

KENANA SUGAR COMPANY LIMITED

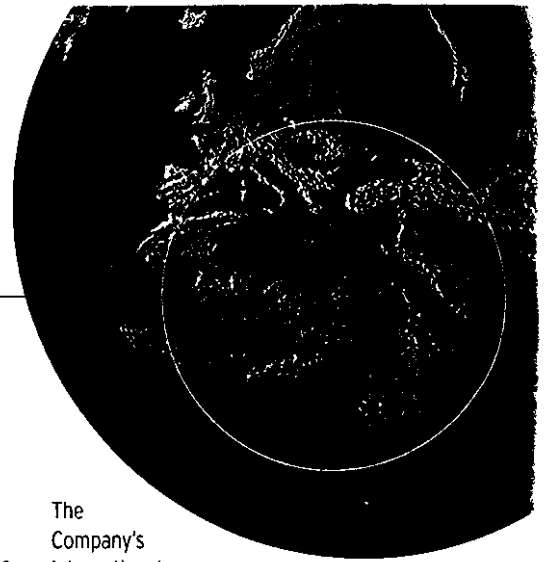
REPORT OF THE BOARD OF DIRECTORS AND ACCOUNTS

FOR THE YEAR ENDED ON 30 SEPTEMBER 1998

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KENANA TODAY



Today, the products of the Kenana Sugar Company are available the World over as a lucid illustration of the successful policies adopted by the Company in all fields.

Kenana sugar is now available in the countries of the East Coast of Africa, the Red Sea, the Arabian Gulf, the Arabian peninsula, the Indian sub-continent and north and central Africa.

The Kenana Sugar Company was incorporated as a private company in 1975 with the objective of exploiting the enormous agricultural potentials of the Sudan to produce 300,000 tonnes of white sugar per year. Half of the production (150,000 tonnes) to be earmarked for exports to earn foreign currency while the second half to be directed to the domestic market to satisfy the local demand. Hence, a factory with a designed capacity of 17,000 tonnes of cane per day was constructed, surrounded by an irrigated sugar cane farm.

Following the financial and technical successes of the Company, the Management of Kenana formed new plans to increase the production capacity of the factory and maximise agricultural output. Now all these plans have been completed, which will potentially enable the Company to crush 26,000 tonnes of cane per day and therefore increasing the annual production to half a million tonnes of sugar per year.

Kenana is located to the south of Rabak Town on the east bank of the White Nile, some 250 kilometres south of Khartoum - the capital of the Sudan, and some 1,200 kilometres from the city of Port

Sudan - the main port of the country. The total area of the estate is 150,000 feddans (63,000 hectares) and the plantation area is about 94,000 feddans (39,500 hectares).

The Farm is irrigated by six pumping stations with a capacity of 44 cubic metres a second (800 million gallons per day). These pumps, which are located along a 37 Kilometre-long canal, lift water to a level of 45 metres above the level of the waters of the White Nile. From the main canal the water flows by gravity, along 340 kilometres of secondary canals, following the contours of the land.

Kenana from the outset invested in the local infrastructure to facilitate the various production processes. A network of infield roads was built between the factory and the production area, with a total length of 1,500 kilometres, which are regularly and properly maintained.

The Company generates its requirements for electricity by burning the bagasse (a sugar by-product) during the production season and by the use of fuel oil during the maintenance period in boilers specially designed to use both fuels. The total capacity of electricity generation is some 53 megawatts.

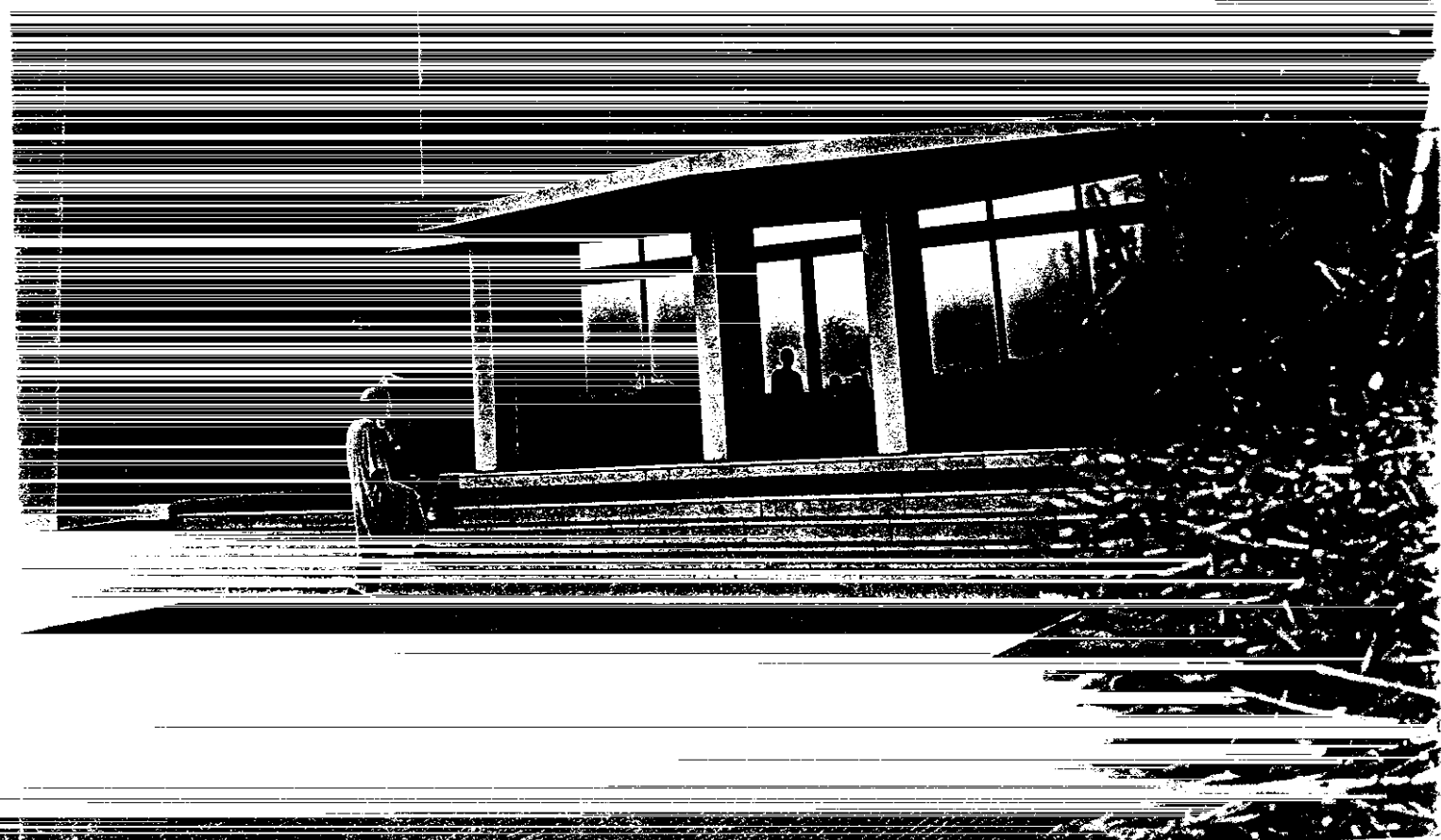
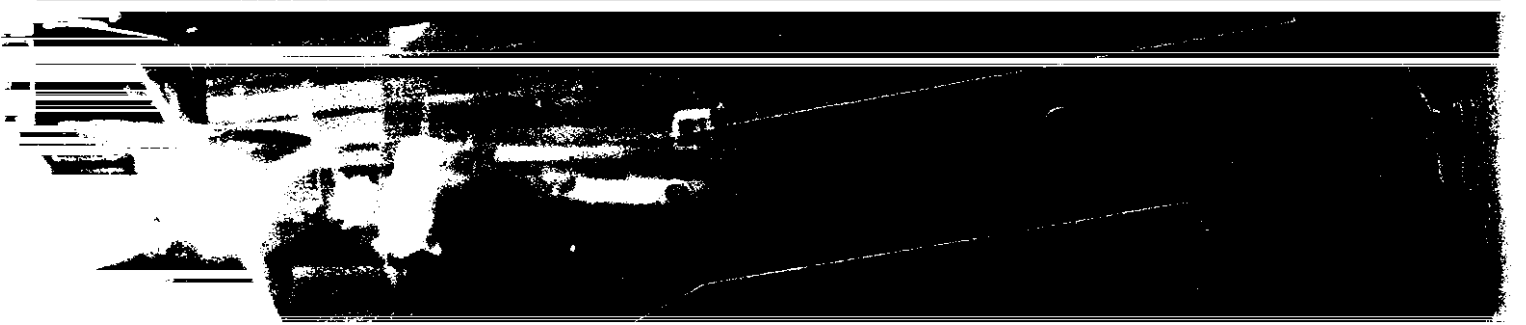
The Company gives high priority to the recruitment of an excellent workforce in all fields of production by following prudent human resource policies. The total permanent staff numbers some 8,000 and the Company recruits a similar number of seasonal workers for the duration of the crop season.

