Kenana
Sugar Company Limited
Annual Report and Accounts
For the year ended 30th September 2004

04

FC18990

Contents

Directorate & Administration

Chairman
H.E. Dr. Galal Yousef Eldigair
Government of the Republic of Sudan

Dr. Sabir Mohamed Hasan Ahmed
Government of the
Republic of Sudan

Mrs. Abda Yahia Al-Mahdi
Government of the
Republic of Sudan

Mr. Ahmed Omer Abdel Rahman
Government of the
Republic of Sudan

Deputy Chairman
Mr. Mohamed Al-Magran Al - Roumi
Kuwait Real Estate
Investment Consortium

Mr. Mohamed Hamad Al- Mutairi
Kuwait Real Estate
Investment Consortium

Mr. Fawzi Abdel Hamid Al Mani
Kuwait Real Estate
Investment Consortium

Mr. Mashaal Yousif Al Darbas
Kuwait Real Estate
Investment Consortium

Mr. Abdul Aziz Abdul Karim Al Wahib
Government of the
Kingdom of Saudi Arabia

Mr. Abdulrahman Abdulaziz
Al-Shaye
The Arab Investment Company SAA

Mr. A. Wahab AhmedHamza
Sudan Development Corporation

Mr. Medani Malik Hassab El Nabi
Arab Authority for Agricultural
Investment and Development

Mr. Wagiealla A/Alla Al Naw
Consortium of Sudanese
Commercial Banks

Managing Director
Mr. Osman Abdalla El Nazir

Deputy Managing Director
(Khartoum)
Mr. Ibrahim Ali Masalam

Deputy Managing Director
(Site)
Mr. Mohamed El-Mahi El-Haj

Principal Bankers
Bank of Sudan
El Nilein Bank
Bank of Khartoum
Sudanese French Bank
British Arab Commercial
Bank Ltd.(London)
Barclays Bank Plc.(London)
National Westminster
Bank Plc., (London)

Joint Auditors
PricewaterhouseCoopers (London)
Bannaga, Gasim & Co. (Khartoum)

Legal Counsel
El Karib & Medani (Khartoum)
Veil Armfelt & Associates (Paris)

Technical Consultants
F.C.Schaffer & Associates (USA)

Company Secretary
Mr.Fareed Omer Medani

Registered Office
Plot Number 846,
Block 2, El Geraif Gharb,
Khartoum, Sudan

Some Facts & Figures

Design Criteria

An integrated Cane Sugar estate, with a factory rated at 26,000 MT of cane per day.

Basic concept

Import Substitution: To allocate one half of the annual production of White Sugar for the Domestic market.

Foreign Currency Generation

One half of the annual is for export.

Location

Near Rabak Town on the east bank of the White Nile, some 250 Km south of Khartoum and 1,200 Km from Port Sudan.

Estate Area

168,000 feddans (70,000 hectares)

Plantation Area

100,000 feddans (41,800 hectares)

Irrigation Works

Six pump stations (raising the water 46 metres above the level of the White Nile), with a capacity of 42 cubic metres a second and a total lift of between 40 and 46 metres, send the waters of the White Nile along 40 Km of Main Canal to the plantation area onto which they are fed by gravity along some 400 Km of secondary canals following the contours of the Estate.

Irrigation Requirements

400 million gallons per day

Estate Roads

328 km of major roads supplemented by a 1,500 Km network of infield roads

Electricity Generation

During Crop: 53 megawatts

Workforce

10,000 employees, with a further 4,000 seasonal workers for the duration of the crop.

Summary of Operations & Financial Status

			1994/95	1995/96	1996/97	1997/98
1	Crushing Season	(days)	150	149	166	191
2	Area harvested	(feddans)	75,077	76,834	76,538	79,160
3	Cane harvested	(MT/000)	2,276	2,594	2,970	3,439
4	Cane yield per feddan	(MT)	30.30	33.80	38.80	43.50
5	Cane harvested per day	(MT)	15,200	17,400	17,900	18,000
6	Harvesting mechanical	(%)	54	50	51	63
	Harvesting hand-cut	(%)	46	50	49	37
7	Net sugar recovery / cane crushed	(%)	11.10	10.79	11.20	10.34
8	Sugar production	(MT)	253,000	280,000	333,000	356,000
9	Production target	(MT)	265,000	265,000	290,000	340,000
10	Selling Price (DMQ)	(SD/MT)	17,277.3	35,021.5	57,593.7	86,406.3
11	Production costs	(SD/MT)	9,689	17,588	32,290	35,130
12	Costs excluding extraordinary items (line 20)	(SD/MT)	9,689	17,588	32,290	35,130
13	Total costs	(SD/MT)	9,689	17,588	32,290	35,130
14	Turnover	(SD/000)	5,323,077	10,312,875	19,917,674	29,903,407
15	Operating profit/(loss)	(SD/000)	2,875,602	5,411,040	9,055,075	11,700,547
16	Net finance charges (payable) received	(SD/000)	41,018	(219,183)	1,617,501	2,329,333
17	Gain/(loss) exchange	(SD/000)	26,753	-	4,0023,775	3,629,213
18	Provisions	(SD/000)	3,516	-	22,181	-
19	Profit/(loss) before extraordinary items	(SD/000)	2,901,489	5,088,728	9,916,506	15,292,434
20	Extraordinary items	(SD/000)	-	-	-	-
21	Profit/(loss) for year	(SD/000)	2,901,489	5,088,728	9,916,506	15,292,434
22	Sudanese Dinar Exchange rate against US Dollar	(US $)	0.0014	0.0007	0.0006	0.0005
23	Dividends	(US $)	5,000,000	15,852,776	17,000,000	15,859,916

