)
2001 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
<b>At 30 June 2002</b>	<u>1,020,000</u>	<u>2,768,651</u>	<u>1,225,464</u>	<u>51,000</u>	<u>5,065,115</u>

# Annual Financial Statements

## MUMIAS SUGAR COMPANY LIMITED

### CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 Shs'000	2001 Shs'000
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	23(a)	1,305,217	118,794
Interest paid		(187,054)	(158,005)
Interest received		125,575	154,710
Taxation paid		(184,016)	(2,878)
Service gratuity paid		(25,582)	(111,265)
		<hr/>	<hr/>
Net cash from operating activities		1,034,140	1,356
		<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(149,781)	(160,240)
Purchase of intangible assets		(6,870)	(1,228)
Proceeds from disposal of plant and equipment		23,876	40,079
		<hr/>	<hr/>
Net cash used in investing activities		(132,775)	(121,389)
		<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>			
Loan received	23(b)	-	30,000
Loans repaid	23(b)	(242,815)	(296,466)
Dividend paid		(284,675)	(430,311)
		<hr/>	<hr/>
Net cash used in financing activities		(527,490)	(696,777)
		<hr/>	<hr/>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>373,875</u>	<u>(816,810)</u>
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>			
Balance at beginning of the year		(801,307)	15,503
Increase/(decrease) in cash and cash equivalents		373,875	(816,810)
		<hr/>	<hr/>
Balance at end of the year	23(c)	<u>(427,432)</u>	<u>(801,307)</u>

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

#### 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting 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. 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.

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 agricultural machinery	12½% - 25%
Motor vehicles	20%
Other equipment and fixtures	12½% - 33⅓%

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

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 1 ACCOUNTING POLICIES (Continued)

##### PROPERTY, PLANT AND EQUIPMENT (Continued)

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 during the year in which they are identified.

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 1 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 Shs 200 per employee per month from December 2001. Previously, the rate was Shs 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.

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Shs'000	2001 Shs'000
<b>2. SALES</b>		
Gross sales	10,044,310	8,311,329
Less: taxes and discounts	<u>                    </u>	<u>                    </u>
Value added tax	1,421,244	1,184,421
Sugar development levy	604,225	455,819
Sales discounts	171,568	11,774
	<u>                    </u>	<u>                    </u>
	2,197,037	1,652,014
	<u>                    </u>	<u>                    </u>
Net sales	<u><u>7,847,233</u></u>	<u><u>6,659,315</u></u>
 <b>3. OPERATING PROFIT</b>		
Operating profit is arrived at after:		
<b>charging:</b>		
Staff costs (note 4)	1,463,015	1,248,711
Subsidy to out-growers	246,766	375,456
Depreciation of property, plant and equipment (note 9)	454,406	387,262
Amortisation of intangible assets (note 10)	7,077	8,399
Assets impairment loss on equipment held for sale (note 14)	23,000	5,000
Management fees - fixed	49,749	48,988
- performance related	3,234	28,696
Directors' emoluments - fees	350	350
- other	3,999	4,356
Auditors' remuneration	3,000	2,750
Deficit on revaluation of property, plant and equipment	-	26,684
PAYE and VAT penalties	-	12,781
Provision for bad debts	25,610	24,824
	<u>                    </u>	<u>                    </u>
<b>and crediting:</b>		
Profit on disposal of plant and equipment	7,130	22,137
Stock obsolescence/adjustments	5,745	21,455
Bad debts recoveries	21,011	-
	<u>                    </u>	<u>                    </u>

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Shs'000	2001 Shs'000
<b>4. STAFF COSTS</b>		
Salaries and allowances		
- Management staff	231,539	231,545
- Supervisory and clerical	322,860	304,457
- Manual grade	519,036	481,347
- Casual labour	53,259	45,377
Termination benefits	21,488	14,367
Pension - defined benefit scheme	49,960	40,439
Pension - statutory defined contribution scheme	5,761	3,302
Pension administration fee	3,870	3,493
Group life insurance cover	10,771	10,303
Provision for gratuity	163,472	30,179
Provision for leave pay	80,999	83,902
	1,463,015	1,248,711
	1,463,015	1,248,711
 The average number of employees during the year comprised:		
	Number	Number
Permanent employees	3,105	3,240
Registered seasonal employees	12,637	14,389
	15,742	17,629
	15,742	17,629