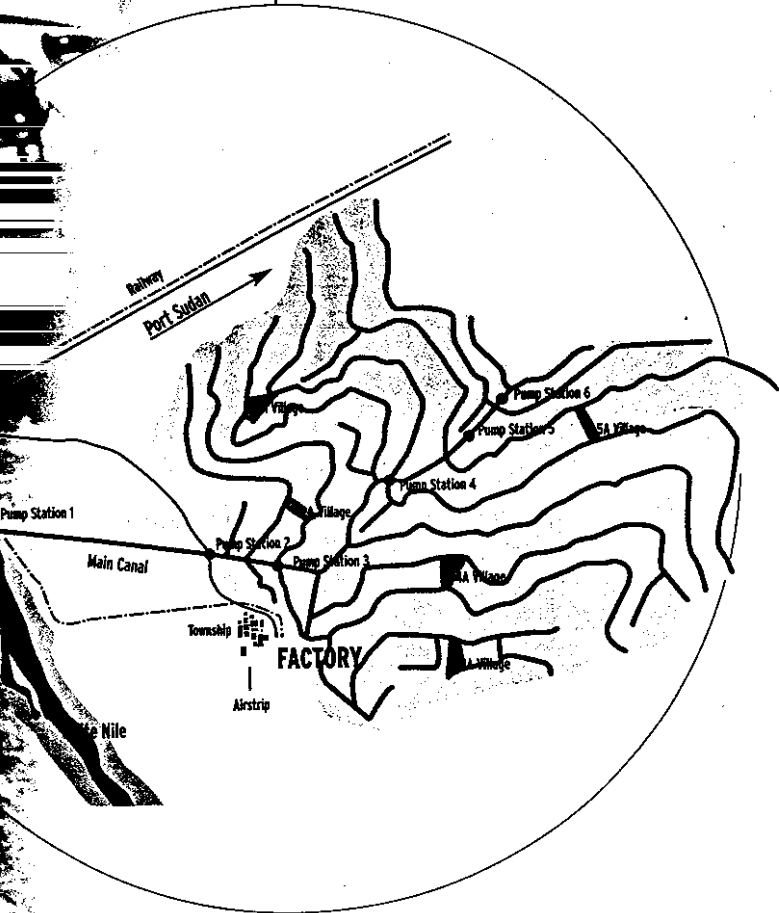
Research and development plays a central role in the improvement of all production operations in Kenana. The Agronomy and the Agricultural Engineering Departments spearhead these efforts.

The Company's international presence has become more prominent through its export markets, which are expanding annually, and also through the participation in many international exhibitions and conferences.

During this season, Kenana has managed to achieve all its production and marketing targets and annual production has leapt to 356,000 tonnes of sugar (an increase of 7% over last season).

KENANA TODAY





SUMMARY OF OPERATIONS AND FINANCIAL POSITION

		1988/89	1989/90	1990/91	1991/92
1	Crushing season (days)	142	128	145	148
2	Area harvested (feddans)	80,800	75,100	77,500	77,300
3	Cane harvested (MT/000)	2,055	2,059	2,357	2,257
4	Cane yield per feddan (MT)	25.40	27.40	30.40	29.20
5	Cane harvested per day (MT)	14,500	16,100	16,300	15,300
6	Harvesting: mechanical (%)	50	46	46	51
	Harvesting: hand-cut (%)	50	54	54	49
7	Net sugar recovery / cane crushed (%)	11.28	11.27	10.70	11.23
8	Sugar production (MT)	232,000	232,000	252,000	253,000
9	Production target (MT)	275,000	245,000	248,000	266,000
10	Selling price (DMQ) (LS/MT)	2,900	3,200	6,258	17,538
11	Production costs (LS/MT)	1,622.30	2,161.28	3,034.88	9,883.48
12	Costs excluding extraordinary items (line 20) (LS/MT)	1,413.09	1,923.21	2,992.93	9,087.33
13	Total costs (LS/MT)	1,413.09	997.23	2,992.93	10,817.45
14	Turnover (LS/000)	610,081	741,134	1,492,706	5,981,420
15	Operating profit (loss) (LS/000)	233,707	239,716	727,916	3,480,900
16	Net finance charges (payable) received (LS/000)	44,165	52,631	27,476	415,476
17	Gain (loss) on exchange (LS/000)	4,373	2,603	1,096	(198,401)
18	Provisions (LS/000)	-	-	18,000	15,650
19	Profit (loss) before extraordinary items (LS/000)	282,245	294,950	738,488	3,682,325
20	Extraordinary items (LS/000)	-	x214,826	-	x(437,719)
21	Profit (loss) for year (LS/000)	282,245	509,776	738,488	3,244,606
22	Sudanese pound exchange rate (US\$)	0.22	0.08/0.22	0.08	0.009/0.03
23	Dividends	-	-	-	1,500,000