1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
187	193	186	171	170	176
79,006	78,594	78,209	79,712	79,359	80,096
3,500	3,541	3,751	3,615	3,828	3,905
44.30	45.10	48	45.34	48.24	48.80
18,700	18,348	20,110	21,140	22,534	22,969
64	62	62	63	62	61
36	38	38	37	38	39
10.43	10.93	10.76	10.40	10.40	10.96
365,000	387,044	403,486	376,039	398,268	427,895
365,000	367,000	390,000	420,000	390,000	395,000
83,809	98,000	104,700	113,076	113,076	113,076
43,213	77,686	84,984	84,274	80,418	78.701
43,213	77,686	84,984	84,274	80,418	78.701
43,213	77,686	84,984	84,274	80,418	78.701
32,734,015	37,834,308	39,955,036	38,825,464	51,461,456	48,474,777
8,738,057	7,853,543	5,610,127	6,936,536	10,604,341	8,867,903
152,067	84,467	(38,694)	(172,271)	(240,366)	(164,938)
(14,303,604)	990,588	659,294	(271,063)	(2,199,082)	(423,345)
-	-	-	-	-	-
(9,125,437)	9,396,113	6,157,839	4,212,782	5,632,889	5,466,838
-	-	-	-	-	-
(9,125,437)	9,396,113	6,157,839	4,212,782	5,632,889	5,466,838
0.004	0.004	0.004	0.004	0.004	0.004
16,000,000	19,600,000	22,000,000	12,757,000	16,000,000	18,000,000

Chairman's Statement

International economic performance in 2004 was generally better than that of 2003.

Estimated global growth of GDP for the year 2004 reached 4.1% compared to last year's growth of 3.8%. At market exchange rates developed economies accounted for 77% of global output.

In Sudan, economic stability has continued as is seen from the strength of the exchange rate of the Sudanese Dinar against major international currencies, the inflation rate remaining in single digits and a substantial increase in GDP growth for the year to 7% due to increased exports, including a substantial increase in oil revenues.

Sudan's total sugar production for the 2003/04 crop season amounted to 754,915 tonnes, the largest production ever witnessed in the Sudan, of which Kenana's contribution was 427,895 tonnes.

As noted in my 2003 Chairman's statement, the international sugar market witnessed a fluctuating downward trend. This trend continued for most of 2004, although part of the year witnessed a temporary recovery due to the decrease in international sugar stock levels; but that was not the norm. Current indications suggest that sugar prices will remain relatively stable due to the balance between world sugar stock levels and production levels in the major sugar producing countries (falls in production in some areas being compensated by increases in other areas).

Against the risks of the international sugar markets and the political instability and insecurity in the western borders of the Sudan (the gateway for exports to Chad and Central African Republic) the Company marketing plan concentrates primarily on the domestic market as a priority to satisfy the local demand and stabilise the local sugar market. In line with the approved marketing policy of managing the marketing proceeds according to market segmentation, the Company was able to have a foothold in the European Union preferential market where, for the fourth year, the Company exported 17.4 thousand tonnes of sugar to this market. The COMESA and West African markets are also priority target markets for Kenana Sugar Company.

Though the year 2004 was a challenging year, the Marketing division with its dynamic and flexible export plan responded well to these challenges reflecting the success of the marketing policy. The marketing plan for the upcoming 2004/5 crop season will continue to be flexible, taking into account the growing demand for sugar in both the domestic and the Company's preferential markets which will be monitored closely to ensure the maximum benefits and optimum equilibrium for the Company's sugar products. Precautionary measures will, of course, be taken to match any drastic changes in the Company's major markets. The Company's marketing policy for molasses (sales in lots) successfully achieved its targets i.e. selling in the best market to have the maximum earning.

In the domestic market the Company, for the second consecutive year, played a key role in implementing the adopted policy for marketing of local sugar under both the anti-monopoly Act for sugar sales in Sudan and the policy of direct selling from sugar companies to customers. Kenana, together with the Sudanese Sugar Production Company, led a sound local marketing policy through direct delivery to customers which enabled the factories to have an effective cash flow through the season. Local sales of molasses were also boosted through the effective marketing policy including delivery of products to the customers. Within the Company's diversification plan, the Company is marketing a new group of products including timber, agricultural implements, syrup, dairy and animal feed products both locally and overseas.

Sugar output for 2004/05 totalled 427,895 tonnes of sugar. The total value of sales (including proceeds from export and domestic sugar quotas) reached SDD 48,475 million compared to the last crop proceeds of SDD 51,461 million.

As a major investment Company, Kenana cannot rely wholly on a one product portfolio, consisting solely of sugar. This is not only due to sugar's fluctuating price in the international market and its impact on the Company's cash flow and profitability, but also because there are further attractive investment opportunities within Kenana taking advantage of the existing infrastructure, industrial by-products and accumulated know-how.

This season witnessed the last year of the medium term investment plan covering the period 1999/2000 - 2003/2004 aiming to strengthen the financial position of the Company and to sharpen its competitive edge. The major project within this investment plan is the factory uprating which will raise the factory daily crushing rate from the designed capacity of 17,000 tonnes of cane sugar per day to 26,000 tonnes on completion of the project. The product diversification programme is inter-related with cane and sugar. The Kenana investment plan encompasses the introduction of a number of activities including the planting of forests, production of dairy products and animal feed projects.

More than 90% of the medium term investment plan has been completed by the end of the 2003-04 season. Projects in the pipeline include the Charcoal project and projects involving Ethanol and yeast producing plants. The second medium term investment plan is now under consideration to be incorporated in Kenana's future vision for the 2004-2014 period.

