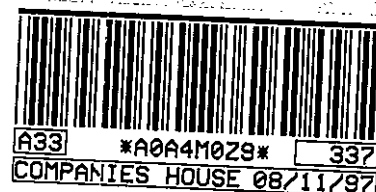




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## **DIRECTORATE AND ADMINISTRATION:**

### **Chairman:**

Mr. Badr Eddin Mohammed Ahmed Sulieman      Government of the Republic of the Sudan

### **Deputy Chairman:**

Mr. Musa Ali Abou Taleb      Kuwait Real Estate Investment Consortium

### **Members:**

Mr. El Fateh Ali Siddig      Government of the Republic of the Sudan

Mr. Abdul Wahab Ahmed Hamza      Government of the Republic of the Sudan

Dr. Saber Mohamed Hasan      Government of the Republic of the Sudan

Mr. Ali Mohammed Al-Muhaimeed      Kuwait Real Estate Investment Consortium

Mr. Badr Ageel Al-Ageel      Kuwait Real Estate Investment Consortium

Mr. Ali Othman Al-Ghanam      Kuwait Real Estate Investment Consortium

Mr. Abdulla Ibrahim Al-Ayadhi      Government of the Kingdom of Saudi Arabia

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

Dr. Mohammed Kheir El Zubair      Sudan Development Corporation

Mr. Mohamed Abdulla Al-Sani      Arab Authority for Agricultural Investment & Development

Mr. El Saeed Osman Mahjoub      Consortium of Sudanese Commercial Banks

### **Managing Director:**

Mr Osman Abdalla El Nazir

### **Deputy Managing Directors:**

(Khartoum)

Mr. Ibrahim Ali Masalam

(Site)

Mr. Mohamed El Mahi El Haj

### **Principal Bankers:**

Bank of Sudan

El Nilein Bank

British Arab Commercial Bank Limited (London)

Barclays Bank PLC (London)

National Westminster Bank PLC (London)

Citibank (London)

### **Joint Auditors:**

Abdel Latif Al Tayeb & Co. (Khartoum)

Hazem Hasan & Co. (Riyadh)

### **Legal Counsel:**

El Karib & Medani (Khartoum)

Veil Armfelt & Associates (Paris & Cairo)

### **Technical Consultants:**

F.C. Schaffer & Associates (USA)

### **Company Secretary:**

Mr. Fareed Omer Medani

### **Registered Office:**

Plot No. 846, Block 22,  
El Geraif Gharb, Khartoum, Sudan

## **SOME FACTS ABOUT THE KENANA PROJECT**

### **Design Criteria:**

An integrated cane sugar estate with a factory rated at some 17,000 tonnes of cane per day (record daily through-put on 14th January 1985: 23,707 tonnes) and a production capability in excess of 300,000 tonnes of white sugar per annum (record production season 1986/87: 310,000 tonnes of white sugar)

### **Initial Concept:**

To replace imports by providing 150,000 tonnes of sugar annually for the domestic market, and to export the balance of production to earn foreign currency for the project.

### **Location:**

Near Rabak on the east bank of the White Nile, some 250 kilometres south of Khartoum and 1200 kilometres from Port Sudan.

### **Estate Area:**

150,000 feddans (63,000 hectares)

### **Plantation Area:**

85,000 feddans (35,700 hectares)

### **Irrigation Works:**

Four pumping stations with a capacity of 44 cubic metres a second and a total lift of between 40 and 43 metres, carry the waters of the White Nile along 29 kilometres of main canal to command the plantation area onto which they are fed by gravity along some 300 km of secondary canals, which follows the contours of the estate.

### **Irrigation Requirement:**

800 million gallons per day.

### **Estate Roads:**

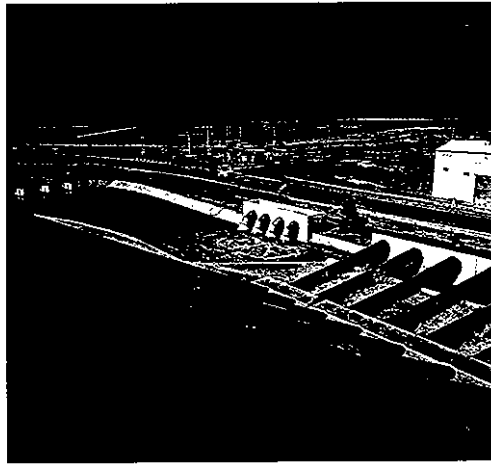
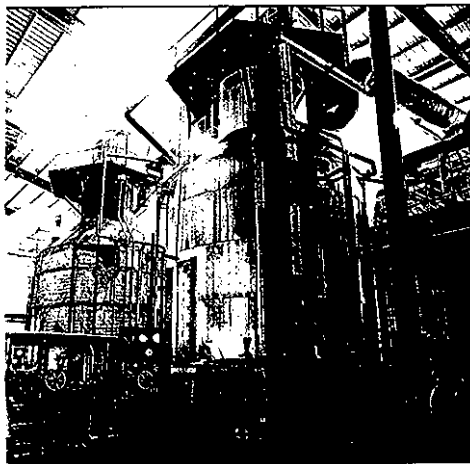
250 kilometres of major roads supplemented by a 1,500 kilometres network of infield roads. The maximum length of cane haul to factory is 35 kilometres.

### **Electricity Generation:**

40 megawatts during the season, and 20 megawatts during the off-crop season.

### **Labour Force:**

8,000 permanent staff with a like number of seasonal workers engaged for the duration of the crop season.



