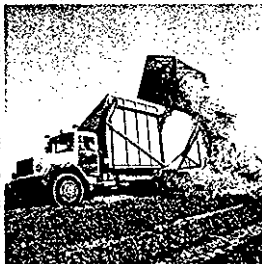




Kenana

FC18990



ANNUAL REPORT AND ACCOUNTS 1997

FOR THE YEAR ENDED 30TH SEPTEMBER 1997



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COMPANIES HOUSE 17/12/98

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COMPANIES HOUSE 08/12/98

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DIRECTORATE AND ADMINISTRATION

CHAIRMAN

H.E. Badr Eddin Mohammed Ahmed Sulieman Government of the Republic of Sudan

Deputy Chairman

Mr. Musa Ali Abou-Taleb Kuwait Real Estate Investment Consortium

MEMBERS

Mr El Fatih Ali Siddig	Government of the Republic of Sudan
Dr Abdalla Hassan Ahmed	Government of the Republic of Sudan
Dr Saber Mohamed Hasan Ahmed	Government of the Republic of Sudan
Mr Ayad Abdulla Alsumait	Kuwait Real Estate Investment Consortium
Mr Badr Ajil Al-Ajil	Kuwait Real Estate Investment Consortium
Mr Ali Osman Al-Ghannam	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 Mohamed Kheir El Zubair	Sudan Development Corporation
Mr Mohamed Abdulla Al-Sanie	Arab Authority for Agriculture Investment and Development
Mr Badr Eddin Mahmoud Abbas	Consortium of Sudanese Commercial Banks

Managing Director :

Mr. Osman Abdalla El Nazir

Deputy Managing Directors (Khartoum) (Site)

Mr. Ibrahim Ali Masalam
Mr. Mohamad El-Mahi El-Haj

Principal Bankers

Bank of Sudan
El Nilein Bank
British Arab Commercial Bank Ltd.(London)
Barclays Bank Plc. (London)
National Westminster Bank Plc. (London)

Joint Auditors

Bannaga and Gasim and Partners (Khartoum)
Professional Accounting Partnership (Riyadh)

Legal Council

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

Technical Consultants

F.C. Schaffer & Associates (USA)

Company Secretary

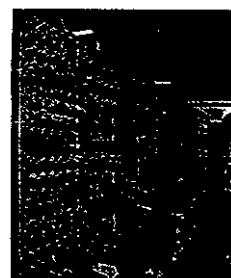
Mr. Fareed Omer Medani

Registered Office

Plot Number 846,
Block 22, El Geraif Gharb,
Khartoum, Sudan

SOME FACTS ABOUT KENANA PROJECT

Design Criteria	An integrated cane sugar estate with factory rated at some 17,000 tonnes of cane per day (record daily through-put on 14th January 1985 totalled 23,707 tonnes), and a production capability in excess of 300,000 tonnes of white sugar per annum (record production season 1996/97 : 333,000 tonnes of white sugar.)
Initial Concept	To replace imports by providing 150,000 tonnes of sugar annually for the domestic market and to earn foreign currency through exporting the surplus.
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 94,000 feddans (39,500 hectares)
Irrigation Works	Six pumping stations with a capacity of 44 cubic metres a second and a total lift reaching 45 metres, carry the waters of the White Nile along 37 kilometres of main canal to command the plantation area onto which they are fed by gravity along 340km of secondary canals which follow the contours of the estate.
Irrigation Requirements	800 million gallons per day.
Estate Roads	250 kilometres of major roads supplemented by 1,500 km network of infield roads. The maximum length of cane haul to factory is 41 kilometres.
Electricity Generation	51 megawatts, 40 of which by steam generation and 11 by diesel generation. Generation is 40 megawatts during 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.



SUMMARY OF OPERATIONS AND FINANCIAL POSITION

		1987/ 88	1988/ 89	1989/ 90	1990/ 91
Crushing season	Days	146	142	128	145
Area Harvested	Feddans	77,100	80,800	75,100	77,500
Cane Harvested	(MT000)	2,327	2,055	2,059	2,357
Cane yielded per feddan	(MT)	30.20	25.40	27.40	30.40
Cane harvested per day	(MT)	15,900	14,500	16,100	16,300
Harvesting Method					
Mechanical	(%)	49	50	46	46
Hand-cut	(%)	51	50	54	54
Net sugar recovery canecrushed	(%)	11.38	11.20	11.27	10.7
Sugar Production	(MT)	265,000	232,000	232,000	252,000
Production Target:	(MT)	280,000	275,000	245,000	248,000
Selling Price (DMQ)	(L.S./MT0)	1,881	2,900	3,200	6,258
Production Costs	(L.S./MT)	1,148.98	1,622.30	2,161.28	3,034.88
Costs Excluding Extrordinaty					
Items	(L.S./MT)	1,094.98	1,413.09	1,933.21	2,992.93
Total Costs	(L.S./MT)	1,094.98	1,413.09	997.23	2,992.93
Turnover	(L.S.000)	515,921	610,081	741,134	1,492,706
Operating Profit / Loss	(L.S.000)	211,441	233,707	239,716	727,476
Net finance Charges (payble)					
RECIEVA	(L.S.000)	16,205	44,165	52,631	27,476
Net gain (loss) receivable on exchange	(L.S.000)	1,894	4,373	2,603	1,096
Provisions	(L.S.000)				18,000
Profit / Loss before Extrordiniary Items	(L.S.000)	225,752	282,245	294,950	738,488
Net / Profit / Loss for year	(L.S.000)	225,752	282,245	x214,826	
Applicable Exchange rate per L.S.1.00	(U.S.\$)	0.22	0.22	0.08 / 0.22	0.08
Dividends	(U.S.\$)				