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



# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Shs'000	2001 Shs'000
<b>5 FINANCE COSTS (NET)</b>		
Interest expense:		
On bank overdrafts	122,389	49,127
On loans	56,240	117,67
	178,629	166,806
Net exchange (gains)/losses:		
On foreign currency borrowings	1,337	(2,951)
On other exchange transactions	(2,068)	(4,371)
	(731)	(7,322)
Interest income:		
On MOCO current account	(100,643)	(117,838)
On Busia Sugar Company Ltd	(12,737)	-
On advances to farmers	(7,084)	(29,933)
On short term deposits	(2,844)	(2,465)
On staff loans	(2,267)	(3,153)
Other	-	(1,321)
	(125,575)	(154,710)
	52,323	4,774
<b>6 EXCEPTIONAL ITEMS</b>		
Voluntary early retirement scheme costs	-	441,679
Privatisation expenses	39,093	-
	39,093	441,679

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2002 Shs'000	2001 Shs'000
7	<b>TAXATION</b>		
	<b>(a) Tax expense</b>		
	Current taxation based on the adjusted profit for the year at 30% - current year	151,101	151,354
	- prior year overprovision	(87)	-
		151,014	151,354
	Deferred tax (credit)/expense - current year	(115,364)	81,243
	- prior year underprovision	3,786	(30,176)
		(111,578)	51,067
		39,436	202,421
	<b>(b) Reconciliation of expected tax based on accounting profit to tax expense</b>		
	Accounting profit before taxation	104,552	685,221
		104,552	685,221
	Tax at the applicable rate of 30%	31,366	205,566
	Tax effect of expenses not deductible for tax purposes	4,590	30,735
	Tax effect of income not taxable	(219)	(3,704)
	Prior year under/(over) provision of deferred tax	3,786	(30,176)
	Prior year overprovision of current tax	(87)	-
		39,436	202,421

### 8 EARNINGS PER SHARE

The basic earnings per share has been calculated on the net profit for the year of Shs 65,116,000 (2001 Shs 482,800,000) divided by 510,000,000 ordinary shares in issue at 30 June 2002.

The fully diluted earnings per share is the same as the basic earnings per share.

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 9 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
<b>COST OR VALUATION</b>								
At 1 July 2001	490,000	1,683,467	3,939,972	282,597	246,135	313,257	26,990	6,982,418
Additions	-	-	4,214	5,168	14,816	20,203	105,380	149,781
Transferred to current assets (note 14)	-	-	-	(10,990)	(705)	(2,924)	-	(14,619)
Transfers from capital work in progress	-	61,670	62,834	-	-	-	(124,504)	-
Disposals	-	(3,000)	(10,360)	(18,625)	(8,005)	(4,092)	-	(44,082)
At 30 June 2002	490,000	1,742,137	3,996,660	258,150	252,241	326,444	7,866	7,073,498
<b>COMPRISING</b>								
Cost	-	58,670	59,498	250,568	241,631	280,395	7,866	898,628
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 2002	490,000	1,742,137	3,996,660	258,150	252,241	326,444	7,866	7,073,498
<b>DEPRECIATION</b>								
At 1 July 2001	-	-	-	196,873	174,971	172,683	-	544,527
Charge for the year	12,250	62,469	269,334	28,269	23,814	58,270	-	454,406
Transferred to current assets (note 14)	-	-	-	(10,990)	(699)	(1,839)	-	(13,528)
Disposals	-	-	(2,590)	(18,625)	(8,005)	(3,615)	-	(32,835)
At 30 June 2002	12,250	62,469	270,739	195,527	190,081	221,504	-	952,570
<b>NET BOOK VALUE</b>								
At 30 June 2002	477,750	1,679,668	3,725,921	62,623	62,160	104,940	7,866	6,120,928
At 30 June 2001	490,000	1,683,467	3,939,972	85,724	71,164	140,574	26,990	6,437,891
<b>NET BOOK VALUE (Cost basis)</b>								
At 30 June 2002	417,026	768,540	2,449,639	61,379	61,692	86,436	7,866	3,852,578
At 30 June 2001	430,253	737,933	2,542,491	82,571	66,970	124,265	26,990	4,011,473

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.