Kenana Engineering and Technical Services Company Limited (KETS), a subsidiary of Kenana Sugar Company founded in 1986 to provide quality services to clients based on innovative designs and techniques and provide the right solutions to meet the real needs of clients and assistance to realise their full potential and prospects for growth, is taking advantage of Kenana's sound technical knowledge and know-how concerning a wide range of disciplines. Over the past few years KETS has extended its range of services locally and to other clients abroad from places such as Nigeria, Kenya and Chad. Kenana Sugar Company Limited has been awarded the design implementation and management of the White Nile Sugar Company Project which is a multi-national project in central Sudan to produce 340,000 tonnes of sugar per annum. KETS, as a technical arm of KSC is involved in the promotion, set-up and establishment of the White Nile Project.

Kenana has distributed US $ 147.6 million as dividends to Shareholders over the last 12 years. It has undistributed profits retained within the Company for the development of existing projects and execution of new projects, which has in the past and present strengthened the self financing ability of KSC to develop existing projects and to establish new projects.

Kenana is now involved in the establishment of a detailed grand vision cited as 'Kenana Future Vision' that will guide the way for the future development of Kenana. This vision includes matters such as maintaining cost effectiveness, revamping the current structure of the Company and measures to strengthen Kenana's position within the areas of existing and future globalisation challenges, transformation of technology, cost effectiveness and others.

During 2004, an event of significant distinction was the election of Sayed Mohamed El Mardi El Tigani (KSC Assistant Managing Director for Marketing) during the International Sugar Councils General meeting in London last November as Chairman of the ISC which has 72 members including prominent sugar producing countries such as Brazil, India, Australia, European Union, South Africa and others. He was nominated by the representatives of the European Union and elected by the total majority.

In the light of the various constraints that affected the overall operational efficiency, I would like to pay tribute to the unstinting efforts of the Managing Director and the Corporate Management and staff, without whom the future prospective would be much less favourable than they currently appear and which maintained Kenana, despite its size and complexity as a cohesive operation comparable with any large scale integrated sugar company in the world.

I wish also to extend my highest regards and appreciation to the Shareholders and the Board of Directors for the continuing unlimited support extended to the Company's goals and objectives.

Dr. Galal Yousef El Degair

Directors' Report

The members of the Board of Directors submit their report with the audited accounts for the financial year ended 30th September 2004.

Assessment of the 2003-04 Crop Season

The 2003/04 Crop (the 25th Crop since the inception of Kenana) got off to a smooth start on 8th November 2003.

This crop ran for a total of 176 days, ending on 1st May 2004 and concluding on a high note with a world record in cane and sugar production.

The following table shows key actual production statistics compared to the year 2002-03:

	Crop 2003-04	Crop 2002-03
Area for harvest (Feddans)	80,096	79,359
Cane Yield/ Feddan	48.80	48.20
Net cane harvested (MTs)	3,904,692	3,827,928
Average sugar yield (%)	10.96	10.40
Sugar Produced (MTs)	427,895	398,268
Crop days	176	170

Following are the salient features of the crop :

- The Cane Production harvested 80,096 feddans which indicates the efficiency attained in harvesting.
- Highest cane production of 3,904,692 MTs in the history of Kenana. Compared to last year, additional cane of 76,764 MTs (2% increase over last year) was produced.
- Highest TCF (tonnes of cane per feddan) of 48.80 in the history of Kenana. When translated into tonnage per hectare, this works out to 116 Tons/Hectare.
- Produced 427,895 MTs of sugar. This was 32,895 MTs in excess of the budget target (8.32% increase over last year's actual).
- Average sugar produced was 2,451 MTs/day, in itself a record in the history of Kenana.
- Export of 18,000 MTs of Raw sugar within the specified EU limitation Pol of 99.20% at loading port. The reported Pol value of Kenana's raw sugar at Tate & Lyle's, UK lab was only 98.17%.
- A further noticeable feature is that the Crop harvest length is now relatively stable at around 170 to 175 Crop days and once the Factory completes its up-rating programme, we should be able to complete the season in 170 Crop days on a cane throughput of 4.00 million and an average grinding rate of more than 23,000 MTs/day.
- Central Workshop has played a major role in the success of the Crop season as it provides the vital support in terms of equipment availability, repair and maintenance for the entire fleet of mobile plant and equipments in Kenana.

Cost Control Measures

This basically is an on-going exercise and has been practised for the last several years. The message that "WE MUST AT ALL COST REDUCE THE COST OF PRODUCTION" was forcefully delivered at all management levels.

Manpower rationalisation is an area that has been closely reviewed with employee reductions.

Results of the Year

Output for 2003/04 totalled 427,895 tonnes of sugar establishing a new production record for Kenana which is also well above the budgeted forecast of output for the season of 395,000 tonnes, 8.3% increase. Cane harvested totalled 3.9 million tonnes , 2.6% more than the budgeted forecast production of 3.8 million tonnes. Cane Yields for 2003/04 averaged 48.8 tonnes per feddan, 1.2 % above last year. These achievements are all the more remarkable in the context of the drastic increase in the prices of imported input materials - and the increase in the cost of local materials including the statutory increase in workers wages. The excellent results are a tribute to the drive and organisational skills of a dedicated Management team and employees.

Output for 2003/04 totalled 427,895 tonnes of sugar **establishing a new production record for Kenana** which is also well above the budgeted forecast of output for the season of 395,000 tonnes, 8.3% increase.

The total value of sales (including proceeds from export and domestic sugar quotas) reached SDD 48,474 million compared to the last crop proceeds of SDD 51,461 million. The decrease in proceeds is mainly attributable to the very low sugar closing stocks in the previous year. Gross profits amounted to SDD 17,820 million as compared to SDD 20,090 million last season. Fixed assets have increased to SDD 49,563 million compared to SDD 44,342 million last year. Investments have increased to SDD 2,278 million compared to SDD 339 million last season, reflecting the Company's investment in the White Nile Sugar Company totalling USD 7.5 million, of which USD 6.1 million had been paid at 30 September 2004. In order to remain competitive in the domestic as well as in the international market, the strict austerity measures policy will continue to help reduce the cost of production, without sacrificing operation efficiencies.