Loss / Profit resulting in devaluation of Sudanese currency gain on settlement of contractors claims.

1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97
148	147	138	150	149	166
77,300	76,000	77,616	75,077	76,834	76,538
2,257	2,242	2,142	2,276	2,594	2,970
29.20	29.50	27.60	30.30	33.80	38.80
15,300	15,300	15,500	15,200	17,400	17,900
51	51	54	54	50	51
49	49	46	46	50	49
11.23	11.81	11.61	11.10	10.79	11.20
253,000	265,000	249,000	253,000	280,000	333,000
266,000	260,000	265,000	265,000	265,000	290,000
17,538	35,520	89,393	172,773	350,215	575,937
9,883.48	18,511.23	52,628.08	96,889	175,881	322,904
9,087.33	18,511.23	56,627.69	96,889	175,881	322,904
10,817.45	18,511.23	57,161.37	96,889	175,881	322,904
5,981,420	10,279,501	30,775,705	53,230,768	103,128,747	199,176,742
3,480,900	5,374,026	17,671,313	28,756,024	54,110,401	91,769,190
415,476	877,601	1,742,098	410,184	2,191,831	16,175.11
198,401	807,234	2,512,775	267,527		
15,650	45,071	51,345	35,164		221,805
3,682,325	5,399,323	16,879,679	29,014,889	50,887,283	99,165,057
x437,719	-	x132,885			
2,244,606	5,399,323	16,706,79	29,014,889	50,887,283	99,165,057
0.009 / 0.03	0.006 / 0.009	0.0026 / 0.006	0.0014	0.0007	0.0006
1,500,000	3,000,000	3,000,000	5,000,000	15,852,776	17,000,000

CHAIRMAN'S STATEMENT

Foreword by H.E. Badr Eddin Mohammed Ahmed Sulieman, Chairman of Kenana Sugar Company and the Minister of Industry in the Government of the Republic of Sudan.

Total production for 1996/97 crop totalled 333,000 tonnes of White Sugar, 43,000 tonnes above the pre-crop target and 80,000 tonnes above previous crop (1995/96) final outturn.

These excellent results coupled with continuous marketing and promotional activities resulted in penetration of new markets in Central and East Africa, the Indian Sub-Continent, as well as the traditional markets in Middle East, led to a substantial increase in total value of sales to LS 199.2 billion (including USD. 74.9 million), up from LS 103.1 billion (including USD. 56.0 million) during last crop. This is a true reflection to the increase of total sugar production to 333,000 tonnes (1996: 280,000 tonnes), the molasses exports to 131,000 tonnes (1996: 84,300 tonnes) and above all the better prices enjoyed during the crop. This was further assisted by the decline of the Sudanese Pound against the US Dollar.

Profits for the year reached LS 92 billion (1996: LS 50.9 billion), an increase of 80.7%. This substantial increase was made possible by adopting sound strategies and plans by Management, a dedicated workforce, and the continuous support of the Shareholders and Directors. Therefore, the Board of Directors recommended to the AGM to adopt a resolution to distribute USD. 17 millions of the profit to the "Preferred Shares (A)" and the "Preferred Shares (A) Special", as dividend, for the current year and partial payment for arrears due for these shares and accrued prior to the current financial year. The sharp increase in dividends during the past five years, and the formulation of substantial reserves amounting to LS 229.2 billions, is a further demonstration of the healthy financial position of the company.

It was a golden opportunity for the Board of Directors, during it's 100th meeting in December 1997, to review and evaluate the course of the company since the first meeting in 1975. The Directors acknowledged the emergence of the company from a mere commercial project to become a pillar of the Socio-economic development in the area, and a glittering example for the Arab economic integration towards achieving the Strategic objective of the "Arab food security". With the continuous increase in production, Kenana was able to start exporting sugar as from 1990/91 crop season, therefore earning some USD. 180 million by exports in excess of 369,000 tonnes of white sugar during the past few years.