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 9 PROPERTY, PLANT AND EQUIPMENT (Continued)

On 30 June 2001, property and factory plant and machinery were valued 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	
	2002 Shs'000	2001 Shs'000	2002 Shs'000	2001 Shs'000
Heavy mobile machinery	119,198	113,108	28,717	27,570
Motor vehicles	148,742	132,735	30,665	27,531
Other equipment and fixtures	57,027	5,400	18,585	1,340
	<u>324,967</u>	<u>251,243</u>	<u>77,967</u>	<u>56,441</u>

#### 10 INTANGIBLE ASSETS

	Willow Software Shs'000	Other software Shs'000	Total Shs'000
<b>COST</b>			
At 1 July 2001	18,909	6,507	25,416
Additions	-	6,870	6,870
	<u>18,909</u>	<u>13,377</u>	<u>32,286</u>
At 30 June 2002	18,909	13,377	32,286
<b>AMORTISATION</b>			
At 1 July 2001	14,210	4,323	18,533
Charge for the year	4,699	2,378	7,077
	<u>18,909</u>	<u>6,701</u>	<u>25,610</u>
At 30 June 2002	18,909	6,701	25,610
<b>NET BOOK VALUE</b>			
At 30 June 2002	<u>-</u>	<u>6,676</u>	<u>6,676</u>
At 30 June 2001	<u>4,699</u>	<u>2,184</u>	<u>6,883</u>

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Shs'000	2001 Shs'000
<b>11 NON CURRENT RECEIVABLES</b>		
Staff	23,279	36,918
Busia Sugar Company Limited	70,000	40,000
	93,279	76,918
	93,279	76,918

Included in the staff balance is an amount of Shs 1,326,301 (2001 - Shs 1,781,375) due from an officer of the company.

The Busia Sugar Company Limited 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.

	2002 Shs'000	2001 Shs'000
<b>12 TRADE INVESTMENT</b>		
194,596 unquoted shares of Shs 20 each in Kenya Farmers Association (KFA)	1	1
	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.

	2002 Shs'000	2001 Shs'000
<b>13 INVENTORIES</b>		
<b>Inventories</b>		
Sugar and molasses	707,986	1,230,968
Sugar in process	33,201	13,118
Mechanical and electrical spares	1,020,917	1,074,622
Fertilisers, chemicals and fuels	90,545	122,347
Other consumables	39,053	42,142
Goods in transit	181,489	151,662
Growing cane (see note below)	115,011	107,051
	2,188,202	2,741,910
Less: provision for obsolescence	(207,971)	(214,445)
	1,980,231	2,527,465

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.

# Annual Financial Report

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 14 ASSETS HELD FOR SALE

	Factory Plant and Equipment Shs'000	Heavy Mobile machinery Shs'000	Motor vehicles Shs'000	Other equipment and fixtures Shs'000	Total Shs'000
<b>COST OR VALUATION</b>					
At 1 July 2001	303,644	4,238	10,259	8,783	326,924
Transferred from property, plant and equipment (note 9)	-	10,990	705	2,924	14,619
Disposals	-	(3,545)	(10,125)	(4,857)	(18,527)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	303,644	11,683	839	6,850	323,016
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION/IMPAIRMENT</b>					
At 1 July 2001 - depreciation	59,986	3,217	8,141	4,126	75,470
At 1 July 2001 - impairment	22,468	-	-	-	22,468
Transferred from property, plant and equipment (note 9)	-	10,990	699	1,838	13,527
Impairment charge for the year	23,000	-	-	-	23,000
Disposals	-	(2,524)	(8,039)	(2,464)	(13,027)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	105,454	11,683	801	3,500	121,438
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUE</b>					
At 30 June 2002	<u>198,190</u>	<u>-</u>	<u>38</u>	<u>3,350</u>	<u>201,578</u>
At 30 June 2001	<u>221,188</u>	<u>1,021</u>	<u>2,119</u>	<u>4,658</u>	<u>228,986</u>

Included in assets held for sale under factory plant and equipment is mill 'B' at a net carrying amount of Shs 185,720,000 (2001 - Shs 208,720,000). 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.

# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2001 Shs'000	2000 Shs'000
15	<b>TRADE AND OTHER RECEIVABLES</b>		
	Trade receivables	229,723	164,250
	Advances to farmers	19,634	53,467
	Staff receivables	24,398	34,622
	MOCO current account	716,729	551,241
	Privatisation expenses recoverable	-	47,866
	Other receivables and prepayments	93,162	79,365
		1,083,646	930,811
		1,083,646	930,811

Included in staff receivables are balances due from officers of the company amounting to Shs 528,99 (2001 - Shs 938,116).

		2001 Shs'000	2000 Shs'000
16	<b>SHARE CAPITAL</b>		
	Authorised 545,000,000 (2001 - 54,500,000) ordinary shares of Shs 2 (2001 - Shs 20) each	1,090,000	1,090,000
	Issued and fully paid 510,000,000 (2001 - 51,000,000) ordinary shares of Shs 2 (2001 - Shs 20) each	1,020,000	1,020,000
		1,020,000	1,020,000

On 18 September 2001, the shareholders approved a ten-for-one share split subdividing the authorised share capital from 54,500,000 ordinary shares with a par value of Shs 20 each to 545,000,000 ordinary shares with a par value of Shs 2 each resulting in 510,000,000 ordinary shares with a par value Shs 2 each being issued and fully paid.

# Annual Financial Statements

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2001 Shs'000	2000 Shs'000
<b>17 BORROWINGS</b>		
<b>Loans</b>		
Secured local consortium financial institutions long term loans: Interest at 17.5% (2001 17.5%) per annum:		
Stanbic Bank Kenya Limited	38,409	76,962
Kenya Commercial Bank Limited	65,876	109,375
Kenya Commercial Finance Company Limited	17,630	46,875
Barclays Bank of Kenya Limited	78,133	156,250
	200,048	389,462
Secured foreign currency long term loans:		
East African Development Bank: Interest at 12% per annum US\$ Nil (2001 US\$ 510,904)	-	41,639
GBP Nil (2001 GBP 90,808)	-	10,425
	-	52,064
Unsecured loan from Kenya Sugar Board (formerly, Authority): Interest at 10% per annum	30,000	30,000
<b>Total loans</b>	230,048	471,526
<b>Bank overdrafts</b>	466,457	807,488
<b>Total borrowings</b>	696,505	1,279,014
Less: Amounts repayable within one year	(696,505)	(1,054,364)
<b>Non current borrowings</b>	-	224,650

All borrowings, except the Kenya Sugar Board loan, are secured by legal charges and debentures over all of the company's assets.

The maturities of the non-current borrowings are as follows:

	2002 Shs'000	2001 Shs'000
Repayable between 1 and 2 years	-	194,650
Repayable between 2 and 5 years	-	30,000
	-	224,650
	-	224,650



# Annual Financial Report Statement

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (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%.

	2002 Shs'000	2001 Shs'000
The net deferred taxation liability is attributable to the following items:		
Accelerated capital allowances	810,938	836,613
Unrealised exchange differences	440	75
Provision for service gratuity	(187,603)	(146,236)
Provision for staff leave pay	(28,045)	(29,605)
Revaluation surplus	694,248	748,713
	1,289,978	1,409,560
	1,289,978	1,409,560
The movement on the deferred tax account during the year was as follows:		
Balance at beginning of the year	1,409,560	1,006,146
Net (credit)/charge to income statement - note 7 (a)	(111,578)	51,067
Net (credit)/debit to revaluation reserve	(8,004)	352,347
	1,289,978	1,409,560
	1,289,978	1,409,560

**19 RETIREMENT BENEFIT OBLIGATIONS**

**(A) Provision for service gratuity:**

Balance at the beginning of the year	487,453	568,539
Additional provision during the year	163,472	* 30,179
Paid during the year	(25,582)	(111,265)
	625,343	487,453
	625,343	487,453

# Annual Financial Report

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 48,303,000 (2001 Shs 49,960,000) in the year. On 1 July 2001, an actuarial valuation was carried out by Hymans Robertson (Kenya) Limited which 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%

• **Statutory contribution scheme**

The company's contributions to the statutory National Social Security Fund scheme are determined by statute and totalled Shs 5,761,000 (2001 Shs 3,302,000) in the year.