x (Loss)/profit resulting from devaluation of Sudanese currency

+ Gain on settlement of contractors' claims

1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	
147	138	150	149	166	191	1
76,000	77,616	75,077	76,834	76,538	79,160	2
2,242	2,142	2,276	2,594	2,970	3,439	3
29.50	27.60	30.30	33.80	38.80	43.50	4
15,300	15,500	15,200	17,400	17,900	18,000	5
51	54	54	50	51	63	6
49	46	46	50	49	37	
						7
11.81	11.61	11.10	10.79	11.20	10.34	
265,000	249,000	253,000	280,000	333,000	356,000	8
260,000	265,000	265,000	265,000	290,000	340,000	9
35,520	89,393	172,773	350,215	575,937	864,063	10
18,511.23	52,628.08	96,889	175,881	322,904	351,301	11
						12
18,511.23	56,627.69	96,889	175,881	322,904	351,301	
18,511.23	57,161.37	96,889	175,881	322,904	351,301	13
10,279,501	30,775,705	53,230,768	103,128,747	199,176,742	299,034,072	14
5,374,026	17,671,313	28,756,024	54,110,401	90,550,746	117,005,468	15
						16
877,601	1,742,098	410,184	(2,191,831)	16,175,011	23,293,325	
(807,234)	(2,512,775)	267,527	x	40,023,775	36,292,131	17
45,071	51,345	35,164	-	221,805	-	18
						19
5,399,323	16,879,679	29,014,889	50,887,283	99,165,057	152,924,337	
-	x(132,885)	-	-	-	-	20
5,399,322	16,706,794	29,014,889	50,887,283	99,165,057	152,924,337	21
0.006/0.009	0.0026/0.006	0.0014	0.0007	0.0006	0.0005	22
3,000,000	3,000,000	5,000,000	15,852,776	17,000,000	15,859,916	23

STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Badr Eddin Mohammed Ahmed Sulieman

Minister of National Industry in the Government of the Republic of the Sudan

Production during the 1997/98 season reached 356,000 tonnes of sugar, an increase of 23,000 tonnes (7%) over the 1996/97-season production; and an increase of 76,000 tonnes (27%) over 1995/96-season production. These results clearly demonstrate the continually increasing output of sugar in recent years. The average yield per feddan of sugar cane has also risen considerably in the past number of years. During this crop season the average yield per feddan reached 43.5 tonnes of cane, the best record in the history of the project and well above the World record of 40 tonnes per feddan. Also this is 12% over the 1996/97 yield and 33% over the 1996/97 season. The up-hill trend in the yield per feddan has led to the continuous rise in the quantity of cane harvested every year. Some 3.4 million tonnes of cane were harvested during this season, 16% higher than 1997/98 season and 32% higher 1995/96 season. The total turnover of the company from the sale of the Domestic and Export Sugar Quotas and molasses amounted to Sudanese Pounds 299 billion. The Export Quota proceeds totalled US Dollars 62.3 million, while in the 1996/97 it peaked at US Dollars 74.90 million out of a total turnover of Sudanese pounds 199.2 billion. This is considered an outstanding achievement bearing in mind the sharp decline in World sugar and molasses prices.

The profit for the year amounted to Sudanese pounds 117 billion (1996/97: Sudanese pounds 90.2 billion) a staggering 30% increase. These excellent results were made possible by a competent and highly motivated staff and management team, committed to initiating plans and programmes necessary to exceed annual targets. The unrestrained support to the Company from the Shareholders and the Board of Directors, contributed to this success.

Adopting wise and flexible marketing policies derived from the deep knowledge and understanding of the World sugar

market enhanced these results further. The target of the sales plan included the export of 175,500 tonnes of sugar (1996/97 season: 171,000 tonnes) and the export of 110,000 tonnes of molasses, (1996/97 season: 130,000 tonnes). During the period of the export campaign, the world market for sugar and molasses has been dominated by a near collapse in prices. This was mainly due to the international economic problems afflicting the countries of South East Asia, the increase in World sugar production and weak demand in the states of the former Soviet Union. Various strategies were adopted to limit the effect of the World market situation on the Company's revenues. The Company has based its marketing strategy for the season upon concentrating all efforts on those markets where there are particular advantages, such as proximity to Port Sudan (Yemen, Saudi Arabia and Somalia) or to countries where Sudan enjoys preferential arrangements in custom duties (COMESA Countries). About 65% of the Export Quota was sold overseas to countries including Yemen, Bangladesh, Chad, Somalia, India, Kenya, Saudi Arabia and Qatar. Some 19% of the Export Quota was sold locally to the Public Corporation for Sugar Trade, to cover the shortage in the domestic consumption, while the balance (16%) was sold to the Sudanese Free Zones Company (SFZ).

During the 1998-AGM, the Shareholders highlighted the need to re-evaluate and improve upon some aspects of the Company's accounts. In particular the variations in the Sudanese pound's exchange parity and other long outstanding debts, which had under-valued the Shareholders' Fund. Hence a comprehensive study was undertaken to enable the Company to correct these



differentials. This study will be presented to the Shareholders for their ratification.

This year marked the beginning of the implementation of the Company strategy for the 21st century: forecasting the appearance of a new generation of products at Kenana during the coming eight years. As of the 1998/99-production season, the Company will add new products from the Forestry Project (this has now reached a planted forestry area of 6,200 feddans). During the year about 180,000 eucalyptus trees will be felled and re-planted, and about 22,500 Hashab trees will be tapped for the production of gum Arabic. Next year will also mark the commercialisation of the Kenana Agricultural Implements Factory (KAIF). KAIF, which has been expanded and modernised to meet the market demand both locally and overseas, is capable of producing more than 20 different well-designed agricultural implements.

Detailed plans were assembled to promote these products in the overseas markets in collaboration with Nissho Iwai Corporation (Japan) (whose World-wide network we were able to benefit from).

Preparation to add new products as from 1999/2000-crop season is already underway.

Due to the sharp decline in World prices of molasses the Company has been forced to put the molasses utilisation projects at the top of the agenda for the New Year. These projects include the manufacturing of animal feed, yeast, methanol, medical alcohol, and other food and industrial ingredients.