## Kenana Sugar Company Limited

### Ten Year Operations and Financial Summary

		1986/87	1987/88	1988/89
01	Crushing season (days)	168	146	14
02	Area harvested (feddans)	81,700	77,100	80,80
03	Cane harvested (MT 000)	2,572	2,327	2,05
04	Cane yield per feddan (MT)	31.50	30.20	25.4
05	Cane harvested per day (MT)	15,300	15,900	14,50
06	Harvesting method – Mechanical (%)	48	49	5
	– Hand-cut (%)	52	51	5
07	Net sugar recovery/cane crushed (%)	12.04	11.38	11.2
08	Sugar production (MT)	310,000	265,000	232,00
09	Production target (MT)	265,000	280,000	275,00
10	Selling price (Domestic market quota) (LS/MT)	1,065	1,881	2,90
11	Production costs (LS/MT)	732.69	1,148.98	1,622.3
12	Cost excluding extraordinary items (Line 20) (LS/MT)	639.65	1,094.98	1,413.0
13	Total Cost (LS/MT)	803.67	1,094.98	1,413.0
14	Turnover (LS 000)	313,231	515,921	610,08
15	Operating Profit/(Loss) (LS 000)	86,098	211,441	233,70
16	Net finance charges (payable)/receivable (LS 000)	5,356	16,205	44,16
17	Net Gain/(Loss) on exchange (LS 000)	23,486	(1,894)	4,37
18	Provisions (LS 000)	—	—	—
19	Profit/(Loss) before extraordinary items (LS 000)	114,940	225,752	282,24
20	Extraordinary items (LS 000)	(77,699 <sup>*</sup> )	—	—
		8,251 <sup>+</sup>		
21	Net Profit/(Loss) for year (LS 000)	45,492	225,752	282,24
22	Applicable exchange rate per L.S.1.00 (US \$)	0.40/0.22	0.22	0.2
23	Dividends (US \$)	—	—	—

\* (Loss)/profit resulting from devaluation in Sudanese currency

+ Gain on settlement of contractors' claims

x Gain on exchange transferred as reserves as of 1995/96.

1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
128	145	148	147	138	150	149
75,100	77,500	77,300	76,000	77,616	75,077	76,834
2,059	2,357	2,257	2,242	2,142	2,276	2,594
27.40	30.40	29.20	29.50	27.60	30.30	33.80
16,100	16,300	15,300	15,300	15,500	15,200	17,400
46	46	51	51	54	54	50
54	54	49	49	46	46	50
11.27	10.70	11.23	11.81	11.61	11.10	10.79
232,000	252,000	253,000	265,000	249,000	253,000	280,000
245,000	248,000	266,000	260,000	265,000	265,000	265,000
3,200	6,258	17,538	35,520	89,393	172,773	350,215
2,161.28	3,034.88	9,883.48	18,511.23	52,628.08	96,889	175,881
1,923.21	2,992.93	9,087.33	18,511.23	56,627.69	96,889	175,881
997.23	2,992.93	10,817.45	18,511.23	57,161.37	96,889	175,881
741,134	1,492,706	5,981,420	10,279,501	30,775,705	53,230,768	103,128,747
239,716	727,916	3,480,900	5,374,026	17,671,313	28,756,024	54,110,401
52,631	27,476	415,476	877,601	1,742,098	410,184	(2,191,831)
2,603	1,096	(198,401)	(807,234)	(2,512,775)	267,527	x
—	18,000	15,650	45,071	51,345	35,164	—
294,950	738,488	3,682,325	5,399,322	16,879,679	29,014,889	50,887,283
214,826 <sup>‡</sup>	—	(437,719 <sup>‡</sup> )	—	(132,885) <sup>‡</sup>	—	—
509,776	738,488	3,244,606	5,399,322	16,706,794	29,014,889	50,887,283
0.22/0.08	0.08	0.03-0.009	0.009-0.006	0.006/0.0026	0.0014	0.0007
—	—	1,500,000	3,000,000	3,000,000	5,000,000	15,852,776

## CHAIRMAN'S STATEMENT

(Foreword by H.E. Mr. Badr EdDin Mohammed Ahmed Suliman, Chairman of Kenana Sugar Company and the Minister of Industry in the Government of the Republic of the Sudan).

The Production season started on 1.11.95 which was an early start as compared with the last Crop (94/95) which started on 26.11.94. This was possible because of early completion of the maintenance and rehabilitation of machinery and equipment which, in turn, was due to the timely arrival of production inputs. This reflected how well we were prepared for the season.

The production activities continued for 149 days with total production reaching 280,000 MT of sugar, representing 106% of pre-production target and 27,000 MT more than the 94/95 Crop ((253,000 MT).

Cane production continued to be the most redeeming feature and the Crop has been characterised by substantial increase in TCF of 3.5 MTs (Crop 1994/95 - 30.30 Vs Crop 1995/96 - 33.80) which works out to a healthy 10% more than the last year. This improvement has been brought about by fundamental changes in agricultural practices, research and the unflinching coordination of all activities in the field and the factory. Area under cane marginally increased from 75,000 to 76,900 feddans while the cane tonnage increased from 2.3 million to 2.6 million. Recovery, however, decreased from 11.10% (94/95) to 10.79% this Crop owing to more than normal ambient temperatures during the winter months.

Many factors contributed to the achievement of such a successful crop. Excellent coordination, timely and proper agricultural and factory inputs, vigorous efforts by Management and Staff, strong support by the Board of Directors and active participation by the Government of Sudan are but a few to name. Timely arrival of spares and equipment and completion of maintenance in good time can best be termed as 'excellent' and hitherto unforeseen in the previous years. This, in turn, has been as a direct result of co-ordination between Site, Head Office, Port Sudan and London Offices.

Irrigation, which poses somewhat of problem owing to shortage of power in summer months, witnessed high efficiency due to the cooperation extended by National Electricity Corporation.