During the 100th Board Meeting, the Directors commended the Management on the completion of the "Kenana 2000 Strategy" projects. These USD 150 million projects, enabled the company to maintain the rated capacity, by concentrating on rehabilitation of Factory equipments. The "Kenana 2000 Strategy" also included various projects relating to the production of speciality and cube sugar, syrup, the Taro Lab and Sufaya Iron work for production of spare parts for Kenana and other sugar factories in addition to the agricultural extension project at a cost of USD. 43 million. The agricultural extension project included the building of two pump stations, a 10 megawatts electricity generation station, extension of the main canal and subsidiary canals to irrigate additional 10,000 feddans. Kenana started to earn some of the fruits of this project with productivity reaching 80 tonnes of cane/feddan in some areas, furthermore, the project will enable Kenana to stabilise cane production around 45 tonnes/feddan and sugar production at 450,000 tonnes/annum.

To raise the daily crushing capacity to 26,000 tonnes of cane, Kenana started this crop the project of "Factory Up-Rating", which is expected to be finalised within three years. Other new projects also include the construction of a modern warehouse in Port Sudan for Sugar exports and other company inputs.

Kenana continued to improve and develop the local environment as part of it's commitment

to the local area and the labour force. An ambitious programme to improve the quality of drinking water for the surrounding villages, at a cost of LS 3.0 billion, is scheduled to be completed by the end of 1998. Also, the company substantially improved the conditions of services for all staff, as well as the continuous programs of training locally and overseas.

The new millennium is bringing new challenges for all businesses. Issues of globalisation, free trade and the age of information technology will change the way we do business, and Kenana needs to carve new ways to stay competitive.

Therefore, Management is indulging in the preparation of a comprehensive strategy to meet these challenges. This strategy was thoroughly discussed during the 100th Board meeting, by all Directors, who agreed to present to the AGM for further discussion and approval by the Shareholders.

The main features of this strategy includes:

Maintaining sugar production at 450,000 tonnes of white sugar by implementing vertical and horizontal expansion.

Capture a market share of 3% of the world trade in sugar, by trading in other origins. Improving the commercial utilisation of the existing assets and capacities, by commercialisation of the various workshops and expertise in manufacturing spare parts for other industries and introducing Kenana Engineering and Technical Services Company (KETS) to the sugar industry locally and overseas.

Adding more value to the sugar end-products to enhance the Company's financial position, by producing charcoal, animal feed, industrial alcohol and yeast.

Improving the utilisation of land and other infrastructural facilities in expanding the range of products to forestry products, oilseeds, and animal production.

Enhancing of the various operations by implementing Total Quality Management procedures and requirements. Price Waterhouse Coopers (formerly Coopers & Lybrand) are helping the Kenana Team to implement recommendations on the modernisation of Financial & Management systems and information technology. This program is expected to be finalised within 4 years, with a substantial impact on costs of operations.

Projections for next crop 1997/98, suggests yet another successful crop which will add to our long list of records. Despite the mechanical failures during the early days of the season, which were overcome in a short time, early forecasts are suggesting that we will exceed the pre-crop season. Productivity per feddan has surpassed all previous records to average above 40 tonnes/feddan, during the first half of the crop. The Factory also was capable of maintaining a daily crushing rate at 24,000 tonnes per day, on average, as a direct outcome to the completion of phase I of the "factory up-rating project".

Lastly, I would like to express my deep gratitude to the Shareholders for their continuous support to the Company, especially the Government of the Republic of the Sudan who spared no effort to facilitate all our works and plans. Thanks also goes to a dedicated Management team and workforce, whose sincere efforts enabled Kenana to set an example as a leading enterprise within the Inter-Arab investments in the agri-industry sector.

Badr Eddin Mohamed Ahmed Sulieman

Khartoum, February 1998.

DIRECTOR'S REPORT

The members of the Board of Directors submit their report together with audited accounts for the financial year ending 30 September 1997.

Assessment of 1996/97 Crop

Production season started on 2 November 1996 after the completion of a successful maintenance and rehabilitation programme. The season continued for 166 days and finished on 17th April 1997, thus producing 333,000 tonnes of white sugar, 43,000 tonnes (15%) above the pre-production target, by grinding 76,538 feddans. This is the first time Kenana was able to surpass its last production record of 309,705 tonnes of sugar, a decade ago in 1986/87 crop.

Cane Production

Cane production is the most salient feature in the quest for improvement in production and productivity. As a result of the five year plan adopted in 1993 to increase cane yields per feddan, cane production rose this season to 38.8 tonnes per feddan, a healthy 5 tonnes increase, which is equivalent to 15%. This was possible by adopting better agricultural practices and timely application of fertilisers and other inputs.

Cane Harvest and Transport

A high operational performance and efficiency was achieved in harvesting and transportation of 2.97 million tonnes of cane, at a daily average of 17,937 tonnes of cane throughout the crop period. This is the best ever record for Kenana. Despite the large crop and complexity of the operation, cane losses were kept to a minimum level in comparison with previous results.