During this season the second stage of the Factory Up-rating Project was completed. This is part of the largest investment project, which the Company is financing from its own resources at a cost of 42 million dollars. The objective of this project is to improve the

efficiency of the Factory processes as well as to raise the daily crushing capacity of the Factory from 17,000 tonnes to 26,000 tonnes of cane by the end of the year 2000. Other projects include the construction of the Company's warehouses and offices at Port Sudan, which is scheduled to commence at the beginning of 1999. The new warehouse will be able to handle all storage requirements for the export of Kenana sugar.

The company places serious emphasis on the working environment at Kenana Site and to the well-being and motivation of the employees. In this regard great importance is given to the work environment, internal and external training programmes, and staff conditions of service, in addition to the continuous improvement in environmental health services and preventive health measures. An ambitious project has been carried out to provide clean drinking water in four of the residential units on the Site at a cost of 3 billion pounds, the construction of which has now been completed and the water stations will come into operation at the beginning of 1999.

The Company has crafted a comprehensive strategy to face the challenges of 21st century, such as for globalisation, free trade & removal of boundaries and restrictions by the WTO and the fluctuations in the World prices of sugar and molasses. These challenges require greater flexibility, higher efficiency and improved quality products. Therefore, the new strategy was based on the maximisation of return on assets, diversification of products by utilising the sugar by-products, TQM, adoption of new IT strategies and strengthening of the Marketing Division.

In the short term, the Company has put forward plans to reduce the effect of lower sugar and molasses prices, (due to the global economic crisis and the collapse of the financial markets in the South East Asian region and the glut of sugar and other commodities). Hence, the Company has prepared the 1998/99 budget to address these issues by pursuing an austerity policy. Also, emphasis is being put on the strengthening of marketing tools to obtain the best prices under the most unfavourable conditions. The coming crop season 1998/99 is expected to be another success, with total production expected to be in excess of 365,000 tonnes of white sugar. The production season started on 30 October 1998 and the Factory is already exceeding the previous Year's average crushing capacity of 20,400 tonnes of cane per day. This is a clear indication that the Company will be able to attain this Year's production target.

Finally, I would like to extend my highest regards and appreciation to the Shareholders and the Board of Directors for their continuing help and support to the Company. My appreciation also goes to the Management and the staff for their dedication and commitment to the Company's success and progress.

Badr Eddin Mohammed
Ahmed Suleiman
Khartoum
January 1999

DIRECTORS' REPORT

The members of the Board of Directors submit their report together with audited accounts for the financial year ending 30 September 1998.

Assessment of 1997/98 season:

The 1997/98-production season was the longest and the most successful in the history of Kenana. The season commenced on October 15th 1997 and continued for 191 days (including a stoppage of 14 days due to accidental electrical fire and unseasonal heavy rains) and finished on April 24th 1998.

During the season a total of 3,439,578 tonnes of cane were harvested, a 9% increase over the projected target. The sugar production amounted to 355,817 tonnes, a 4.6% increase over the target in the operating budget and 7% above last season's production.

Cane production:

Cane production continued to be the salient feature behind the steady increase in production. The average yield per feddan rose to 43.5 tonnes, up 12% from last year's average of 38.8 tonnes per feddan. This stable rate of increase reflects the successful efforts of the management and the timely provision of the various agricultural inputs. The new 5-Year Agricultural Cycle has been completed, which led to the increase in the areas planted with new cane to 18,249 feddans per annum.

Cane harvest and transport:

The management of the harvesting and transportation of cane has kept pace with the substantial increase in the tonnage of cane. Moreover, the management of the harvesting operation managed to minimise cane losses despite the substantial increase in quantity of cane this year. During the crop a total of 3.4 million tonnes of cane (16% over the previous crop season) without major adversities.

The factory:

The average daily crushing rate reached 19,459 tonnes of cane to produce 355,917 tonnes of sugar at a recovery rate of 10.34%. This is an acceptable result considering the number of stoppages due to the various accidents occurred

during the season. The low recovery of sugar is attributed to a lower polarisation in the sugar cane this season.

Marketing and sales:

The marketing campaign was completed successfully despite many adverse conditions. During the year the World market was depressed due to lower demand in many regions especially the Far East. This was further compounded by the infiltration of cheaper sugar from Brazil, Mexico and Pakistan and the competition from the new sugar refineries in Dubai and Jeddah, who were targeting Kenana's traditional markets in the Red Sea and East Africa regions.

Hence, the marketing plan was crafted around the exploitation of the comparative advantages of the Sudanese sugar, such as geographical proximity and reduced customs tariffs imposed on Sudanese sugar in some markets. This enabled the Company to cash higher prices than the average international prices for sugar. Likewise, the domestic sugar sales have been carried out with great success. A new mechanism of delivery and payments was designed to suit the Company's financial requirements.



**Cash flows:**

The Company was able to fulfil all its financial commitments in local currency thanks to the newly introduced system tying the deliveries of sugar to monthly payment schedule.

The exchange rate of the Sudanese pound against the US. Dollar has fallen from 1,645 pounds = one US. Dollar on 30 September 1997 to 2,175 pounds = one US. Dollar on 30 September 1998.

Results for the year:

The revenues from sales reached 299 billion pounds (199.2 billion pounds last year), a staggering 50% increase. This increase is due to the upsurge in production and the prices of domestic sales and export sugar, in addition to the decline in the Sudanese pound parity against the US Dollar. The operating profits reached 117 billion pounds, against 90.6 billion pounds last year.

Projects and investment:

Work continued on the existing projects, in particular the "Factory Up-Rating Project". Most of the equipment for the Factory Up-Rating has been completed and commenced operation, including the steam boiler, the pan boilers, the syrup evaporators and the centrifugals. Consequently, the capacity of the Factory has risen to 22,000 tonnes of cane per day. When this Project is completed in Year 2000, the Factory capacity will reach 26,000 tonnes of cane per day.

Also, work is in progress to finish the Company's sugar warehouse in Port Sudan. The steelwork has already arrived at the project site and bids were invited and are currently under evaluation for the civil engineering works and the erection of the steel structure.

Pre-feasibility studies were launched for all projects proposed



under the "21st Century Strategy". Once properly evaluated these projects will be put forward for finance.

Forecasts:

Immediately after the end of the 1997/98-season efforts commenced to complete the necessary maintenance and rehabilitation programmes, in preparation for the new season.

It is projected that the total area under cane will rise to 80,000 feddans to produce 3.5 million tonnes of cane, at a 43.8 tonnes of cane yield per feddan. It is expected that the sugar recovery rate will be approximately 10.43%, thus producing 365,000 tonnes of sugar.