Industrial environment

The Industrial environment remained satisfactory throughout the Crop period.

Forecast

Effective procurement and finance plans for both Operating and Capital budgets for next year have commenced and inputs are expected to ensure targeted production results next year.

Share Capital Funding

The authorised share capital amounts to SD 59 million and the paid-up capital amounts to SD 56 million (before adjusting for previous period's hyperinflation) which is held in the following percentages as at 30 September 2004:

	%
Government of the Republic of Sudan	35.33
Kuwait Investment Authority	30.64
Government of the Kingdom of Saudi Arabia	10.97
The Arab Investment Company	6.99
Sudan Development Corporation	5.69
The Arab Authority for Agricultural Investment & Development	5.59
Consortium of Sudanese Commercial Banks	4.47
Nissho Iwai Corporation	0.16
Gulf Fisheries Company	0.16
Total	100.00

Directors

The names of members of the present Board of Directors are shown on Page (3) of this report.

Profit & Loss Account

Year Ended 30 September 2004 (Thousand Sudanese Dinar)

	Note	2004	2003
Sales	18	48,474,777	51,461,456
Cost of sales:			
Depreciation	4	(7,217,933)	(6,163,448)
Other operating expenses		(23,436,534)	(25,208,292)
		(30,654,467)	(31,371,740)
Gross Profit		17,820,310	20,089,716
General and administration expenses:			
Services and others		(3,021,318)	(3,033,454)
Other operating expenses		(4,710,022)	(4,226,812)
		(7,731,340)	(7,260,266)
Selling and distribution expenses		(2,608,045)	(2,830,821)
Other operating income	21	1,386,978	605,712
		(8,952,407)	(9,485,375)
Profit from Operating Activities		8,867,903	10,604,341
Dividends Received - KETS		176,814	73,948
Finance income	19	35,092	115,422
Finance Cost	19	(200,030)	(355,788)
Net foreign exchange difference	22	(423,345)	(2,199,082)
		(411,469)	(2,365,500)
Profit on ordinary activities before tax		8,456,434	8,238,841
Prepaid Tax	20	(2,989,596)	(2,605,952)
Net Profit (Loss) for the year		5,466,838	5,632,889

The attached notes form the part of these Financial Statements.

Statement of Changes in Shareholders' Equity

Year Ended 30 September 2004 (Thousand Sudanese Dinar)

	Note	Share Capital	General Reserve	Exchange Difference Reserve	Revaluation Reserve	Retained Earnings	Total
As at 30 September 2002	**13**	**183,746,896**	**1,614,379**	**1,378,819**	**(177,471,042)**	**49,763,283**	**59,032,335**
Net Profit for the year						5,632,889	5,632,889
Dividends for the Year ended 30 Sept. 2002	12					(3,384,432)	(3,384,432)
Transfer to General Reserve	14		281,644			(281,644)	
Transfer to Exchange Differences reserve	15			(2,199,082)		2,199,082	
Depreciation Transfer	16				(2,806,310)	2,806,310	
As at 30 September 2003	**13**	**183,746,896**	**1,896,023**	**(820,263)**	**(180,277,352)**	**56,735,488**	**61,280,792**
Net Profit for the year						5,466,838	5,466,838
Dividends for the Year ended 30 Sept. 2003	12					(4,179,200)	(4,179,200)
Transfer to General Reserve	14		273,342			(273,342)	
Transfer to Exchange Differences reserve	15			(423,345)		423,345	
Depreciation Transfer	16				(2,398,191)	2,398,191	
As at 30 September 2004		**183,746,896**	**2,169,365**	**(1,243,608)**	**(182,675,543)**	**60,571,320**	**62,568,430**

The attached notes form part of these Financial Statements

Statement of Cash Flows

Year Ended 30 September 2004 (Thousand Sudanese Dinar)

	2004	2003
OPERATING ACTIVITIES		
Profit before tax	8,456,434	8,238,841
Adjustment for:		
Depreciation	7,217,933	6,163,448
Foreign exchange Losses/(gains)	423,345	2,199,082
(Profit) Loss on sale of fixed assets	9,029	26,568
Net interest (income)/charge	(35,092)	(115,422)
Changes in working capital:		
Inventories	(5,058,906)	4,370,207
Trade and other receivable	8,251,319	(8,170,350)
Payables	(2,342,337)	533,182
Provision for employees terminal benefits	3,230,328	497,097
Cash generated from operations	20,152,053	13,742,653
Interest received	35,092	115,422
Net cash from operating activities	20,187,145	13,858,075
INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(9,914,241)	(11,523,373)
Proceeds from property, plant & equipment	35,394	9,514
Increase in investment	(1,938,751)	(304,770)
Net cash used in investing activities	(11,817,598)	(11,818,629)
FINANCIAL ACTIVITIES		
Proceeds from longterm borrowings	106,246	2,458,959
Dividends paid	(4,179,200)	(3,384,432)
Loan Repayments	(824,495)	--
Net cash used in financing activities	(4,897,449)	(925,473)
(Decrease)/increase in cash and cash equivalent	3,472,098	1,113,973
Movement in cash and cash equivalent:		
At start of the year	4,289,081	3,142,763
(Decrease)/increase in the year	3,472,098	1,113,973
Effects of Exchange rate Changes	(168,319)	32,345
At end of the year	7,592,860	4,289,081

The attached notes form part of these Financial Statements

Notes to the Financial Statement

For the year ended 30th September 2004
All amounts are in thousand Sudanese Dinars unless otherwise stated

1. **ACTIVITIES**

The company is a limited liability company registered under the Companies Law of the Republic of Sudan with the certificate of registration number C/1151 dated 11 March 1975 having its registered office in the Republic of Sudan. The company's principal activity is to grow and refine sugar cane and sell sugar and by-products.