The Factory

The factory maintained the average crushing rate at the same level of grinding of 17,937 tonnes of cane per day, to produce a total of 333,000 tonnes of sugar at a recovery rate of 11.2% (1995/96: 10.8%). This was achieved despite the decline in the mill extraction to 94.74%, a situation which is now being corrected prior to the start of the new crop. Molasses production reached 116,000 tonnes, slightly up from last year's production of 114,000 tonnes.

Cash Flows

The company maintained a comfortable cash inflow, and was able to meet all its local commitments. Likewise, the company was able to meet all its import requirements due to the continuous inflow of export proceeds in foreign currency.

The Sudanese pound parity against the US dollar declined modestly during this financial year. On 30 September 1997 the exchange rate was US\$ 1.0= LS 1,645 (1996: US\$ 1.0= LS 1,454)

Results for the Year:

Revenues climbed to LS 199.2 billion (1996: LS 103.1 billion), 93% increase from previous year. This large increase is mainly attributed to the rise in the selling price of the "Domestic Quota", the increase of the value of proceeds of the "Export Quota", and the modest decline in the value of the Sudanese Pound.

Operating profits reached LS 91.8 billion (1996: LS 54.1 billion).

Projects and Investment:

Projects under "Kenana 2000 Strategy" were all completed as scheduled during this year, at a cost of US\$ 150 million from Kenana's own resources. Rehabilitation and replacement plans included purchase of equipment and machinery for the factory, agricultural workshops, pump stations and harvesting and transport of cane.

The 10,000 feddans expansion project was also completed during this crop including the extension of the main canal, building of subsidiary canals, two pump stations and diesel electricity generation station.

The "Factory Up-Rating project" started during this crop and will be completed within three years time to upgrade the crushing rate to 26,000 tonnes of cane every day.

Forecasts:

The new 10,000 feddans, planted under the expansion project, will be harvested during 1997/98 crop, at expected high yields. This will substantially increase the crop turnout in sugar and molasses. The maintenance and rehabilitation program was completed satisfactorily enabling the factory to maintain the crushing rate at high levels to meet the expected increase in the tonnage of cane, at favourable climatic conditions.

Yield per feddan is expected to rise to 40 tonnes, and total cane to 3.2 million to produce 354,000 tonnes of white sugar.

To meet the new challenges in the millennium of globalisation, free trade and information age, the company proposed a new strategy built around the foreseen opportunities to be commissioned in 1998.

Share Capital Funding

The authorised share capital remained constant at 590 million pounds. There has 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 names of members of the present Board of Directors are shown on page 2 of this report.

Auditors

The appointment tenure of Bannaga - Gasim & Partners (Khartoum) and Professional Accounting Partnership (Riyadh) has since expired. The Board of Directors recommend appointment of Bannaga - Gasim & Partners, with Whinney Murray & Co, as joint auditors at fees to be agreed and to hold office until the close of business of the Annual General Meeting for the financial year 1997/98.

By order of The Board

F. O. Medani

Company Secretary

Khartoum 27/01/1998

SUMMARY OF DOMESTIC SUGAR SALES REVENUE

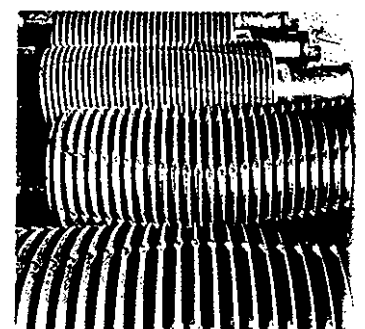
Crop Year	LS PRICE PER M. T			Total Production M.T.000	Domestic Market Quota M.T.000	* Exchange Rate Pegging Adjustment	SHORTFALL IN LS MILLIONS	
	Contractual	Received	Shortfall				On Annual Domestic Sales	Cumulative
1980/ 81	1,112	537	(575)	107	107	N/A	(61,525)	(102,774) ****
1981/ 82	809	537	(272)	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)
1996/ 97	575,937	575,937	-	333	150	N/A	-	(525,721)

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

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

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

**** Cumulative credit from previous years.

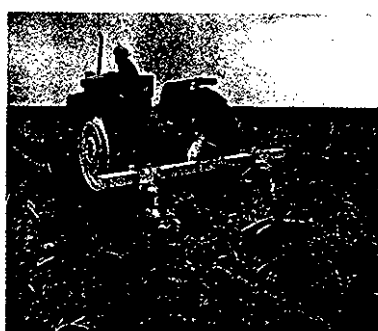


PROFIT AND LOSS ACCOUNT

For the year ended 30 September 1997

	Note *	30/09/1997 LS 000	30/09/1996 LS 000
Sales	2	<u>199,176,742</u>	<u>103,128,747</u>
Operating costs		(87,361,976)	(41,653,094)
Depreciation of fixed assets		(6,078,155)	(1,113,036)
General and administrative costs		<u>(13,967,421)</u>	<u>(6,252,216)</u>
Operating profit		<u>91,769,190</u>	<u>54,110,401</u>
Net finance charges receivable	3	16,175,011	(2,191,831)
Provisions	4	221,805	-
Development tax		(1,991,176)	(1,031,287)
Adjustments for previous years	5	<u>7,009,773</u>	<u>-</u>
Profit for the year		99,165,057	50,887,283
Proposed dividend		<u>(27,965,000)</u>	<u>(23,794,543)</u>
Retained profit for the year		71,200,057	27,092,740