Co-ordinated with this success and achievement in sugar production, efforts were exerted by the Marketing Division to promote sales both locally and export of sugar and molasses. The total turnover achieved was in the region of Sudanese Pounds 103.1 billion comprising the US\$ component of 57.6 million as compared to LS.53.2 billion in the previous year. Profit before tax amounted to Sudanese Pounds 50.9 billion compared to Sudanese Pounds 29.1 billion in the previous year - an increase of about 75%. This increase in profits was neither accidental nor was it

something which was unexpected. All indications of such trend point towards a sustained progress when consideration is taken into account of the additional 10,000 feddans, of which 8,000 feddans is already under cultivation and will be harvested in 97/98 crop.

With such promising financial results the Board of Director's have recommended to the Annual General Meeting to distribute a total of US\$ 15.8 million as Dividends to the Preferred Shareholders for the year ending 30.9.96.

I am confident that the financial position of the Company is increasingly becoming sound and healthy as is indicated by the distribution of dividends. An amount of Sudanese Pounds 99 billion in respect of value of assets and cash has been set aside as Reserve of which LS.40 billion represent expendable assets in the form of spare parts, standing cane etc., 30 billion in cash and 29 billion earmarked for construction work. The debit and credit account of the Company shows a credit balance of Sudanese Pounds 16 billions.

It is indeed a matter of pride that for the past seven years Kenana has been funding its requirements in respect of Capital and Operating Expenditure from its own resources through export of sugar and molasses. This scenario is a sure indicator that the investment is a success and points towards the efforts of Management spent not only in running the Company but also in developing it from year to year, a feature which makes the owners more and more confident in the future of the Company.

During this season efforts were exerted to integrate the 10,000 feddan extension project estimated to cost around USD 42 million. Digging of canals and laying of power cables for the pumps in Stations 5 & 6 were completed in November 1996. A reserve thermal power plant to add 10 MW to the available power for environment project has also been completed. Work has continued in respect of forestry project and an area of 3,800 feddans has been planted. The Charcoal Project (from bagasse) has been negotiated and consultancy agreement concluded for designing the plant and preparation of documents for inviting tenders.

Despite the fact that the project to increase the capacity from 300,000 MT to 340,000 MT was to begin supposedly in 97/98, the expectation of increased cane production in 96/97 dictated execution of some components of the extension in 96/97 itself. This project when complete will enhance the crushing from 17,000 to 26,000 MT/day.

Construction work in respect of Port Sudan Warehouse has already commenced and it is envisaged that completion will be achieved sometime next year.

With the success of the pilot project in production of Jaggery Kenana will now play a pivotal role in developing and promoting this product, and at the same time urge other sugar factories to make use of KSC's expertise in this aspect.

Environmental development and concern for human element have occupied a major position in the thinking of the Management and basic services like health, education, provision of portable water have been catered for the

satellite villages around KSC at a cost of Sudanese Pound one billion. Social and economic surveys were conducted and a programme detailing priorities for a 3-year period at a cost of Sudanese Pounds 3 billion was formulated. This programme is to be tackled in co-ordination with the annual budgeting of the Company.

In the same framework studies have been conducted for social insurance and industrial insurance covering injuries and death. This will cost around Sudanese Pounds 66 million during the first year.

Studies by Coopers & Lybrand (C&L) are under way to improve upon and update existing Financial, Management and Organisational Systems and transfer of Information Technology in the quest for improving operations, optimum utilisation of resources and modernisation to keep pace with current trend and thus be competitive in the world market. Kenana has received a final report from Coopers & Lybrand covering above areas and a task force has now been set up comprising Kenana, its external auditors and C&L to determine priorities and cost estimates for implementation of recommendations. Kenana has also approached Islamic Development Bank for technical and financial support with respect to Information Technology.

To keep pace with the developments in the world market Kenana has elected to survey a select foreign market - Chad, Cameroon, central African republic and Tanzania. A market plan has been formulated to penetrate these markets and, simultaneously through our London Office markets in Bulgaria, Romania and Norway have been surveyed so that new avenues are open to Kenana. Besides this, Kenana in coordination with several companies in Japan, Dominican Republic and Thailand is contemplating entering Trading business in case it is out of its own exportable stock quota.

Training for personnel both inside Sudan and abroad has continued to augment the professional technical abilities of the personnel, in addition to support of agricultural research in the framework of both Kenana and the country.

With such well designed plans, dedicated workforce, excellent support of the Shareholders and the Government of Sudan I am confident that Kenana will continue to do well over the years both quality and quantity wise.

H.E. Badr EdDin Mohammed Ahmed Suliman  
Khartoum  
February 1997



## **DIRECTORS' REPORT**

The members of the Board of Directors submit their report together with audited accounts for the financial year ending 30 September 1996.

### **Assessment of 1995/96 Crop:**

Kenana concluded its 16th crushing season with encouraging results. After timely maintenance and rehabilitation the Season finally started on 1st November 1995 and continued uninterrupted for a period of 149 days to conclude on 29th March 1997.

White sugar production for 1995/96 totalled 280,000 metric tons - remarkable 5.7% increase over the estimated budget target. This was brought about by harvesting a cane area of 76,834 feddans with an average sucrose recovery rate of 10.79%.

The highlight of the Crop was an early start coupled with high yield during winter and the increased tonnage per feddan.

### **Cane Production**

Cane production continued to be the most redeeming feature with yields touching 33.8 MT per feddan - an increase of 3.5 MT over the last season. Such increase (11.55%) was attainable due to innovations and improvements in agricultural operations and its inputs. Fuel shortages did send out distress signals, but on-the-spot decision to import 16,500 MT of fuel oil through the Company's own resources curtailed such catastrophe. Such import enabled continued power supply for irrigation in the critical summer months. In addition fertilisers to the tune of US\$ 3 million were also imported for the cane.

### **Cane Harvest & Transport**

Cane transportation increased from 2.2 million MT last season to 2.6 million MT this season. Production continued round the clock with average crushing rate of 17,409 MT/day. Fuel consumption and

cane losses in the field have been considerably curtailed owing to the close monitoring of all vital operations.