2. **SIGNIFICANT ACCOUNTING POLICIES**

A) BASIS OF PREPARATION
The Financial Statements are prepared in accordance with and comply with International Financial Reporting Standards applied on a consistent basis. The financial statements are prepared under the historical cost convention as modified by the revaluation of fixed assets and share capital to account for the impact of hyperinflation.

B) FOREIGN CURRENCY TRANSLATION
The company maintains its accounts in Sudanese Dinar. The rate of exchange of the Sudanese Dinar to the US Dollar at the Balance Sheet date was Sudanese Dinar 258.50 (2003 - Sudanese Dinar 261.20) Transactions in foreign currencies are translated to the Sudanese Dinar at the rates of exchange issued by the Bank of Sudan at the beginning of each quarter. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Balance Sheet date. All differences are recognized in the income statement. Net foreign currency profits arising each year are disclosed separately within reserves, to be offset against net future foreign currency losses charged to the profit and loss account.

C) INVENTORIES INCLUDING STANDING CANE
Standing cane, raw materials and consumable and sugar: inventories are valued at the lower of cost or net realizable value. Costs represent the expenses incurred in bringing each product to its present position and condition as follows:

Standing cane	- Cost of direct materials and labour, plus attributable overheads
Raw materials & consumables	- Purchase cost on a weighted average basis.
Sugar and by-products	- Cost of direct materials and labour plus overheads based on normal level of activity.
Livestock accounting policy	- Livestock are measured at their fair value less estimated point of sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.
Sugar Cane	- As there is no active market for sugar cane, a fair market value is not determinable and therefore the valuation of sugar cane is outside the scope of IAS 41, and is valued on the basis described above.

D) EMPLOYEES' END OF SERVICE BENEFITS
The company provides for amounts payable under the company's end of service benefits scheme applicable to employees' accumulated periods of service at the balance sheet date.

E) REVENUE RECOGNITION
(i) Sales of goods
Sales represent the invoiced value of goods (excluding Value Added Tax and Excise Duty) supplied by the company during the year.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

(ii) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Dividends income
Dividend income is recognised when the right to receive payment is established.

F) TAX PREPAYMENT
During the ten year period of tax exemption which recommenced on 1st October 2001 (see note 7), the tax prepayment is amortised to the income statement at amounts equivalent to the tax that would otherwise have been payable on annual taxable profit. The amount at each Balance Sheet date to be carried forward as a prepayment against future taxable profits is re-assessed annually and any adjustment required (if any) is credited or charged to the income statement in that year.

G) DEPRECIATION

Fixed assets are recorded at historic cost, except those held at 30 September 2000 where the historic cost was modified by a revaluation to account for impact of hyperflation.

Depreciation is provided against all fixed assets, except for freehold land, at rates calculated to allocate the cost, less estimated residual value, at the rates ruling at the date of purchase of each asset, over its expected useful life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Permanent buildings and infrastructure	25 years
Other buildings, machinery, pumps and fittings	12 years
Agricultural and other equipment	5 years
Vehicles and other assets	4 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

H) PROVISIONS

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, where it is probable that an outflow will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

I) DEFERRED INCOME TAX

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. Under this method the Company makes provisions for deferred income taxes on certain fixed assets. Deferred tax liabilities are offset against the tax prepayment to the extent such prepayment is available

J) CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

K) INVESTMENTS

Investments in subsidiary undertakings are accounted for at cost. These are undertakings over which the company has between 50% and 100% of the voting rights over which the group exercises control.

L) TRADE RECEIVABLES

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the carrying amount and the recoverable amount.

M) DIVIDENDS

In the Company's accounts dividends distributed to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

N) BORROWINGS

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date.

O) PREFERENCE SHARES

Preference shares, which are convertible to ordinary shares at the option of the Directors subject to certain conditions, carry dividend obligation at the discretion of the Directors and attract a residual interest in the net assets of the company, are classified as equity.

P) FINANCIAL RISK FACTORS

The Company's activities expose it to a variety of financial risks:

i) Foreign exchange risk
The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US dollars, Euros and Japanese Yen.

ii) Credit risk
The Company has no significant concentration of credit risk, as from 2004 sales of products are made to customers only on payment by cash or bankers draft.

iii) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the business, the Company aims to maintain flexibility in funding through monitoring cash and cash equivalent levels.

3. STAFF COSTS

	2004	2003
Salaries and Wages	12,556,364	12,685,799
End of Services Gratuity	4,115,813	1,366,223
National Social Insurance fund	1,712,231	620,604
	18,384,408	14,672,626
Average number of employees	13,336	13,500

4. FIXED ASSETS

	Land, Permanent Buildings and Infrastructure	Other buildings, Equipment, Machinery, Pumps, Appliances and furniture	Agricultural Equipment, and Excavation Machinery	Vehicles and Other assets	Total
Cost					
At 30 September 2003	69,916,072	122,349,091	26,896,450	6,797,111	225,958,724
Additions	3,209,467	6,755,373	1,867,376	651,025	12,483,241
Disposals	--	(54,308)	(135,608)	(35,935)	(225,851)
At 30 September 2004	73,125,539	129,050,156	28,628,218	7,412,201	238,216,114
Depreciation:					
At 30 September 2003	52,922,406	100,071,156	23,058,422	5,564,718	181,616,702
Charge for the year	2,391,819	3,013,700	1,334,072	478,342	7,217,933
Disposals	--	(18,905)	(135,608)	(26,914)	(181,427)
At 30 September 2004	55,314,225	103,065,951	24,256,886	6,016,146	188,653,208
Net book value:					
At 30 September 2004	17,811,314	25,984,205	4,371,332	1,396,055	49,562,906
At 30 September 2003	16,993,666	22,277,935	3,838,028	1,232,393	44,342,022