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



BALANCE SHEET

As at 30/9/1997

	Note*	1997 L.S.000	1996 L.S.000
Fixed Assets			
Fixed Asset in use	6	76,063,565	14,193,410
Capital works in Progress	7	7,634,640	29,710,020
Interest in subsidiary company	8	248	248
		<u>83,698,453</u>	<u>43,903,678</u>
Current Assets:			
Inventories including standing cane	9	68,467,986	39,489,766
Government and Sudan Debt	10	420,620,129	347,077,885
Sundry Debtors	11	81,654,338	39,479,424
Cash and Bank Balances	12	58,174,121	30,236,816
		<u>628,916,574</u>	<u>456,283,891</u>
Total Assets		<u>712,615,027</u>	<u>500,187,569</u>
Current Liabilities			
Short Term Loans		7,715,710	2,617,200
Creditors and accruals	13	59,600,121	14,401,482
Proposed dividend		27,965,000	23,064,844
		<u>95,280,831</u>	<u>40,083,526</u>
Long Term Liabilities:			
End of service gratuity		14,469,683	224,897
Loans	14	131,924,940	141,161,079
Interest and falling due loans		202,942,775	214,044,092
		<u>349,337,398</u>	<u>355,430,068</u>
Total Liabilities:			
(Current and Long Term)		<u>444,018,229</u>	<u>395,513,594</u>
Net assets Less Liabilities		<u>267,996,798</u>	<u>104,673,975</u>
Financed by:			
Share capital	15	560,545	560,545
Current profits		198,205,866	75,096,955
		<u>758,751,411</u>	<u>635,642,500</u>
Currency transiation			
Provision		68,894,387	28,870,813
Reserves		336,000	145,662
		<u>267,996,798</u>	<u>104,673,975</u>

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

CASH FLOW STATEMENT

For the year ending 30/9/97

	30/9/1997 L.S.000
Profit for the year before dividends	99,165,057
Depreciation	6,078,155
Profit from sale of fixed assets	(100,010)
End of service gratuity provision	14,512,018
Finance cost	27,946,136
Provisions	495,411
	<u>148,096,767</u>
Movements in working Capital:	
Increase in stocks	(28,978,220)
Increase in Sudan Government Debt	(23,939,165)
Increase in other Debts	(40,325,179)
Increase in liabilities	<u>40,505,307</u>
	52,737,257
Net cash flow from operations	<u>95,359,510</u>
Cash in flow from Investment:	
Additions to Capital works in progress	(45,872,929)
Revenue from disposal of fixed assets	100,010
Net of cash in flow from operations	45,772,919
Cash flow from Finance operations:	
Distributed dividends	(23,064,844)
Repayment of short term loans	<u>(643,200)</u>
	<u>(23,708,044)</u>
Net Cash flow	25,878,547
Cash and Bank Balances at the beginning of the year	<u>30,236,816</u>
	<u>56,115,363</u>
Plus variation in exchange parity	2,058,758
Cash and Bank Balances at end of year	<u>58,174,121</u>

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

i) Foreign Currency Translation

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

A floating exchange rate mechanism has operated since the first of February 1992. In September 1996 the exchange rate was 1454 Sudanese Pounds to 1 US Dollar. Then on 30 September 1997 the prevailing rate became 1645 Sudanese Pounds to 1 US Dollar.

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

On the 14th of April 1986, the Board of Directors resolved that the annual return on commulative participating convertible shares (whether special category A or B) is to be explained under Notes to the Financial Statement and that the return due of such shares shall be listed when the Board decide to make payment of such returns.

2. SALES

Under the terms of the Sugar Sales Agreement, signed between the parties in 1975, a "domestic market quota" of 150,000 tonnes 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 between 1981 and 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 a further ten year period.

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

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

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

	1997		1996	
	MT	L.S.000	MT	L.S.000
Domestic quota sugar	150,000	86,390,550	150,000	52,532,250
Export quota sugar	180,381	102,141,756	89,238	42,588,507
Cube sugar	-	-	-	-
Treacle	-	-	186	49,458
Small packages	21	15,855	654	452,400
Jaggery (sugar)	10	4,810	13	5,312
Molasses	131,027	10,623,771	88,961	7,500,820
		<u>199,176,742</u>		<u>103,128,747</u>

3. NET FINANCE CHARGES RECEIVABLE

	1997 L.S.000	1996 L.S.000
PAYABLE :		
Export Credit Loans	-	4,150,385
Export Credit Rescheduled Loans	20,032,858	13,172,425
Bank overdraft	332,035	70,271
	<u>20,364,893</u>	<u>17,393,081</u>
RECEIVABLE :		
Finance charges related to Export Quota	34,660,112	14,050,016
Export credit balance	1,879,792	1,151,234
	<u>36,539,904</u>	<u>15,201,250</u>
NET RECEIVABLE :	<u>16,175,011</u>	<u>2,191,831</u>

4. PROVISIONS:

These are funds allocated in previous years to meet the Local currency account with BCCI plus other doubtful debts. These sums have been received.

