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REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF NATIONAL HOUSING CORPORATION FOR
THE YEAR ENDED 30 JUNE, 2004

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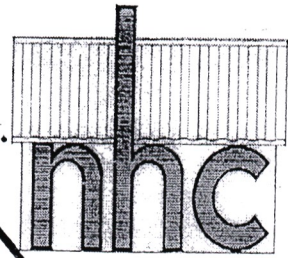
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NAIROBI**



NATIONAL HOUSING CORPORATION

**ANNUAL ACCOUNTS
FOR THE YEAR
ENDED 30TH JUNE 2004**

NATIONAL HOUSING CORPORATION
ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2004

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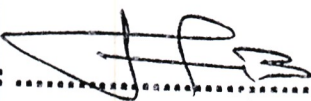


STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations Act, Cap 446, requires the Directors to prepare financial statements for each financial year, which include a balance sheet showing in detail the assets and liabilities of the Corporation, a statement of income and expenditure, and such other statements that the Directors may deem necessary. It also requires the Directors to ensure the Corporation keeps proper books of account and other books and records in relation to the Corporation and to all the undertakings, funds, investments activities and property of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice and in the manner required by the State Corporations Act, Cap 446. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Chairman: 

Managing Director: 

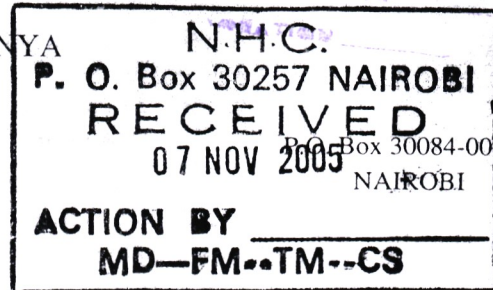
Date 5/7/05

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REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE, 2004

I have audited the financial statements of National Housing Corporation for the year ended 30 June, 2004 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

The directors are responsible for the preparation of financial statements which give a true and fair view of the Corporation's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. These standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe my audit provides a reasonable basis for the opinion.

1. Debtors

The Balance Sheet debtors and prepayments balance of Kshs.144,369,874 include an amount of Kshs.73,205,313 described as rent arrears in note 18 to the accounts. The arrears includes Kshs.28,244,210 owed by the Kenya Railways, Kshs.4,808,350 owed by individual tenants and Kshs.1,313,778 car loans owed by staff who have since ceased to be employees of the Corporation. It has not been possible to confirm whether and if so, when the Corporation will be able to

recover these amounts. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

2. Kenya Wine Agencies Ltd – Kshs.10,782,597

The Corporation spent Kshs.10,782,597 to acquire land from Kenya Wine Agencies Ltd. (KWAL) with the intention of building a Housing Project in Langata. Further although the Corporation has a legal section which could have handled the transfer, a private legal firm M/s T.O. Kopere and Company Advocates was engaged and paid Kshs.570,000 in respect of legal fee to handle the transfer. The firm has not however, so far been able to secure the title for the Corporation. The Corporation has not provided justification for the total expenditure of Kshs.11,352,597.

3. Board Expenses

The directors fees increased from Kshs.1,407,690 in 2002/2003 to Kshs.7,105,267 in 2003/2004, an increase of Kshs.5,697,577 or 405%. The increase was attributable to familiarization and induction of the new Board appointed in June, 2003 and an amount of Kshs.378,000 paid as sitting and lunch allowance to members of staff. The payment of allowances to members of staff was contrary to the provisions of Section 10(1) of the State Corporation's Act Cap 446 as amended by the State Law Miscellaneous Amendment Act No. 2 of 2002. Although the payment of sitting and lunch allowance to staff members has since stopped, the amount of Kshs.378,000 already paid has not been recovered.

Opinion

Except for the reservations set out in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June, 2004 and of its loss and cash flows for the year then ended and comply with the Housing Act, (Cap 117).



E.N. MWAI
CONTROLLER AND AUDITOR GENERAL

Nairobi

05 September 2005



NATIONAL HOUSING CORPORATION

NATIONAL ASSEMBLY LIBRARY
ACCESSION No. _____
LOCATION _____

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2004**

| | Notes | 2003/2004 Kshs | 2002/2003 Kshs |
|---------------------------------|-------|--------------------|--------------------|
| INCOME | | | |
| TURNOVER | 1 | 404,672,928 | 382,710,686 |
| FOREIGN EXCHANGE GAIN / (LOSS) | 2 | (4,311,172) | 4,082,860 |
| | | 400,361,756 | 386,793,546 |
| OUTGO | | | |
| INTEREST EXPENSE | 3 | 166,576,012 | 166,576,012 |
| STAFF COSTS | 4 | 105,596,762 | 105,596,762 |
| OTHER OPERATING EXPENSES | 5 | 119,533,502 | 119,533,502 |
| | | 261,494,346 | 391,706,276 |
| PROFIT/(LOSS) BEFORE TAX | | 138,867,410 | (4,912,730) |
| TAX | 6 | | 0 |
| PROFIT/(LOSS) AFTER TAX | | 138,867,410 | (4,912,730) |