5. CAPITAL WORK IN PROGRESS

	2004	2003
Balance at the beginning of the year	2,683,639	5,929,369
Additions	9,914,241	11,523,373
Transfers to fixed assets	(12,483,241)	(14,769,103)
	--------------	--------------
Balance at the end of the year	114,639	2,683,639
	==========	==========

6. INVESTMENTS

These comprise:

a) KETS:
Kenana Engineering & Technical Services Company (KETS) is a separate registered subsidiary owned by Kenana Sugar Company (share 99%) and the Sudan Development Corporation (share 1%). On 10 October 2000, the authorized share capital was increased by SD257 million. No additional share capital has been issued subsequent to that date.

b) SAHEROON HOSPITAL
The benefits to Kenana of its equity investment in the Saheroon Hospital are reduced medical services costs for Company employees and a share in dividends.

c) KFD
Kenana Friesland Dairy (KFD) is a joint venture between Kenana Sugar Co. Ltd (share 37%), Van Der Ploeg International (share 31.5%) and Sudanese French Bank (share 31.5%). In this joint venture Kenana wishes to develop and process the milk to produce a variety of dairy products.

d) White Nile Sugar Company (WNSC)
Kenana has committed to level in the (WNSC) with intention to 15% of the total equity, amounting to 22,500 shares to be acquired through three separate tranches. Kenana received the first call payments in relation to 7,500 shares totalling US$ 7.5 million, which is due to be paid in 15 December 2003. As Kenana paid its share in (WNSC) in total of US$ 6.1 million as at 30/09/2004 and the balance of US$ 1.4 million was paid on 10/10/2004. Therefore the US$ 7.5 million has been recorded fully (7,500 shares) at the year end with a corresponding liability for this payments of (1.4 million).

Consolidated financial statements only for KETS and KFD are included this year, and have not been prepared for Saheroon on the grounds of immateriality.

Cost of investment is as follows:

	2004	2003
a) KETS	25	25
b) Saheroon Hospital	35,000	35,000
c) KFD	304,771	304,771
d) WNSC	1,938,750	--
	--------------	--------------
	2,278,546	339,796
	========	========

7. TAX PREPAYMENT

In late 1999 the Company agreed with the Minister of Finance, on behalf of the Government of Republic of Sudan to restructure the trade receivable due at that time from the Government in exchange for treating all business profit taxes that would have become payable by the Company for the ten year period ending 30 September 2012 as having been settled.

Of the total tax prepayment, SD 11.2 billion (2003: SD 14.3 billion) has been carried forward in these financial statements being the amount currently assessed as probable of utilization in the foreseeable future as a prepayment of future taxable profits.

During the ten year period of the tax exemption the tax prepayment is being amortised to the profit and loss account in line with tax that would otherwise have been payable . This year is the third year of the exemption, the amortization of the tax prepayment charged to the profit and loss account for the year is SD 2,989,596 thousand (assessed in accordance with the Income Tax Order Treating of Assets Depreciation issued by the Ministry of Finance - August 1997) (2003 SD 2,605,952 thousand).

Deferred Tax Liabilities

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30%. In accordance with IAS 29 a deferred tax liability arises on the revaluation of fixed assets.

	2004	2003
Deferred Tax Liabilities	434,000	434,000
	=========	==========

The above liability is that part of the deferred tax liability, which arose on the revaluation of fixed assets, made on 30th September 2000, that will crystallise after the end of current ten-year exemption period.

8. INVENTORIES INCLUDING STANDING CANE

	2004	2003
Sugar	3,642,302	1,171,954
Standing cane	8,591,449	7,096,187
Forests	233,326	83,221
Live stock	418,855	133,363
Spare parts, fuel and others	10,078,870	9,421,171
	22,964,802	17,905,896

9. TRADE AND OTHER RECEIVABLES

	2004	2003
Trade accounts receivable	976,765	13,248,240
Prepayments	64,568	13,794
Advances to employees	1,049,171	703,602
Advances to suppliers	4,235,815	2,853,150
Other receivables	5,079,724	2,838,576
	11,406,043	19,657,362

10. CASH ON HAND AND BANK BALANCES

The cash balances include SD 834,998 thousand (2003 SD 844,042 thousand) cash held in escrow as security for two long-term loans (refer to note 17)

11. ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003
Trade accounts payable	1,157,406	1,242,902
Taxes and customs duties on sales	777,731	2,485,223
Advances from customers	161,200	435,836
Other payables	3,139,134	3,683,000
Accrued expenses	1,685,050	1,415,897
	6,920,521	9,262,858

Included with other payables is SD 433,454 thousand relating to proposed dividend (2003 SD 838,442 thousand)

12. PROPOSED DIVIDENDS

Dividends proposed, but not approved at the end of the financial year, are as follows:

	2004	2003
8% Cumulative, participating, convertible preference shares "B"		--
10% Cumulative, participating, convertible preference shares "A"		--
10% Special, cumulative, participating Convertible preference shares "A"	3,297,685	3,332,128
All shares (ordinary and preference)	1,355,315	847,072
TOTAL PREFERENCE AND ORDINARY SHARES	4,653,000	4,179,200

13. SHARE CAPITAL

Authorised Share Capital

No. Of Shares (Thousand)		2004	2003
76,475	Ordinary shares of Sudanese Piasters 10 each	7,647	7,647
156,000	10% Cumulative, participating convertible Preference shares "A" of Sudanese Piasters 10 each	15,600	15,600
234,000	10% Special, cumulative, participating, convertible Preference shares "A" of Sudanese Piasters 10 each	23,400	23,400
123,525	8% Cumulative, participating, convertible Preference shares "B" of Sudanese Piasters 10 each	12,353	12,353
590,000		59,000	59,000

Subscribed and fully paid up Capital:

No. Of Shares (Thousand)		2004	2003
76,470	Ordinary shares	7,647	7,647
155,290	10% Cumulative, participating, convertible preference shares "A"	15,529	15,529
206,090	10% Special, cumulative, participating, convertible preferences shares "A"	20,609	20,609
122,700	8% Cumulative, participating, convertible preferences shares "B"	12,270	12,270
560,550		56,055	56,055

	2004	2003
Restated subscribed share capital	183,746,896	183,746,896
Share Capital revaluation reserve (Note 16)	(183,690,841)	(183,690,841)
	56,055	56,055

Preference shares

Dividends on all issued preference shares are cumulative but are only accrued and payable when (and if) the Directors declare a dividend. Each preference share has full voting rights equal to the voting rights granted to each ordinary share.
Increases of capital, changes of rights and merger shall not be effected without first obtaining the approval of 75 per cent of the preference shares holders.