### **The Factory**

Sugar extraction rates declined to 10.79% (11.1% last season) but crushing rate enhanced considerably to 17,409 MT/day which has been somewhat of a record in Kenana's history (15,075 MT/day last season). The lost time in factory was also negligible.

Molasses production increased to 114,326 MT compared to 98,472 MT in the last season. This Crop season was also shortened to 149 days in comparison to 151 days last season.

### **Cash Flows**

There was a marked improvement in the local currency cash flow scheduled by collection of sales revenues on a weekly basis. The results would have been far better if the revenues were regularly received as anticipated in the schedule. Difficulties, however, were encountered due to the increase in inflation and a continuous upward surge in prices of inputs and special fuels and lubricants.

In respect of foreign currency cash flow there was a better and uniform performance which enabled Kenana to finance its production inputs better than the previous season.

The season witnessed a further decline in the value of the Sudanese Pound from LS.735 = US\$ 1 on 30.9.95 to LS.1454 = US\$ 1 in 30.9.96.

### **Results for the Year**

Results for the 1995/96 turned out to be very good especially since a lot of effort was put in with respect to production inputs, spare parts procurement, maintenance and rehabilitation of equipment. Besides, improved field

operations, management of resources and close monitoring at all administrative levels contributed to healthy results this year,

Marketing operations carried on vigorously yielding high revenues.

The Season's sales revenues were Sudanese Pounds 103.1 billion (53.2 billion last season), an increase of almost double over the previous season. Such jump in the revenue has been attributed to the increase in local sugar prices, the export quota of sugar and molasses and also due to the high exchange rate against the Dollar.

Operating profits for the season totalled Sudanese Pounds 54.1 billion (28.7 billion last season). The Board of Directors recommended distribution of US\$ 15.86 million as Dividends.

#### Forecasts

Plantation of the additional 10,000 feddans has already commenced after completion of the infrastructure work and is expected to be completed during 1997 and yield results during the 1997-98 campaign.

Productivity per feddan is also expected to increase to 35 MT in the coming season owing to the improvement in field operations. Timely maintenance and rehabilitation programme and provision of necessary vital inputs are factors which will pave a strong base to achieve the targeted results. Harvested cane is expected to reach 2.7 million MT with 290,000 MT of sugar produced at an extraction rate estimated at 10.8%. This is in addition to the expansion of the Jaggery production.

Factory up-rating project is also expected to start thereby increasing the crushing rate/day without extending the season. Such plans, it is forecast, will help achieve the targets.

#### Share Capital Funding

The authorised share capital remained constant at 590 million pounds. There has also been no change in the share register during the year.

The Issued Share Capital also remained constant at 560.5 million pounds and held in the following percentages:

Government of the Republic of Sudan	35.17
Kuwait Real Estate -- Investment Consortium	30.50
Government of the Kingdom of Saudi Arabia	10.92
The Arab Investment Co. S.A.A.	6.96
Sudan Development Corporation	5.66
The Arab Authority for Agricultural Investment and Development	5.56
Consortium of Sudanese Commercial Banks	4.45
Lonrho PLC	0.46
Nissho Iwai Corporation	0.16
Gulf Fisheries Company W.L.L.	0.16
	100.00

### Managers

The Board of Directors as presently constituted is shown on page (2).

### Auditors

The Appointment tenure of the joint external auditors A/Latif Al Tayeb & Co. (Khartoum) and Professional Accounting Partnership (Riyadh) has since expired and they have showed interest in continuing. Since A/Latif & Partners have opted out the Board of Directors recommend

appointment of Professional Accounting Partnership (Riyadh) and Bannaga & Gasim and Partners (Khartoum) as auditors at fees to be negotiated and to hold office until the close of business of the Annual General Meeting for the financial year 1996-97.

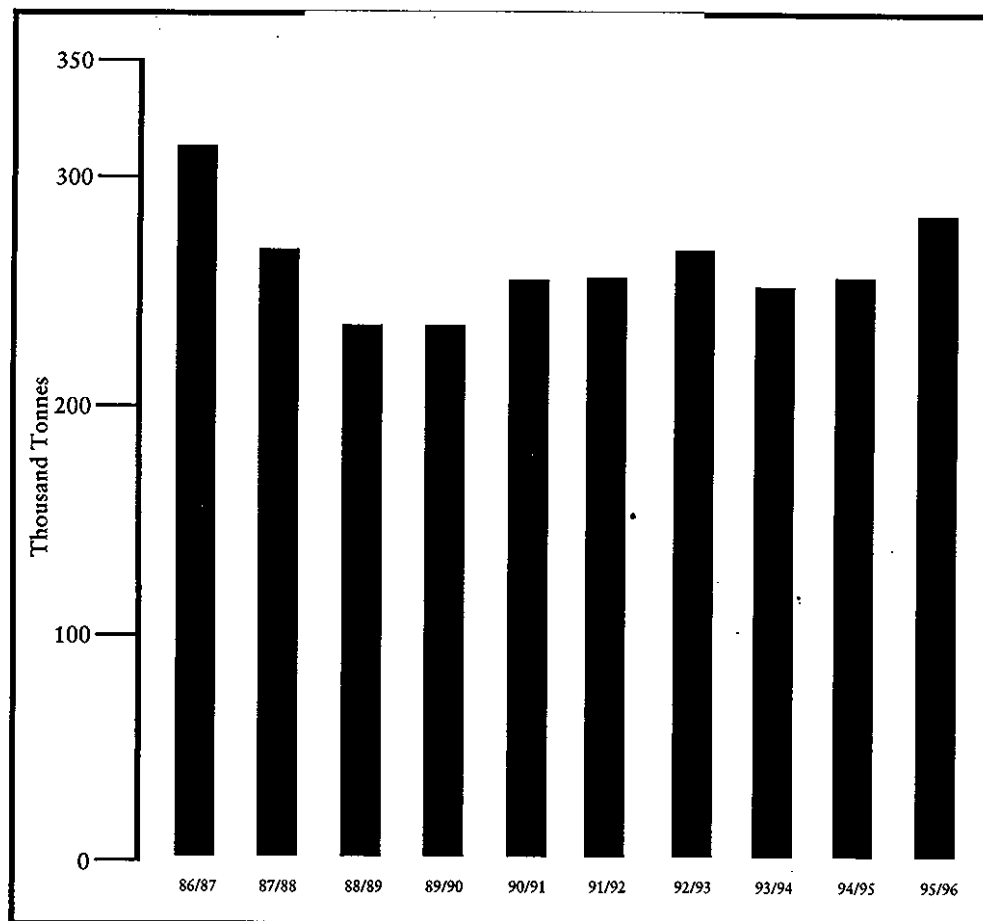
By order of the Board.