5. PREVIOUS YEARS ADJUSTMENTS :

These are for staff who worked for the Company during the period October 1980 to September 1996, as resolved by the Board of Directors.

6. FIXED ASSETS IN USE

	Land buildings and infra- structure	Other buildings, equipment, machines, pumps, furnishing	Agricultural equipment and other plant	Vehicles village housing & temporary structure	Total
	L.S 000	L.S 000	L.S 000	L.S 000	L.S 000
COST					
At 1/10/96	1,549,926	5,349,460	7,944,442	1,668,586	16,512,414
Additions	10,895,864	44,212,846	10,079,808	2,887,050	68,075,568
Disposals/transfers	-	-	(128,117)	(122)	(128,239)
Value at 30/9/97	12,445,790	49,562,306	17,896,133	4,555,514	84,459,743
DEPRECIATION					
At 1/10/96	166,276	713,482	1,042,509	396,737	2,319,004
The year depreciation	322,118	2,579,878	2,420,493	755,665	6,078,154
Disposals/transfers	-	-	(858)	(122)	(980)
Total at 30/9/97	488,394	3,293,360	3,462,144	1,152,280	8,396,178
NET BOOK AMOUNT					
At 30/9/97	11,957,396	46,268,946	14,433,989	3,403,234	76,063,565
At 30/9/96	1,383,650	4,635,979	6,901,933	1,271,849	14,193,410

7. CAPITAL WORK IN PROGRESS

This includes amounts due to contractors, together with other capital expenses, before the date of the balance sheet.

	1997 L.S.000	1996 L.S.000
Balance at beginning of year	29,710,020	5,041,623
Additions	45,872,929	32,941,003
Completed work transferred to fixed assets	(67,948,309)	(8,272,606)
Balance at end of year	7,634,640	29,710,020

8. INVESTMENT IN SUBSIDIARY COMPANY

	1997 L.S.000	1996 L.S.000
2,475 Ordinary Sharess of LS.100 Per share in Kenana Engineering and Technical Services Company	248	248

9. INVENTORIES INCLUDING STANDING CANE

	1997 LS.000	1996 LS.000
Sugar	10,805,797	4,272,567
Standing Cane	25,953,953	13,785,290
Forests	383,450	154,642
Miscellaneous Stores	31,324,786	21,277,267
	68,467,986	39,489,766

10. GOVERNMENT OF SUDAN DEBT

Following is a summary of the accounting operations on this account during the year:

	1997		1996	
	US \$ Million	L.S.	US \$ Million	L.S.
Balance at beginning of year	220.9	25,961.6	212.2	15,880.00
Sales	-	100,265.7	-	58,024.6
Finance charges	26	-	24.5	-
Receipts from Operations	10.7	94,171.9	(15.8)	(47,943)
	236.2	32,055.4	220.9	25,961.6
US \$ element converted at applicable rates of Exchange rate		388,564.7		321,116.3
Balance at end of year		420,620.1		347,077.9

11. OTHER DEBTORS

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

	1997 L.S.000	1996 L.S.000
Various commercial debts	53,337,140	19,673,754
Advance payment to suppliers	28,317,198	19,805,670
	<u>81,654,338</u>	<u>39,479,424</u>

12. BANK BALANCE AND CASH

	1997 L.S.000	1996 L.S. 000
In Local Currency	11,577,624	2,203,127
In Foreign Currency	<u>46,596,497</u>	<u>28,033,689</u>
	<u>58,174,121</u>	<u>30,236,816</u>

Balance in foreign currency includes the equivalent of LS 341 million (about US\$ 207,000), frozen with BCCI London. Appropriate provision has been made for that.

On the date of the balance sheet there was a documentary credit established with the British Arab Commercial Bank London equivalent to US\$ 15.2 million.

13. CREDITORS AND ACCURALS

This includes suppliers' liabilities, accruals and taxes detailed as follows:

	1997 LS000
Sudanese Sugar Production Company	7,773,999
Sales Tax	15,615,885
Miscellaneous	36,210,237
	<u>59,600,121</u>

14. LOANS

Bank of Sudan has agreed to include certain loans and interest falling due between the years 1984 - 1988, in rescheduling agreements to be signed between Sudan Government and creditors. Accordingly the Company took this into consideration when doing the accounts from 1984 - 1990, regarding the loans as falling due in the period between 1984 and 1988 for the purpose of these agreements.