All the breakdowns of the past season in the electrical department of the factory have been fully rectified to ensure that they do not occur again in the future.

Company strategy:

Kenana prepared a detailed strategy for the 21st Century to face the challenges of globalisation and free trade. This strategy is based on the objectives of improving the efficiency of sugar production, the utilisation of the by-products, improvement of return on assets, TQM and trading in other origins using the expertise of the Marketing Division.

Share capital funding:

Authorised Share Capital remains constant at LS 590 million; nor has there been any movement on the share register during the year, with issued Share Capital continuing to be held in the following percentages:

Government of the Republic of the 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 the inside flyleaf of this report.

Auditors:

The retiring auditors, Bannaga and Gasim & Co (Khartoum) and Whinney Murray (Riyadh) are eligible for reappointment and have indicated their readiness to continue in office. Accordingly, your Board recommends their reappointment as joint auditors at a fee to be negotiated, to hold office until the close of business at the Annual General Meeting for 2000.

By order of the Board

Fareed Omer Medani
Company Secretary
Khartoum 2 January 1999

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)
1996/97	575,937	575,937	-	333	150	N/A	-	(525,721)
1997/98	864,063	864,063	-	356	150	N/A	-	(525,721)

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

Prices for the two seasons were negotiated simultaneously.

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

+ Cumulative credit from previous years.

PROFIT AND LOSS ACCOUNT

For the year ended 30 September 1998
(in thousands of Sudanese pounds)

	Note	1998	1997
Sales	5	299,034,072	199,176,742
Operating costs		114,387,205	65,295,756
Sales and distribution costs		19,193,638	15,188,418
General and administrative costs		24,132,381	13,967,421
Services and others		12,861,283	8,096,247
Depreciation	11	11,454,097	6,078,154
Total costs		182,028,604	108,625,996
Operating profit		117,005,468	90,550,746
Revenues and funding	6	45,913,749	36,539,904
Expenses and funding	6	(22,620,424)	(20,364,893)
Development tax	7	(2,990,341)	(1,991,176)
Other revenues	8	15,615,885	1,440,249
Profit before the change of accounting policy and currency differentials		152,924,337	106,174,830
Effect of change of accounting policy	9	-	(7,009,773)
Profit before net currency differentials		152,924,337	99,165,057
Net currency differentials	10	36,392,131	40,023,775
Net profit for year		189,316,468	139,188,832

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

BALANCE SHEET

For the year ended 30 September 1998
(in thousands of Sudanese pounds)

	Note	1998	1997
Assets in use			
Fixed assets	11	106,033,882	76,063,565
Capital works in progress	12	11,080,168	7,634,640
Investments	13	248	248
Current assets			
Inventories	14	90,257,069	68,467,986
Government of Sudan debt	15	643,941,721	420,620,129
Commercial and sundry debtors	16	98,839,149	81,654,338
Cash in hand and bank balances		36,152,936	58,174,121
		869,190,875	628,916,574
Current liabilities			
Creditors and amounts payable	17	47,979,146	59,600,121
Provisions		48,812,805	31,771,870
Short term loan instalments payable	22	4,341,648	7,715,710
Proposed dividend	18	34,495,317	27,965,000
		135,628,916	127,052,701
Net current assets		733,561,959	501,863,873
		850,676,257	585,562,326
Assets employed			
Shareholders' funds			
Capital	19	560,545	560,545
Currency differentials reserve	20	105,286,719	68,894,588
Capital reserve	21	478,640	336,000
Profits set aside		316,634,685	198,205,665
		422,960,589	267,996,798
Long term liabilities			
Long term loans	22	164,359,190	131,924,940
Interest on loans falling due	22	242,941,460	171,170,905
End of service gratuity	9	20,415,018	14,469,683
		427,715,668	317,565,528
		850,676,257	585,562,326

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

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ended 30 September 1998
(in thousands of Sudanese pounds)

	Note	Capital	Currency Differential Reserve	Capital Reserve	Retained Profit	Total
Balance on 30 September 1996		560,545	28,870,813	145,662	75,096,955	104,673,975
Debt settlement gains	23	-	-	-	51,326,047	51,326,047
Amended balance		560,545	28,870,813	145,662	126,423,002	156,000,022
Net profit for year		-	-	-	139,188,832	139,188,832
Proposed dividend	18				(27,965,000)	(27,965,000)
Transferred to currency differential reserve	20	-	40,023,775	-	(40,023,775)	-
Capital reserve	21	-	-	190,338	-	190,338
Balance on 30 September 1997		560,545	68,894,588	336,000	197,623,059	267,414,192
Currency differentials from previous years		-	-	-	582,606	582,606
Amended balance		560,545	68,894,588	336,000	198,205,665	267,996,798
Net profit for year		-	-	-	189,316,468	189,316,468
Proposed dividend	18	-	-	-	(34,495,317)	(34,495,317)
Transferred to currency differential reserve	20	-	36,392,131	-	(36,392,131)	-
Capital reserve	21	-	-	142,640	-	142,640
Balance on 30 September 1998		560,545	105,286,719	478,640	316,634,685	422,960,589

The enclosed notes 1 to 26 are considered
to be part of the financial statement

CASH FLOW STATEMENT

For the year ended 30 September 1998
(in thousands of Sudanese pounds)

	1998	1997
Operating activities		
Net profit	189,316,468	139,188,832
Amendments to:-		
Depreciation	11,454,097	6,078,154
Long term loans	32,434,250	-
Loan interest due	71,770,555	-
End of service gratuity provision	5,945,335	14,244,786
Loss (profit) on sale of fixed assets	87,050	(100,010)
Operating profit before movements in working capital	311,007,755	159,411,762
Increase in stocks	(21,789,083)	(28,978,220)
Increase in debts	(240,506,403)	(115,717,158)
(Decrease) increase in creditors	(3,562,292)	82,058,684
Net cash flow from operations	45,149,977	96,775,068
Investment activities		
Purchase of fixed assets	(44,956,992)	(45,872,929)
Sale of fixed assets	142,640	100,010
Net cash flow from investment activities	(44,814,352)	(45,772,919)
Finance activities		
Dividends paid	(22,356,810)	(23,064,844)
Net cash used in finance activities	(22,356,810)	(23,064,844)
(Decrease) increase in balances at the banks and cash in hand	(22,021,185)	27,937,305
Balances at the banks and cash in hand at the beginning of year	58,174,121	30,236,816
Balances at the banks and cash in hand at the end of year	36,152,936	58,174,121

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 1998

1 - Activities

Kenana Sugar Company is a limited company by shares registered in the Republic of the Sudan under the 1925 Companies' Law. The Company was registered on 11 March 1975 vide Registration Certificate No. G/1151. The main activities of the Company are the cultivation and production of sugar cane and other crops relating to the manufacturing of sugar and all its by-products-molasses and bagasse-and the crushing, processing and refining of sugar cane, the sale and distribution of sugar and other by-products. The Memorandum and Article of Association of the Company includes various other activities, which enables the Company to complement its core business.