F.O. Medani

Company Secretary

Khartoum

February 1997



A Chart showing 10 year's production record

## SUMMARY OF DOMESTIC SUGAR SALES REVENUE

Crop Year	LS PRICE PER M. T.			Total Production M. T. 000	Domestic Market Quota M. T. 000	SHORTFALL IN LS MILLIONS		
	† Contractual	Received	Shortfall			* Exchange Rate Pegging Adjustment	On Annual Domestic Sales	Cumulative
1980/81	1,112	537	(575)	107	107	N/A	(61.525)	(102.774)****
1981/82	809	537	(272)	165	150	N/A	(40.800)	(143.574)
1982/83	734	537	(197)	230	150	N/A	(29.550)	(173.124)
1983/84	969	670	(299)	248	150	N/A	(44.850)	(217.974)
1984/85	875	773	(102)	306	150	N/A	(15.300)	(233.274)
1985/86	1,037	800	(237)	293	150	65,985	(35.550)	(202.839)
1986/87	1,200	1,065	(135)	310	150	23,318	(20.250)	(199.771)
1987/88	1,881	1,881	—	265	150	N/A	N/A	(199.771)
1988/89	2,883	2,900***	17	232	150	N/A	2.550	(197.221)
1989/90	5,390	3,200***	(2,190)	232	150	N/A	(328.500)	(525.721)
1990/91	6,258	6,258	—	252	150	N/A	—	(525.721)
1991/92	17,538	17,538	—	253	150	N/A	—	(525.721)
1992/93	35,520	35,520	—	265	150	N/A	—	(525.721)
1993/94	89,393	89,393	—	249	150	N/A	—	(525.721)
1994/95	173,773	173,773	—	253	150	N/A	—	(525.721)
1995/96	350,215	350,215	—	280	150	N/A	—	(525.721)

\*Reduction in obligations to the Bank of Sudan in connection with rescheduled export credit loan repayments.

\*\* Prices do not include any adjustment which may be due in respect of capital cost over-run in terms of the sugar sale agreement of 1975.

\*\*\* Prices for the two seasons were negotiated simultaneously.

\*\*\*\* Cumulative Carried from previous years.

# BALANCE SHEET

As at 30 September 1996

	Note*	1996 LS 000	1995 LS 000
<b>FIXED ASSETS:</b>			
Fixed Assets in use	6	14,193,410	7,231,240
Capital Works in Progress	7	29,710,020	5,041,623
Interest in Subsidiary	8	248	248
		<u>43,903,678</u>	<u>12,273,111</u>
<b>CURRENT ASSETS:</b>			
Inventories including standing cane	9	39,489,766	14,135,318
Government of Sudan Debt	10	347,077,885	171,815,682
Sundry Debtors	11	39,479,424	10,932,930
Cash and Bank Balances	12	30,236,816	22,098,926
		<u>456,283,891</u>	<u>218,982,856</u>
<b>CURRENT LIABILITIES:</b>			
Creditors and accruals	13	228,670,471	(100,653,165)
Bank overdraft		2,617,200	(1,764,000)
Proposed dividend		23,064,844	(3,675,000)
		<u>254,352,515</u>	<u>(106,092,165)</u>
Net Current Assets:		<u>201,931,376</u>	<u>112,890,691</u>
Total Assets Less Current Liabilities		<u>245,835,054</u>	<u>125,163,802</u>
<b>FINANCED BY:</b>			
Share Capital	14	560,545	560,545
Reserves	15	104,113,430	48,004,215
		<u>104,673,975</u>	<u>48,564,760</u>
<b>SHAREHOLDERS' FUNDS</b>			
	16	<u>141,161,079</u>	<u>76,599,042</u>
Loans		<u>245,835,054</u>	<u>125,163,802</u>

\* The enclosed notes are considered to be an integral part of the financial statement.

# PROFIT AND LOSS ACCOUNT

For the year ended 30 September 1996

	Note*	1996 LS 000	1995 LS 000
Sales	3	<u>103,128,747</u>	<u>53,230,768</u>
Operating Costs		39,230,097	20,780,482
Social and infrastructure Costs		3,169,341	1,315,914
General and Administrative Costs		<u>6,618,908</u>	<u>2,378,348</u>
		<u>49,018,346</u>	<u>24,474,744</u>
Operating Profit		54,110,401	28,756,024
Net finance charges receivable	4	(2,191,831)	410,184
Capital revenues	5	—	148,626
Provisions		—	(35,164)
Development tax	6	(1,031,287)	(532,308)
Gain/(loss) on exchange	7	<u>—</u>	<u>267,527</u>
PROFIT FOR THE YEAR		50,887,283	29,014,889
APPROPRIATED AS UNDER:			
Proposed dividend	16	(23,064,844)	(3,675,000)
Provision for Dividend Currency Variations		<u>(729,699)</u>	<u>(1,825,000)</u>
RETAINED PROFIT FOR THE YEAR		<u>27,092,740</u>	<u>23,514,889</u>

\* The enclosed notes are considered to be an integral part of the financial statement.