In the event of a voluntary or involuntary liquidation, dissolution, or winding up of the Company, the holders of preference shares rank before ordinary shares and after creditors in the following order:
i) Holders of shares special "A", and "A". ii) Holders of preference shares "B".

All classes of preference shares are convertible to ordinary shares at any time after 1 June 1995, if the Board of Directors so decides, provided that all declared dividends have been fully paid, before the date specified for conversion.

Dividends in arrears

In accordance with the agreement by the shareholders in their 35th Extra-ordinary General Meeting in Dubai on 16 October 1999, the shareholders of A, B and special A preference shares agreed to the following:

1) To cease the calculation of dividends as per the fixed dividends rates, and to freeze the dividends in arrears up to the year ending 30 September 1995, and to consider all the distributed dividends up to the year ending 30 September 1998, as paid from the frozen amounts.

2) To utilize the dividends which will be declared (if any) in years subsequent to the year ending 30 September 1998 for payment of the frozen amounts. The period of payment of these dividends should not exceed ten years from the year ending 30 September 1999. After full payment of these dividends, the preferred shares shall be converted into ordinary shares in accordance with the terms of issuance of these shares.

3) To utilize an amount of US$12.7 million of the declared dividends for all years after the year ending 30 September 1998 for the payment of the remaining dividend arrears (at 30 September 2003 such dividends arrears totalled US$ 63.9 million for the special preferred shareholders "A"), and to distribute the remaining portion of the declared dividends (if any) to all shareholders on a pro rata basis.

14. GENERAL RESERVE

The shareholders have resolved to set a side a general reserve of 5% from the company's annual net profit. This reserve is under the Board of Directors discretion, in accordance with its authorities as stated in Article 115 of the company's Memorandum of Association.

15. EXCHANGE DIFFERENCES RESERVE

The shareholders have resolved to set aside from Retained Earnings any foreign exchange gains from the Company's annual net profit. This reserve is not available for distribution but will be utilized against future foreign exchange losses charged against the Company's net profit.

16. REVALUATION RESERVE

This reserve arises upon the adoption of IAS29, following the revaluation of non-monetary assets, principally the fixed assets and the deferred income tax liability thereon and the share capital. This reserve is not available for distribution.

	As at 30 September 2004 SD 000's	As at 30 September 2003 SD 000's
Revaluation of fixed assets	6,332,298	8,730,489
Deferred tax liability	(5,317,000)	(5,317,000)
Share Capital revaluation	(183,690,841)	(183,690,841)
Revaluation Reserves	(182,675,543)	(180,277,352)

An amount equal to the difference between historical cost depreciation and the depreciation on the revalued fixed assets is transferred from this reserve to retained earnings each year. This transfer amounted to SD thousand 2,398,191 (2003 SD thousand 2,806,310).

17. BORROWINGS

A) Export Credit Loans

The Bank of Sudan has agreed to include the Export Credit Loans (that should have been fully repaid in the repayment period 1980-1988) and interest accrued thereon for the year 1984 to 1988, in the rescheduling agreements which the Government of the Republic of Sudan is seeking to negotiate with its international creditors.

As no such agreements have yet been concluded, the loans and interest accrued between 1984 and 1988 under the loan agreements totalling SD 20,523,985thousands (2003 SD 20,164,089 thousands) are financial obligations. Accordingly the total principal amounts and interest up to 1988 that could be payable are recorded as a liability.

The Government of the Sudan has agreed with the Company that the Company will receive any agreed debt relief in respect of these loans. When negotiations are completed, adjustment may need to be made to the carrying value of the loans in the balance sheet and adjustment to finance charges included in the profit and loss account. The negotiations originally commenced in 1981 and it is expected that a future period will elapse before any final agreement is reached. The Directors expect that such an agreement will incorporate rescheduled payment dates and that the Company will be able to finance repayments. As a consequence these financial statements have been prepared on a going concern basis.

It is not expected that either the original lenders or the Government of Sudan will seek to enforce immediate repayment of the overdue loans. Based on past experience formal rescheduling of these loans, which is not at the discretion of the Company is unlikely to occur in the short term. Nevertheless as these loans are technically repayable on demand and consequently are disclosed as being due within one year.

Export Credit Loans consist of the principal and interest accrued prior to the suspension of repayments as follows:

	Amount in Foreign currency 000's	As 30 September 2004 SD 000's	As 30 September 2003 SD 000's
French Loans	Euro 20,261	6,392,198	6,017,343
Japanese Yen Loans	Yen 5,256,190	12,057,328	12,193,950
Austrian Schilling Loans	Euro 6,575	2,074,459	1,952,796
Total Export Credit Loans		20,523,985	20,164,089

B) Other Loans

	As 30 September 2004 SD 000's	As 30 September 2003 SD 000's
Loans repayable in one year	1,468,885	1,101,272
Loans repayable after more than one year	3,163,168	4,353,901

The loans repayable after more than one year are two loans. One loan is a US$ 7,919 thousand, repayable in twelve quarterly installments from December 8, 2004 to September 8, 2007 at interest rate of LIBOR plus 2% equivalent as at 30 September 2004 to SD 427,227 thousand (2003 SD 533,388 thousand). This loan is secured by plant and equipment and US$1,930 thousand held in an escrow account. The other loan is a US$ 10,000 thousand, payable in nine half- yearly installments from October 8, 2004 to October 8, 2008 at interest in arrears at a rate of LIBOR plus 2.5% payable on April 8, and October 8 every year. The loan is secured by US$ 20,000 thousand of fixed assets and US$1,300 thousand held in escrow account.