2 - Currency

A The Company maintains its accounts in Sudanese pounds. The exchange rate for the Sudanese pound on the date of the balance sheet against the US dollars was 2,175 Sudanese pounds per dollar (1997: 1,645 Sudanese pounds).

B 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 all assets and liabilities denominated in foreign currency are translated into Sudanese pounds at the then prevailing exchange rate. All currency variations are posted to the profit and loss account.

3 - Movement in exchange rates

Due to the continuous decline in the exchange rate of the Sudanese pound against foreign currencies, it was deemed appropriate to re-assess all the assets recorded at historic exchange rates, based on the "International Accounting Standards No. 29". However, due to some practical difficulties, this hasn't been implemented yet. This issue is still under consideration and a final decision will be taken in the near future.

4 - Accounting policies

A Accounting convention

The financial statements are prepared in accordance with the historic cost principle.

B - Fixed assets

All the assets are registered at cost.

C - Depreciation

All Fixed Assets in use, in exception of land, are depreciated on the straight-line basis over their expected useful lives.

D - Investments

The long-term investments have been calculated at cost, less the provisions required for a non-temporary reduction in their value.

The accounts of the subsidiary Company has not been consolidated due to the low comparative value of the capital invested.

E - Inventories including standing cane

The inventories are stated at cost or net realisable value, whichever is the lower. The cost includes an appropriate portion of overhead expenditure as follows:

Standing sugar cane - Cost is based on an agreed formula.

Raw materials and supplies - Cost of purchase on the basis of the weighted average.

NOTES TO THE FINANCIAL STATEMENTS

Sugar and by-products - Cost of the direct materials and labour plus a proportion of the indirect costs in accordance with the normal activity levels.

F - End of service gratuity

In accordance with the Labour Law of the Republic of the Sudan, a provision was allocated to meet end of service gratuities for all the staff.

G - Sales

The sales represent the total value of all invoices for goods supplied by the Company during the year.

5 - Sales

Under the terms of the Sugar Sales Agreement, signed between the parties in 1975, a domestic sugar quota of 150,000 tonnes of sugar, is to be purchased annually by Sudan Government in accordance with a pricing formula which takes account, inter alia, of specific indexed cost inputs. However, the Domestic Sugar Quota 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:

A - The Company's US Dollar 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 the exchange rate prevailing on 30th September 1985.

B - In terms of a communication received from the Ministry of Finance, the Company's initial exemption from all business profit taxes is extended for a further ten years period. Recently, an agreement has been reached with regard to the methodology of pricing formula of the Domestic Sugar Quota, with effect from the 1991/1992 season onwards. Kenana is now engaged in large-scale export activity and is exporting all its production in excess of the Domestic Market Quota under secure contracts and payment is made by letters of credit or in cash prior to delivery in US dollars.

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

	1998		1997	
	M.T.	L.S.000	M.T.	L.S.000
Domestic Quota Sugar	150,000	129,609,450	150,000	86,390,550
Export quota sugar	210,700	56,937,949	180,381	102,141,756
Treacle	1,984	2,466,776	-	-
Small packages	2,742	2,459,128	21	15,855
Jaggery (sugar)	4	1,456	10	4,810
Molasses	98,919	7,559,313	131,720	10,623,771
		299,034,072		199,176,742

NOTES TO THE FINANCIAL STATEMENTS

6 - Revenues and Funding Costs

	1998	1997
Revenues		
Finance charges related to export quota	44,336,758	34,660,112
Export credit balance	1,576,991	1,879,792
	45,913,749	36,539,904
Costs		
Export credit re-scheduled loans	22,518,925	20,032,858
Bank overdraft	101,499	332,035
	22,620,424	20,364,893

7 - Development tax

As per the order of the Taxation Department dated 15th July 1995, the development tax amounts to 1% of annual sales.

8 - Other revenues

This includes all the amounts collected against last Year's (1997) current liabilities.

9 - The cumulative effect of changing the accounting policies relating to end of service benefit entitlement for staff

During the year 1997, the Company changed the accounting policy relating to the calculation of end of service benefit entitlement for staff on the basis of an end of service gratuity, rather than as an insurance fund. The Company made this change in accounting policy in the interests of the Company's staff. The effect of this change over the year ending on 30 September 1997 amounted to 7,502,244 Sudanese pounds (it was shown under items of expenditure). For the period from 1/10/1980 to 30/9/1996 it amounted to 7,009,773 Sudanese pounds. This amount is shown as a separate item in the profit and loss account under the heading "The Effect of the Change in Accounting Policy."

10 - Net variation in exchange parity

This represents the net variations in the re-assessment of assets and liabilities recorded in foreign currency on the Balance Sheet date.

11 - Fixed assets

The expected useful lives of the assets for the purpose of calculating the depreciation, is as follows:

Permanent buildings and infrastructure	25 years
Other buildings, equipment, pumps & furnishing	12 years
Agricultural equipment and other plant	5 years
Vehicles and other assets	4 years

NOTES TO THE FINANCIAL STATEMENTS

	Land buildings and infrastructure	Other buildings, equipment, machines, pumps and furnishings	Agricultural equipment and other plant	Vehicles, village housing and temporary structures	Total
COST					
At 30 September 1997	12,445,790	49,562,306	17,896,133	4,555,514	84,459,743
Additions	13,300,496	13,748,946	12,445,567	2,159,095	41,654,104
Disposals	-	-	(288,319)	(1,251)	(289,570)
At 30 September 1998	25,746,286	63,311,252	30,053,381	6,713,358	125,824,277
DEPRECIATION					
At 30 September 1997	488,394	3,293,360	3,462,144	1,152,280	8,396,178
For the year	537,487	4,528,063	4,967,648	1,420,899	11,454,097
Disposals	-	-	(58,629)	(1,251)	(59,880)
At 30 September 1998	1,025,881	7,821,423	8,371,163	2,571,928	19,790,395
NET BOOK AMOUNT					
At 30 September 1998	24,720,405	55,489,829	21,682,218	4,141,430	106,033,882
At 30 September 1997	11,957,396	46,268,946	14,433,989	3,403,234	76,063,565

12 - Capital works in progress

	1998	1997
Balance at beginning of year	7,634,640	29,710,020
Additions	44,956,992	45,872,929
Transfers to fixed assets	(41,511,464)	(67,948,309)
Balance at end of year	11,080,168	7,634,640

NOTES TO THE FINANCIAL STATEMENTS

13 - Investments

The investments in the Kenana Engineering and Technical Services Company (subsidiary Company) is represented by 2,476 ordinary shares with a nominal value of 100 Sudanese pounds (1997: 2,475 shares)

Due to the relative insignificance value of the investment in the subsidiary company no consolidated financial statements have been compiled.