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended 30 September 1996

	1996 LS 000	1995 LS 000
<b>SOURCES OF FUNDS:</b>		
Profit for the year	79,627,758	29,014,889
Adjustment for items not involving the movement of Funds:		
Unrealised (Gain)/Loss on exchange	(16,652,043)	5,869,484
Depreciation	1,113,036	398,835
<b>Total Funds Generated</b>	<b>64,088,751</b>	<b>35,283,208</b>
<b>APPLICATION OF FUNDS:</b>		
Capital Expenditure (net of disposals)	32,743,603	6,226,178
Increase/decrease in working capital:		
Stocks	25,354,448	6,190,536
Debtors	38,809,281	21,155,557
Creditors	(40,103,271)	(14,270,911)
<b>TOTAL FUNDS APPLIED</b>	<b>56,804,061</b>	<b>19,301,360</b>
<b>MOVEMENT OF LIQUID FUNDS</b>	<b>7,284,690</b>	<b>15,981,848</b>
<b>REPRESENTED BY:</b>		
Increase/(decrease) in cash resources	8,137,890	16,619,123
Increase in overdraft	(853,200)	(637,275)
	<b>7,284,690</b>	<b>15,981,848</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

### i) Foreign Currency Translation

The company maintains its accounts in Sudanese Pounds transactions in foreign currency which are converted into Sudanese Pounds at the exchange rate prevailing at the transaction date. At the date of the Balance Sheet, the monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate then prevailing.

A floating exchange rate mechanism has operated since 1 February 1992. In September 1994, the prevailing exchange rate was 386.5 Sudanese Pounds = 1 US\$. On September 1996, the exchange rate escalated to 1454 Sudanese Pounds = 1 US\$. The exchange rate losses as a result of this appears in a separate item in the profit and loss account.

### ii) Fixed Assets

#### a) Fixed Assets in use

- The fixed assets in use are depreciated on the straight line basis over their expected useful lives as follows:

Permanent buildings and infrastructure 25 years

Other buildings, machinery, pumps and installations 12 years

Agricultural and other machinery 5 years

Vehicles and other assets 4 years

#### b) Inventories including standing cane:

Standing cane is stated at cost.

Materials and supplies are stated at the lower of cost (using the weighted average method) and net realisable value.

Sugar and sugar products are stated at the lower cost (using the first in first out method) and net realisable value.

In the case of standing cane, sugar and sugar products inventories, cost includes an appropriate portion of overhead expenditure.

## 2. FINANCE

In January 1983, shareholders of the Company committed themselves to subscribe sum of US\$ 180 million for three series of Special 10% Cumulative Participating Convertible Preferred Shares (A) of LS.1.0 each, the first two series totalling 175.5 million shares being offered to shareholders during the year ended 30 September 1983. Both issues were fully subscribed.

In accordance with projected funding requirements, the third series of 5.8 million shares was dully offered to shareholders for subscription on or before 2nd January 1985. To date some 30.6 million shares have been subscribed for generating approximately US\$ 23.5 million.

Having regard to all known circumstances the directors expect that the company will have sufficient working capital to sustain its going operations.



### 3. SALES

Under the terms of the Sugar Sales Agreement, signed between the parties in May 1975, a "domestic market quota" of 150,000 tones of sugar, annually, is to be purchased by Sudan Government in accordance with pricing formula which takes account, *inter alia*, of specific indexed cost inputs. However, Domestic Market Quota Sugar used to be purchased at prices tailored to economic realities, rather than in accordance with the aforesaid pricing formula. In recognition of this, the Government of Sudan agreed to the following concessions:

1. The Company's US Dollars exposure to the Bank of Sudan in connection with its rescheduled export credit borrowing under agreement reached or anticipated for the years 1981 through 1989, has been pegged at 30th September 1985 exchange rate.
2. In terms of a communication received from the Ministry of Finance and Economic Planning, the Company's initial exemption from all business profit taxes is extended for further 10 year period.

Recently an agreement has been reached with regard to methodology of pricing formula application after intensive efforts, with effect from 1991/92 onwards.

Kenana is now engaged in a large-scale export activity and is selling, under secure foreign currency arrangements, all sugar production in excess of the Domestic Market Quota.

Analysis of sugar sales for each grade, including the stock available in the first period:

	1996		1995	
	MT	LS 000	MT	LS 000
'Domestic quota' sugar	150,000	52,532,250	150,000	26,065,950
'Export quota' sugar	89,283	42,588,507	91,386	22,629,305
Cube sugar	—	—	26	4,917
Treacle	186	49,458	3,491	737,795
Small Packages	654	452,400	1,894	542,183
Molasses	88,961	7,500,820	93,711	3,250,618
Jaggery (Sugar)	13	5,312	—	—
		<u>103,128,474</u>		<u>53,230,768</u>

### 4. NET FINANCE CHARGES RECEIVABLE

	1996	1995
	LS 000	LS 000
<b>PAYABLE:</b>		
Export Credit Loans	4,150,385	2,564,464
Export Credit Rescheduled Loans	13,172,425	6,741,187
Bank Overdraft	70,271	64,674
	<u>17,393,081</u>	<u>9,370,325</u>
<b>RECEIVABLE:</b>		
Finance charges related to:		
'Export Quota' sugar	14,050,016	9,458,222
Export credit balances	1,151,234	322,287
	<u>15,201,250</u>	<u>9,780,509</u>
<b>NET RECEIVABLE</b>	<u>2,191,831</u>	<u>410,184</u>

## 5. DEVELOPMENT TAX:

The Development Tax is imposed on companies exempt from the Business Profits Tax, at the rate of 1% of the Total Sales. An agreement was reached with the Government of Sudan, to settle the amounts due from Kenana against the arrears of the sales of the "Domestic Quota".