20 **TRADE AND OTHER PAYABLES**

	2002 Shs'000	2001 Shs'000
Trade payables	396,833	364,853
Out-growers	431,967	567,087
Sugar development levy	115,931	34,861
Value added tax	133,309	54,948
Farmers' contributions for shares	-	30,821
Accruals	145,635	121,200
Bills payable	-	118,136
Prepaid sales	248,943	31,219
Loan interest accrued (secured)	12,376	20,801
Other payables	125,482	142,366
	1,610,476	1,486,292

# Annual Financial Report

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 **DIVIDENDS (GROSS)**

	2002 Shs'000	2001 Shs'000
First and final proposed	51,000	362,100
	<u>=====</u>	<u>=====</u>

The payment of dividends is subject to the approval of the company's long term lenders. The unpaid dividend of Shs 77,425,000 substantially relates to dividend payable to farmer shareholders who had unresolved share certificate issues at the balance sheet date.

22 **PROVISION FOR STAFF LEAVE PAY**

	2002 Shs'000	2001 Shs'000
Balance at the beginning of the year	98,683	88,703
Provision during the year	80,999	83,902
Paid during the year	(86,197)	(73,922)
	<u>-----</u>	<u>-----</u>
Balance at the end of the year	93,485	98,683
	<u>=====</u>	<u>=====</u>

23 **NOTES TO THE CASH FLOW STATEMENT**

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

Operating profit	195,968	1,131,674
Depreciation	454,406	387,262
Amortisation charge	7,077	8,399
Assets impairment charge	23,000	5,000
Profit on disposal of plant and equipment	(7,130)	(22,137)
Deficit on revaluation of property, plant and equipment	-	26,684
Provision for service gratuity	163,472	30,179
Exceptional items	(39,093)	(441,679)
Realised exchange gains	2,068	4,371
	<u>-----</u>	<u>-----</u>
Cash generated from operations before working capital changes	799,768	1,129,753
Increase in non current receivables	(16,361)	(33,233)
Decrease/(increase) in inventories	547,234	(1,155,643)
Increase/(decrease) in trade and other receivables	(152,835)	2,690
Increase in trade and other payables	132,609	165,247
Staff leave paid	(5,198)	9,980
	<u>-----</u>	<u>-----</u>
Cash generated from operations	1,305,217	118,794
	<u>=====</u>	<u>=====</u>

# Annual Financial Report

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Shs'000	2001 Shs'000
<b>23 NOTES TO THE CASH FLOW STATEMENT (Continued)</b>		
<b>(b) ANALYSIS OF CHANGES IN LONG TERM LOANS DURING THE YEAR</b>		
Balance at the beginning of the year	471,526	740,943
Loan received	-	30,000
Adjustment for foreign exchange loss/(gain)	1,337	(2,951)
Loans repaid	(242,815)	(296,466)
	230,048	471,526
<b>(c) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	39,025	6,181
Bank overdrafts	(466,457)	(807,488)
	(427,432)	(801,307)
<b>24 CAPITAL COMMITMENTS</b>		
Commitments at the year end for which no provision has been made in these financial statements:		
Authorised and contracted for	28,639	70,503
Authorised but not contracted for	646	319,497
	29,285	390,000

### 25 CONTINGENT LIABILITIES

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) two years ago. The potential liability that might arise from this suit in the event of judgement against the company cannot be reasonably determined. The directors, based on the advice of their legal advisers, are of the opinion that no liability will crystallise. There is an appeal by the company challenging the Kenya Revenue Authority on the applicability of VAT regulations on cane transportation, which is done by private contractors. The potential VAT liability that might arise if the company loses the appeal is estimated to be approximately Shs 90 million. This amount will, however, be recovered from the farmers whose cane transportation is the subject of the appeal.

## MUMIAS SUGAR COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 26 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.

#### 27 CURRENCY

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