14 - Inventories including standing cane

	1998	1997
Sugar	8,121,798	10,805,797
Standing cane	35,035,920	25,953,953
Forests	726,073	383,450
Spare parts, fuel etc.	46,373,273	31,324,786
	90,257,069	68,467,986

15 - Government of Sudan debt

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

	1998		1997	
	US\$ Million	L.S.000 Million	US\$ Million	L.S.000 Million
Balance at beginning of year	236.2	32,055.4	220.9	25,961.6
Sales	-	187,809.3	-	100,256.7
Finance charges	28.3	-	26.0	-
Receipts from operations	-	(151,329.2)	(10.7)	(94,171.9)
	264.5	68,535.5	236.2	32,055.4
US\$ element converted at prevailing exchange rate		575,406.5		388,564.7
		643,942.0		420,620.1

NOTES TO THE FINANCIAL STATEMENTS

16 - Other commercial debtors

	1998	1997
Commercial debtors	40,886,878	52,656,683
Cash deposits	1,684,320	445,297
Advances to employees	1,897,022	46,600
Advance payment to suppliers	43,892,346	26,230,099
Other debtors	10,478,583	2,275,659
	98,839,149	81,654,338

17 - Creditors and amounts payable

	1998	1997
Commercial creditors	12,827,367	20,040,489
Taxes and duties on sales	4,839,016	15,615,885
Sudanese Sugar Production Company	3,315,010	7,773,999
Advance payment by customers	6,100,920	-
Amounts due to insurance companies	308,169	3,859,805
Other creditors	6,932,213	8,402,654
Dividends payable	6,767,734	-
Expenses payable	6,888,717	3,907,289
	47,979,146	59,600,121

18 - Proposed dividends

	1998	1997
10% cumulative participating convertible preferred shares (A)	15,529	16,708
10% special cumulative participating convertible preferred shares (A)	34,479,788	27,948,242
	34,495,317	27,956,000

NOTES TO THE FINANCIAL STATEMENTS

19 - Share capital

	1998	1997
A. Authorised		
Ordinary shares of L.S. 100 each	76,475	76,475
10% cumulative participating convertible preferred shares (A) of L.S. 100 each	156,000	156,000
10% special cumulative participating convertible preferred shares (A) of L.S. 100 each	234,000	234,000
8% cumulative participating convertible preferred shares (B) of L.S. 100 each	123,525	123,525
	590,000	590,000
B - Issued and fully paid		
Ordinary shares	76,475	76,475
10% cumulative participating convertible preferred shares (A)	155,288	155,288
10% special cumulative participating convertible preferred shares (A)	206,086	206,086
8% cumulative participating convertible preferred shares (B)	122,696	122,696
	560,545	560,545

C - All classes of preferred shares are subject to conversion into ordinary shares if the Board of Directors so decide at any time after 1 June 1996, providing all declared dividends have first been paid in full before the appointed date for conversion.

D - Cumulative dividends, illustrated on the next page, under the Company's various classes of preferred shares are due for distribution to the shareholders and will affect the financial statements after distribution is declared.

NOTES TO THE FINANCIAL STATEMENTS

	Date of issue	Amount Issued	Annual interest rate %	Arrears as at 30/9/1998 L.S.000	Arrears as at 30/9/1997 L.S.000
Cumulative participating preferred shares "B"	April 1980	122,696	8	181,952	171,776
Cumulative participating preferred shares "A" July 1980					
1st series	July 1980	68,744	10	123,099	116,225
2nd series	October 1980	68,744	10	120,536	113,662
3rd series	Feb/Mar 1981	17,800	10	35,423	33,643
				279,058	263,530
Less total distribution				(57,788)	(42,260)
				221,270	221,270
Special cumulative participating preferred share "A"					
1st series	March 1983	117,000	10*	298,997,611	211,333,423
2nd series	July 1983	58,500	10*	145,913,508	102,955,073
3rd series	January 1985	30,586	10*	69,034,412	48,341,928
				513,945,531	362,630,424
Less total distribution				(133,034,225)	(74,545,680)
				380,911,306	288,084,744

*To be calculated on the basis of the amount subscribed for these shares in US dollars (at 1.30 L.S. 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. L.S. 2,175 to 1 dollars on 30 September 1998 (1997: L.S. 1,645).

E - In January 1983, shareholders of the Company committed themselves to subscribe to the sum of US\$ 180 million (one hundred and eighty million US dollars) being the value of special 10% interest bearing shares "A" convertible to ordinary shares of L.S.1 payable in three series. The first and second series totalling one hundred and seventy-five and a half million shares were paid for during 1983.

In accordance with the projected funding requirements, shareholders were invited to subscribe to the third series - 58.5 million shares on or before the second of January 1985. Shareholders accepted subscription for 30.6 million shares (thirty million six hundred thousand shares) and payment was made for them in the amount of US\$ 23.5 million (twenty-three and a half million US dollars).

NOTES TO THE FINANCIAL STATEMENTS

20 - Provision for currency variations

This represents the net gain from the variation in the exchange rate of the Sudanese pound against other currencies.

21 - Capital provision

This is a provision made out of the profits of the sale of fixed assets.

22 - Loans

The Bank of Sudan has agreed to include certain loans and interest falling due between the year 1984-1988 in rescheduling agreements to be signed between the Government of the Sudan and creditors. Accordingly the Company took this into consideration when preparing 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 Automobile Manufacturing and Trading Company (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 the accumulated interest until 30 September 1997.

It is not expected to repay any part of these loans, (with the exception of the loan of the National Automobile Manufacturing and Trading Company (Kuwait), within the next twelve months.

As illustrated in Note 5(A) the Government of Sudan has allowed pegging of the value of loans for dollars at the 30 September 1985 exchange rate for the US\$. But it has been decided as a matter of prudence to translate these loans at the rate of the Sudanese pounds against the original currency prevailing on the date of the balance sheet. However, these loans will be taken over by the Government of Sudan in accordance with rescheduling agreements as liability against the Government of Sudan at the rates of exchange prevailing on 30 September 1985, as already agreed with the Government of Sudan.