## 6. FIXED ASSETS IN USE

	Land, buildings & infra- structure	Other buildings, equipment machines, pumps, furnishings	Agricultural equipment, & other plant	Vehicles, village housing & temporary structures	Total
	LS 000	LS 000	LS 000	LS 000	LS 000
<b>COST</b>					
At 1 October 1995	928,804	3,700,007	2,801,730	1,032,812	8,463,353
Additions	621,204	1,870,320	5,144,743	636,340	8,272,607
Disposals/Transfers	(82)	(220,867)	(2,031)	(566)	(223,546)
<b>At 30 September 1996</b>	<b>1,549,926</b>	<b>5,349,460</b>	<b>7,944,442</b>	<b>1,668,586</b>	<b>16,512,414</b>
<b>DEPRECIATION</b>					
At 1 October 1995	129,116	446,351	509,944	146,702	1,232,113
Charge for the year	37,173	290,665	534,596	250,601	1,113,036
Disposals/Transfers	(13)	(23,535)	(2,031)	(566)	(223,546)
<b>At 30 September 1996</b>	<b>1,549,926</b>	<b>5,349,460</b>	<b>7,944,442</b>	<b>1,668,586</b>	<b>16,512,414</b>
<b>NET BOOK AMOUNT</b>					
At 30 September 1996	1,383,650	4,635,979	6,901,933	1,271,849	14,193,410
At 1 October 1995	799,688	3,253,656	2,291,786	886,110	7,231,240

## 7. CAPITAL WORK IN PROGRESS:

The capital works in progress includes all amounts due to contractors, together with other capital expenses, before the date of the Balance Sheet.

	1996 LS 000	1995 LS 000
Balance at beginning of year	5,041,623	4,011,494
Additions	32,941,003	6,229,542
Completed work transferred to Fixed Assets	(8,272,606)	(5,199,413)
<b>Balance at end of year</b>	<b>29,710,020</b>	<b>5,041,623</b>

## 8. INVESTMENT IN SUBSIDIARY COMPANY:

	1996 LS 000	1995 LS 000
2,475 Ordinary Shares of LS.100 per share in Kenana Engineering and Technical Services Company	248	248

## 9. INVENTORIES INCLUDING STANDING CANE:

	1996	1995
	LS 000	LS 000
Sugar	4,272,567	684,086
Standing Cane	13,785,290	6,858,361
Forests	154,642	44,669
Miscellaneous Stores	21,277,267	6,548,202
	<u>39,489,766</u>	<u>14,135,318</u>

## 10. GOVERNMENT OF SUDAN DEBT:

There follows a summary of the accounting operations on this account during the year:

	1996		1995	
	US\$	LS	US\$	LS
	million		million	
Balance at beginning of year	212.2	15,880.0	190.3	9,429.2
Sales	—	58,024.6	—	31,811.1
Finance Charges	24.5	—	22.8	—
Receipts from Operations	(15.8)	(47,943.0)	(0.9)	(25,360.3)
	<u>220.9</u>	<u>25,961.6</u>	<u>212.2</u>	<u>15,880.0</u>
US\$ element converted at applicable rates of exchange rate		<u>321,116.3</u>		<u>155,935.6</u>
Balance at end of year		<u>347,077.9</u>		<u>171,815.6</u>

## 11. DEBTORS:

This includes sale of sugar and by-products in the local market valued in US Dollars and documentary credits and advance payments.

## 12. BANK BALANCES AND CASH

	1996	1995
	LS 000	LS 000
In Local Currency	2,203,127	2,127,012
In Foreign Currency	28,033,689	19,971,914
	<u>30,236,816</u>	<u>22,098,926</u>

After appropriate provision, local and foreign currency bank balances includes respectively LS.26.1 million with BCCI, Khartoum and US Dollars equivalent to LS.401.9 million (US Dollar 276,000) with BCCI London, which are inaccessible at this time.

On the date of the balance sheet there was a documentary credit established with UBAF Bank, London equivalent to US\$ 11.8 million.

### 13. CREDITORS AND ACCRUALS

Includes LS 89.2 billion accrued interest due on Export Credit Loans.

### 14. SHARE CAPITAL

	1996 LS 000	1995 LS 000
(a) Authorised:		
Ordinary Shares of LS.1.00 each	76,475	76,475
10% Cumulative Participating Convertible Preferred Shares 'A' of LS 1.00 each	156,000	156,000
10% Cumulative Participating Convertible Preferred Shares 'A' of LS 100 each	234,000	234,000
8% Cumulative Participating Convertible Preferred Shares 'B' of LS 1.00 each	123,525	123,525
	<u>590,000</u>	<u>590,000</u>
(b) Issued and fully paid:		
Ordinary Shares	76,475	76,475
10% Cumulative Participating Convertible Preferred Shares 'A' of LS 1.0 each	155,288	155,288
10% Cumulative Participating Convertible Preferred Shares 'A' of LS 100 each	206,086	206,086
8% Cumulative Participating Convertible Preferred Shares 'B' of LS 1.0 each	122,696	122,696
	<u>560,545</u>	<u>560,545</u>

C. All classes of preferred shares are, at the option of the Board of Directors, subject to conversion at part into Ordinary Shares at any time after 1st June 1995, provided that no share may be so converted unless all cumulative dividends thereon shall first have been paid to the date fixed for conversion.

D. Cumulative dividends attaching as under to the Company's various classes of Preferred Shares are due for distribution to Shareholders and will affect the financial statements when distribution is declared.