Fair Values

The carrying amounts of the following financial assets and liabilities approximate to their fair values: cash, trade receivables and payables, other receivables and payables, short term borrowings excluding the Export Credit Loans, floating rate long term borrowings and dividends payable. As no agreement has yet been reached with creditors over repayment of Export Credit Loans, then no reliable estimate of their fair value can be made at present.

18. SALES

Under the terms of the Sugar Sales Agreement for 1975 concluded between Kenana Sugar Company Limited and the Government of the Republic of the Sudan, one half of the sugar production each year shall be sold to the Government of Sudan. The company has the unrestricted right to export the other half under the guarantee of contracts and payment shall be made through letters of credit or by cash in US dollars before delivery. The company also has the right to sell part of the export quota locally in foreign currency or in Sudanese Dinar (convertible to foreign currency).

The price formula for the calculation of the selling price of sugar sold to the Government is based on the budgeted total operating costs, finance costs and fixed asset replacement costs, plus a profit margin.

The analysis of all categories of sales as follows:

	2004 Metric Tonnes	2004 Amount SD'000	2003 Metric Tonnes	2003 Amount SD'000
Domestic market quota	150,000	17,721,073	150,000	16,961,400
Export quota	246,795	29,601,899	294,284	33,083,327
Small packages	--	--	19	2,171
Treacle	--	--	690	74,695
Molasses	105,994	1,151,805	128,750	1,339,863
		48,474,777		51,461,456

19. FINANCE INCOME AND COST

	2004	2003
Income:		
Bank interest receivable	35,092	115,422

	2004	2003
Cost:		
Bank/ Loan interest payable	200,030	355,788

20. TAX PREPAYMENT

SD 2,986,407 thousand is charged to the profit and loss account. This represents the amortization of the tax prepayment (see note 17).

The notional tax on the Company's profits before tax differs from the theoretical amount that would arise based on the country's tax rate of 30% as follows:

	2004	2003
Profit before tax	8,456,434	8,238,841
Tax calculated at tax rate of 30%	2,536,930	2,471,652
Effect of excess of depreciation over capital allowances	452,666	134,300
Tax charge calculated	2,989,596	2,605,952

21. OTHER OPERATING INCOME

	2004	2003
Fire Damage Claim	639,142	487,000
Profit on sale of fixed assets	--	9,514
Workshop Services	2,737	4,875
White Nile Sugar Co.	493,617	--
Miscellaneous	251,482	104,323
	1,386,978	605,712

22. FOREIGN EXCHANGE DIFFERENCES

This represents the net exchange differences arising from re-translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates prevailing at the balance sheet date.

23. CAPITAL COMMITMENTS

The directors have authorized future capital expenditure amounting to SD 8,603.4million (2003 SD 6,960.5 million).

24. RELATED PARTIES

a) **Directors' Remuneration**
The thirteen members of the Board of Directors, who have voting rights, as listed on page (3) of the Annual Report, received an aggregate remuneration of SD 45.8 Million (2003 - 49.1 Million).

b) **Government of Sudan**
The Government of the Sudan is a related party of the Company by virtue of its shareholding. As indicated in note 17, the Government must purchase 150,000MT of sugar but can buy additional amounts over and above this quota. During the year the Government purchased 150,206 MT with a total value of SD thousand 18,016,557 (2003 - 206,179 MT with a total value of SD thousand 30,991,955). As at 30 September 2004 the amounts were fully paid. (As at 30 September 2003 the Government owed the Company SD thousand 5,270,059 for these sugar purchases).

c) **KETS**
Kenana Engineering and Technical Services Company (KETS) (refer to note 6) is a related party by virtue of Kenana Sugar Company Limited's shareholding.

d) **White Nile Sugar Company (WNSC)**
The WNSC is a related party through KETS, which was awarded the management responsibility for the WNSC project during the year. KETS sold services valued at SD 578 million during the year and had, as at 30 September 2004, an amount due from WNSC of SD 414 million (2003: SD 86 million).

e) **Kenana Friesland Dairy**
Kenana Friesland Dairy (KFD) is a related party by virtue of being a joint venture in which the Company has a 37% interest. During the year, Kenana Sugar Company Limited sold goods to KFD amounting to SD thousand 120,685. At 30 September 2004, Kenana Sugar Company had an amount due from KFD totalling SD thousand 567,555.

Report of the Auditors

To the Shareholders of Kenana Sugar Company Limited

We have audited the accompanying balance sheet of the Kenana Sugar Company Limited as of 30 September 2004, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements, set out on pages 17 to 27, are the responsibility of the Company's management and are prepared in conformity with the Company's Articles of Association. Our responsibility is to express an opinion on these financial statements based on our audit. This opinion has been prepared for and only for the company's members and for no other purpose. We do not, in giving this opinion, accept or assume responsibility to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 about 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 30 September 2004, and of the result of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

We draw attention to Note (17) in the financial statements. Settlement of Export Credit Loans, repayments of which have been suspended, amount to SD 20.5 billion, are to be re-negotiated. When completed, adjustment may be required to their carrying values. The Directors expect the Group will be able to finance rescheduled repayments. Consequently these financial statements have been prepared on a going concern basis. Our opinion above is not qualified in this respect.

PricewaterhouseCoopers LLP
Date: 21 February 2005
London

Banaga, Gassim & Co.
Date: 21 February 2005
Khartoum