These agreements have not yet been concluded, so the loans and interest falling due from 1984 - 1988 are considered as loans for the settlement of which adequate provisions have been made.

On 2nd March 1998 an agreement was signed for the settlement of the loan of the National Company for Car Manufacturing and Trading (Kuwait), whereby the loan was reduced from 4,612,000 Kuwaiti Dinars to 3,000,000 KD to be repaid interest free within three years. It was also agreed to write off all accumulated interest until 30/9/1997.

It is not expected to repay any part of these loans (with the exception of the loan of the National Company for Car Manufacturing and Trading (Kuwait)).

As illustrated in Note 2(1) Sudan Government has allowed pegging of value of loans for dollars at 30 September 1985 exchange rate of the US\$. But it has been decided as a matter of prudence to translate these loans at the rates of Sudanese pound against the original currency prevailing at the date of the balance sheet. However, these loans will be taken over by Sudan Government in accordance with rescheduling agreements as liability against Sudan Government at the rates of exchange prevailing as at 30/9/1985, as already agreed with the Government.



ANALYSIS OF FOREIGN CURRENCY LOANS

	Loans in Foreign Currency			
	French Francs (in 1000's)	Japanese Yen (in 1000's)	Austrian Schillings (in 1000's)	Kuwait Dinars (in 1000's)
IN LOAN ORIGINAL CURRENCY				
Balance as at 30/9/97				
Principal	132,904	5,256,190	90,478	3,000
Accumulated interest	156,341	7,763,847	116,640	-
	289,245	13,020,037	257,118	3,000
As at 30/9/1996				
Principal	132,904	5,256,190	90,478	4,612
Accumulated interest	140,948	6,743,844	143,850	8,501
	273,852	12,000,034	234,328	13,113

EQUIVALENT IN SUDANESE CURRENCY

Balances at 30/9/97	340,609,425	80,410,004	177,072,505	34,129,916	17,225,130
Balance at 30/9/96	355,205,171	77,841,173	155,280,443	31,721,066	66,552,698
Rate of interest %		10	8.5	9.5	10.5

Additional interest as Liability against Sudan Government (1000's)

Balance as at 30/9/97	31,771,870
Balance as at 30/9/96	23,809,791

EXCHANGE RATE OF SUDANESE POUND

	French Francs (in 1000's)	Japanese Yen (in 1000's)	Austrian Schillings (in 1000's)	Kuwait Dinars (in 1000's)
In 1997, 1 Sudanese pound =	0.0036	0.0735	0.0075	0.0002
In 1996, 1 Sudanese Pound =	0.0035	0.0773	0.0074	0.0002

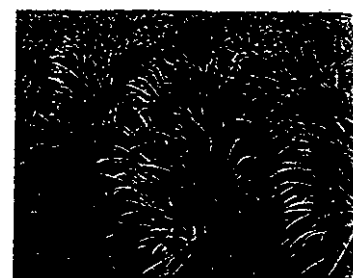
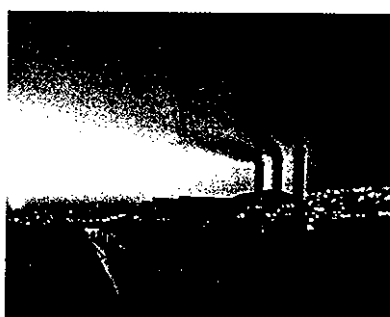
The loan in Kuwaiti Dinar includes the sum of One Million Kuwaiti Dinar falling due during the year 1997/98 entered as part of short term Loans.

15 SHARE CAPITAL

	1997 (1000's of Pounds)	1996 (1000's of Pounds)
A. Authorized		
Ordinary shares of L.S. 1.00 each	76,475	76,475
10% Cumulative Participating Convertible Preferred Shares 'A' of L.S. 1.00 each	156,000	156,000
10% Cumulative Participating Convertible Preferred Shares 'A' of L.S. 1.00 each	234,000	234,000
8% Cumulative Participating Convertible Preferred Shares 'B' of L.S. 1.00 each	123,525	123,525
	<hr/> 590,000	<hr/> 590,000
B. Issued and fully paid		
Ordinary Shares	76,475	76,475
10% Cumulative Participating Convertible Preferred Share 'A'	155,288	155,288
10% Cumulative Participating Convertible Preferred Share 'A'	206,086	206,086
8% Cumulative Participating Convertible Preferred Shares 'B'	122,696	122,696
	<hr/> 560,545	<hr/> 560,545

C. All classes of preferred shares, subject to conversion into ordinary shares if the Board of Directors so decided, at anytime after the 1st of June 1995, provided all declared dividends have first been paid fully before the appointed date for conversion.

D. Cumulative dividends, illustrated below, under the Company's various classes of Preferred Shares are due for distribution to Shareholders and will affect the financial statements after distribution is declared.