Analysis of foreign currency loans

	French francs (in 1000's)	Japanese yen (in 1000's)	Austrian schillings (in 1000's)	Kuwaiti dinars (in 1000's)	US dollars (in 1000's)
Total loans					
On 30 September 1998					
Principal	132,904	5,256,190	90,478	2,000	600
Accumulated interest	169,232	8,870,550	191,647	-	-
	302,536	14,126,740	282,125	2,000	600
On 30 September 1997					
Principal	132,904	5,256,190	90,478	3,000	1,200
Accumulated interest	156,341	7,763,847	166,640	-	-
	289,245	13,020,037	257,118	3,000	1,200

NOTES TO THE FINANCIAL STATEMENTS

	French francs (in 1000's)	Japanese yen (in 1000's)	Austrian schillings (in 1000's)	Kuwaiti dinars (in 1000's)	US dollars (in 1000's)
Equivalent in Sudanese currency					
Balance on 30/9/1998	411,642,298	116,102,709	226,451,647	51,899,702	15,183,240
Balance on 30/9/1997	310,811,555	80,410,004	177,072,505	34,129,916	17,225,130
Rate of interest	10.0	8.5	9.5	(-)	-

Sudanese pound exchange rate

1998 one pound =	0.0026	0.0624	0.0054	0.0001	0.0005
1997 one pound =	0.0036	0.0735	0.0075	0.0002	0.0006

The loan in Kuwaiti dinars includes the sum of four hundred thousand Kuwaiti dinars falling due during the year 1998/99 entered as part of the short term loans. Similarly, the loan in US dollars includes the sum of six hundred thousand US dollars falling due in full during the year 1998/1999 and which is also entered as part of short term loans.

23 - Debt settlement gains

On 2 March 1998 a settlement agreement was signed to settle the loan with the National Automobile Manufacturing and Trading Company (Kuwait). Under the provisions of this agreement the amount of the loan was reduced from 4,612,000 Kuwaiti Dinars to 3,000,000 KD to be paid over a period of three years without interest. It was also agreed to write off the loan interest accumulated to 30/9/1997.

The Company made a windfall gain as a result of the reduction in the amount of the loan and the writing-off of the interest accumulated to 30/9/1997 amounting to 51,326,047 Sudanese pounds, as follows:-

Gain from reduction in amount of the loan	L.S. 8,181,788
Gain from writing off interest on debt	L.S. 43,144,259
	L.S. 51,326,047

24 - Capital commitments

The Board of Directors of the Company authorised the disbursement of future expenses amounting to 1.2 billion Sudanese pounds (1997: 122,860 million Sudanese pounds).

25 - 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 in February 1988, this exemption is to be extended for a further ten years.

26 - Comparable figures

Some figures for last year have been reclassified to match the classification for the current year.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

WHINNEY MURRAY & ASSOCIATES
ERNST & YOUNG CHARTERED ACCOUNTANTS
P.O. BOX 2732 RIYADH 11461

BANNAGA AND GASIM & PARTNERS
CHARTERED ACCOUNTANTS AND AUDITORS
P.O. BOX 1503 KHARTOUM

To the Shareholders of the Kenana Sugar Company Limited (with limited liability)
Khartoum - Republic of the Sudan

We have examined the financial statements of the Kenana Sugar Company Limited as set out on pages 13 to 27. These financial statements are the responsibility of the management of the Company and have been prepared in accordance with the requirements of the Memorandum and Article of Association of the Company. We have been able to obtain all the information and explanations that we have requested. Based on the audit that we have conducted we are now able to express our opinion about these financial statements.

We have carried out our audit in accordance with international auditing standards (the only exceptions are detailed in the following two paragraphs). Our objective is to be satisfied to a reasonable degree that the financial statements do not contain any fundamental errors. The procedures for the audit includes the sample checking of accounting documents, the evaluation of the Company's accounting principles and the presentation of the financial statements. It is our belief that the audit we have conducted constitutes reasonable grounds on which to base our views.

As detailed in Note No 3 of the financial statements, the Company is operating under an inflationary economy. International Accounting Standard No. 29 requires that the financial statements for companies operating under inflationary condition should use the unit of measurement prevailing at the date of the balance sheet. Moreover, it requires the presentation of comparable figures and any other information using the same unit of measurement. However, as a result of practical considerations it has not been possible to apply this particular requirement.

During our audit we were unable to obtain an authentic confirmation regarding the Government of Sudan debt amounting to LS 643,941,721,000. In the absence of alternative measurements we are unable to confirm the correctness of this amount.

With the exception of the effect of any possible amendments to the financial statements, resulting from the two aforementioned points, the financial statements represent fairly the true financial position of the Company as at 30 September 1998. Moreover, the financial Statements show the accurate business results of the Company and the cash-flow situation for the year in accordance with internationally recognised accounting principles, and in accordance with the Memorandum and Article of Association of Kenana Sugar Company Limited.

In respect of Note No 25 (Taxation), it's important to inform the Shareholders that a legal action is currently under way from the Taxation Department in the Government of the Sudan, disputing the validity of the tax-exempt status of the Company.

Whinney Murray & Associates
Dr Abdullah Abdul Rahman Baishan

Bannaga and Gasim & Partners
Ismail Muhammad Ismail, Chartered Accountant, Khartoum

DIRECTORATE AND ADMINISTRATION



CHAIRMAN
Mr Badr Eddin
Mohammed Ahmed
Suleiman
Government of the
Republic of the Sudan



DEPUTY CHAIRMAN
Mr Musa Ali Abou-Taleb
Kuwait Real Estate
Investment Consortium



MANAGING DIRECTOR
Mr Osman Abdalla
El Nazir



**DEPUTY MANAGING
DIRECTOR**
(Khartoum)
Mr Ibrahim Ali Masalam



**DEPUTY MANAGING
DIRECTOR (Site)**
Mr Mohamed El-Mahl
El-Haj



Mr El Fatih Ali Siddiq
Government of the
Republic of the Sudan



Mr Ayed Abdulla
Alsumait
Kuwait Real Estate
Investment Consortium



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



Mr Mohammed Abdulla
Al-Sanle
Arab Authority for
Agriculture Investment
and Development

MEMBERS



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Hasan Ahmed
Government of the
Republic of the Sudan



Mr Ali Othman
Al-Ghannem
Kuwait Real Estate
Investment Consortium



Mr Abdulwahab
Ahmed Hamza
Sudan Development
Corporation

PRINCIPAL BANKERS

Bank of Sudan

El Nilein Bank (Khartoum)

British Arab Commercial Bank Ltd
(London)

Barclays Bank Plc (London)

National Westminster Bank Plc
(London)

JOINT AUDITORS

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(Khartoum)

Whinney Murray (Riyadh)

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El Karib & Medani (Khartoum)

Veil Armfelt & Associates
(Paris)

TECHNICAL CONSULTANTS

F. Schaffer & Associates (USA)

COMPANY SECRETARY

Mr Fareed Omer Medani

REGISTERED OFFICE

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