	Date of Issue	Amount Issued	Annual Interest Rate (%)	Arrears as at 30.09.1996 LS 000	Arrears as at 30.09.1995 LS 000
	LS 000	LS 000			
Cumulative Participating					
Convertible Preferred Shares 'B'	Apr 1980	122,696	8	<u>161,960</u>	<u>152,144</u>
Cumulative Participating					
Convertible Preferred Shares 'A'					
First Series	Jul 1980	68,744	10	109,351	102,477
Second Series	Oct 1980	68,744	10	106,788	99,914
Third Series	Feb./Mar 1981	17,800	10	31,863	30,083
				<u>248,002</u>	<u>232,474</u>
Less Total Distribution				<u>(10,594)</u>	<u>(10,594)</u>
				<u>237,408</u>	<u>221,880</u>
Special Cumulative Participating					
Convertible Preferred Shares 'A'					
First Series	Mar 1983	117,000	10 x	173,709,621	81,195,572
Second Series	Jul 1983	58,500	10 x	84,458,019	39,386,203
Third Series	Jan 1985	30,586	10 x	39,308,048	18,141,014
				<u>297,475,688</u>	<u>138,722,789</u>
Less Total Distribution				<u>(18,137,275)</u>	<u>(9,168,340)</u>
				<u>279,338,413</u>	<u>129,554,449</u>

x To be calculated on the basis of the US Dollar amount subscribed (at US\$ = 1.30 Sudanese pounds) for these shares and to be paid in United States Dollars, or the equivalent amount in Sudanese currency, calculated at the declared rate of exchange prevailing from time to time (at 30.9.96: LS 1,454 = US\$ 1.0).

## 15. RESERVES

	1996 LS 000	1995 LS 000
Balance at beginning of year	48,004,215	24,489,326
Retained Profit for the year	27,092,740	23,514,889
Capital reserves	145,662	—
Provision gain exchange	28,870,813	—
Balance at end of year	104,113,430	48,004,215
The Balance has arisen as follows:		
- Cumulative operating profit	109,222,666	56,143,552
- Pre-operating costs	(60,562)	(60,562)
- Net finance charges receivable	1,354,991	3,546,822
- Net losses on exchange	28,870,813	(3,266,871)
- Capital reserve	294,288	148,626
- Dividends	(16,888,617)	(7,888,617)
	104,113,430	48,622,950
Extraordinary losses on successive parity changes for the Sudanese Pound	(666,473)	(666,473)
Other extraordinary item	19,505	19,505
Allowance for issue of shares	28,233	28,233
	104,113,430	48,004,215

## 16. LOANS:

Bank of Sudan has agreed that certain amounts of principal and interest relating to the Company's export credit loans falling due in the calendar year 1984 through 1988 will eventually be included in rescheduling agreements to be signed between the Government of Sudan and the respective foreign governments. The Company's accounts from 1984 to 1990 accordingly anticipated these agreements vis-a-vis loan installments falling due during the years 1984 to 1988.

These agreements have yet to take place and accordingly all outstanding installments of export credit loans which matured for payment from 1984 through 1988 have now been restated as loans which adequate provisions made for accrued interest contractually due under the loan agreement.

It is assumed that no part of these loans will be settled during the next twelve months.

Although as mentioned in Note 3 (1) above, the Government of Sudan has allowed the export credit loans to be pegged at 30 September 1985 exchange rate of the US Dollar against original loan currency, it has been decided as matter of prudent accounting policy to translate these loans at rates of the Sudanese Pound against the original currency prevailing during the current financial year. However, should these loans be taken over by Government of Sudan in terms of any loan rescheduling agreement the resultant set off against Government of Sudan export sugar dues would be effected at the 30 September 1985 rate of exchange between the US Dollar and Loan Currencies, as already agreed with the Government.

The Loans are analysed below in the currencies in which they are denominated:

		Loans in foreign currency			
		French Francs (in 1000's)	Japanese Yen (in 1000's)	Austrian Schillings (in 1000's)	Kuwaiti Dinars (in 1000's)
<b>IN LOAN ORIGINAL CURRENCY</b>					
Balance as at 30.9.1996		132,904	5,256,190	90,478	4,612
Balance as at 30.9.1995		132,904	5,256,190	90,478	4,612
<b>EQUIVALENT IN SUDANESE CURRENCY</b>					
Balance as at 30.9.1996	141,161,079	37,489,487	68,015,105	12,248,048	23,408,439
Balance as at 30.9.1995	76,599,042	19,916,954	38,212,505	6,636,583	11,833,000
Interest Rate		10.0	8.5	9.5	10.5
<b>EXCHANGE RATE OF SUDANESE POUND</b>					
In 1996, 1 Sudanese pound =		0.0035	0.0773	0.0074	0.0002
In 1995, 1 Sudanese pound =		0.0067	0.1376	0.0136	0.0004

#### 17. CAPITAL COMMITMENTS:

Capital expenditure of LS 41,761.2 million (1996: LS 40,320.1 million) has been budgeted for the year ending 30 September 1997 at exchange rate US\$ 1.0 = LS 1,300 (1995: US\$ 1.00 = LS 531). Of this amount, LS 2,440.2 million (1996: LS 5,470.0 million) was contracted for. It represents future contracts which are not reflected in the current year accounts.

Due to hard currency constraints activity this area was again restricted:

	1996 (LS Million)	1995 (LS Million)
Budget	40,321.1	11,639.8
Actual	32,941.0	6,229.5

#### 18. TAXATION:

Under the Income Tax Exemption Order (Kenana Sugar Company Limited) 1975, the Company has exemption from all business profit taxes for a period of ten years from the commencement of commercial production of refined sugar in 1981/82. In terms of a communication received from the Ministry of Finance and Economic Planning, this exemption is extended for a further ten years period.

## **REPORT OF THE INDEPENDENT AUDITORS**

To the Shareholders of  
Kenana Sugar Company Limited

We have examined the financial statement of the Kenana Sugar Company Limited for the year ended 30 September 1996. Our examination was conducted in accordance with generally accepted auditing standards and accordingly included such tests of the accounting procedure as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company at 30 September 1996 and the results of its profit and source and application of funds for the year then ended in conformity with generally accepted accounting principles.

Abdul Latif AlTayib and Co.  
Khartoum, Sudan

Professional Accounting Partnership  
Riyadh, Saudi Arabia

Khartoum:  
February 1997