	Date of Issue	Amount Issued	Annual Interest Rate %	Arears as at 30/9/97 L.S.000	Arears as at 30/9/96 L.S.000
	L.S.000	L.S.000			
Cumulative Participating Preferred Shares "B"	April 1980	122,696	8	171,776	161,960
Cumulative Participating Preferred Shares "A"					
1st Series	July 1980	68,744	10	116,225	109,351
2nd Series	Oct 1980	68,744	10	113,662	106,788
3rd Series	Feb/Mar 1981	17,800	10	33,643	31,863
				263,530	248,002
Less total Distribution				(25,502)	(25,502)
				238,028	222,500
Special Cumulative Participating Preferred Share "A"					
1st Series	Mar 1983	117,000	*10	211,333,423	173,709,621
2nd Series	July 1983	58,500	*10	102,955,073	84,458,019
3rd Series	Jan 1985	30,586	*10	48,341,928	39,308,048
				362,630,424	297,475,688
Less Total Distribution				(41,201,941)	(18,137,275)
				321,428,483	279,338,413

*To be calculated on the basis on the amount subscribed for these shares in US Dollars (at 1.30 LS for 1 Dollar), and to be paid in US Dollars or the equivalent amount in Sudanese currency, calculated at the declared rate of exchange prevailing from time to time (at 30/9/1997: LS 1,645=US\$1.0)



E. FINANCE

In January 1983, Shareholders of the Company committed themselves to subscribe the sum of US\$ 180 million for Special 10% interest bearing Shares 'A' convertible to Ordinary of LS 1.0 each payable at three series. The first and second series totalling 175.5 million share paid during 1983.

In accordance with projected funding requirements, Shareholders were offered to subscribe for the Third series - 58.5 million shares on or before the 2nd January 1985. Shareholders accepted subscription for 30.6 million shares, generating US\$ 23.5 million.

Having regard for all known circumstances, the Directors expect that the Company will have sufficient capital to meet its liabilities.

16. CAPITAL COMMITMENTS:

Capital expenditure, according to the projected budget for the financial year ending 30 September 1998, amounts to 69,008.4 million Sudanese pounds (compared with 41,761.2 million pounds for the year 1997) at exchange rate US\$1.0 = L.S. 1,600 (compared with US\$ 1.0 = L.S. 1,300 for the year 1997.)

Of this estimated amount project costing L.S. 22,860 million were contracted for (compared with L.S. 2,440.2 million for 1997). They represent future contracts not reflected on this year's accounts.

Actual expenditure compared with the budget was follows:

	1997 (LS million Pounds)	1996 (LS Million Pounds)
Budget	41,761.2	40,320.1
Actual expenditure	38,490	32,941

18. TAXATION

Under the Income Tax Exemption Order (Kenana Sugar Company Limited) 1975, the Company has exemption for all business profit taxes for a period of ten years from the commencement of commercial production of refined sugar in 1981/82. As a result of contacts made with the Ministry of Finance and Economic Planning, this exemption is to be extended for a further ten year period.

Development Tax has been levied on companies exempt from Business Profit Tax as from 1994/95. It is calculated at 1% of total sales.

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of
Kenana Sugar Company Limited
Khartoum - Republic of The Sudan

We have examined the financial statement of Kenana Sugar Company Limited as at 30 September 1997 together with the result of it's profit and the source and application of funds for the year ending on that date and also the Notes 1 - 17 which are considered part of the statements. These financial statements were prepared by the Company in accordance with the requirements of the Memorandum and Articles of Association. We have obtained the information and explanations necessary for the purpose of our auditing. We are expressing our opinion here about them on the basis of the audit we have conducted and the information and explanations, which we believe to be necessary, and which we have obtained.

Our examination was conducted in accordance with generally accepted auditing standards. These standards require that the aim of our planning and execution of such audit should be to arrive at a reasonable degree of satisfaction that the financial statements do not contain any essential mistakes. The procedures for carrying out the audit comprise an examining check of documents supporting the money and information entered as part of the financial statements. They also include an evaluation of the accountancy principles followed and the important estimates on which the Management has relied in addition to evaluating the financial statements generally. It is our belief that the audit we have conducted constitutes reasonable grounds on which to base our views.

In our opinion these financial statements as a whole represent fairly the financial position of the Company as at 30 September 1997 and the results of it's business and the source and application of funds for the year then ended in conformity with internationally recognized accounting principles.

Bannaga and Gasim & Partenrs
(Khartoum)

Professional Accounting Partnership
(Riyadh)



Kenana
Kenana Sugar Company Limited



كنا
شركة سكر كنانة المحدودة

P.O Box 2632 Khartoum, Republic of the Sudan
Tel: (249-11) 724703 - 724704 Telex: 22333 Kenan SD Fax: 472171

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Kenana House 39 Fitzroy Square, London W1P 5LL,
Tel: 0171 631 1350 Telex: 21796 Fax: 0171 436 4342
<http://www.kenana.com>
E-mail: ksc@kenana.com