The notes on pages 6 to 18 form part of these Accounts



**BALANCE SHEET
AS AT 30 JUNE 2004**

CAPITAL EMPLOYED

| | |
|------------------|-------|
| EQUITY | Notes |
| LONG TERM LOANS | 7 (a) |
| TRDU PROJECT | 7(b) |
| RESERVES | 8 |
| RETAINED PROFITS | 9 |
| | 10 |

REPRESENTED BY

NON CURRENT ASSETS

| | |
|-------------------------------|----|
| PROPERTY, PLANT AND EQUIPMENT | 11 |
| LONG TERM LOANS ADVANCED | 12 |
| INVESTMENT | 13 |
| GOVERNMENT SECURITIES | 14 |

CURRENT ASSETS

| | |
|-----------------------------|----|
| HOUSING SCHEMES IN PROGRESS | 15 |
| LOAN AMOUNT RECEIVABLE | 16 |
| CONSUMABLE STOCK | 17 |
| DEBTORS & PREPAYMENTS | 18 |
| CASH & CASH EQUIVALENTS | 19 |

TOTAL ASSETS

LIABILITIES

| | |
|------------------------|----|
| LOAN AMOUNT PAYABLE | 20 |
| TRADE & OTHER PAYABLES | 21 |
| TAXATION | 22 |

TOTAL LIABILITIES

NET ASSETS

| 2003/2004 | 2002/2003 |
|----------------------|----------------------|
| (Ksh) | Kshs |
| 4,319,318,523 | 17,001,696 |
| 37,935,215 | 2,007,653,923 |
| 24,002,736 | 24,002,736 |
| | (239,151,373) |
| 138,863,610 | (439,044,370) |
| 5,020,120,084 | 1,370,462,612 |
| 118,095,665 | 118,095,665 |
| 1,645,075,876 | 1,758,651,090 |
| 5,200,000 | 5,200,000 |
| 47,623,384 | - |
| 2,110,994,925 | 1,881,946,755 |
| 352,330,764 | 352,330,764 |
| 2,445,749,785 | 2,365,229,296 |
| 6,452,755 | 6,452,755 |
| 144,828,024 | 144,828,024 |
| 297,319,489 | 297,319,489 |
| 3,007,828,259 | 3,166,160,328 |
| 5,166,232,624 | 5,048,107,083 |
| 3,537,709,042 | 3,537,709,042 |
| 139,706,631 | 139,706,631 |
| 228,798 | 228,798 |
| 3,677,644,471 | 3,677,644,471 |
| 5,020,120,084 | 1,370,462,612 |

CHAIRMAN.....

DATE 5/7/05.....

MANAGING DIRECTOR.....

DATE 30/6/05.....

The notes on pages 6 to 18 form part of these accounts.



NATIONAL HOUSING CORPORATION

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2004**

ACCOUNTING POLICIES

At Start of Year

Net Profit (Loss)

Prior Year Adjustments

GOK Equity

Long Term Loans Paid

At Year End



2002/2003

Ksh.

1,540,027,536

(4,912,730)

(45,502,242)

980,028

(120,129,980)

1,370,462,612





**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004**

| | Notes | 2003/2004 KSh | 2002/2003 KSh. |
|--|-------|------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Cash generated from operations | 24 | (3,275,186,875) | (33,406,170) |
| Net cash from operating activities | | (3,275,186,875) | (33,406,170) |
| INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | 11 | (16,242,612) | (11,393,881) |
| Loans advanced | | (3,307,504) | (3,367,406) |
| Tenant purchase | | (26,143,924) | 14,239,537 |
| Sale of fixed assets | | 866,000 | 1,277,000 |
| GOK Conversion | | (3,537,709,042) | - |
| GOK Funding TRDU | 8 | - | 980,028 |
| Investment in Bonds | | (417,623,584) | - |
| Investment in Treasury Bills | | (15,884,395) | 156,884,395 |
| Redemption of Long term loans | | 86,053,722 | 88,922,398 |
| Repayment by Tenant Purchasers | 25 | 81,253,892 | 86,959,855 |
| Repayment of Federal Home Bank Loan | | (30,355,319) | (31,515,070) |
| Net cash from/ investing activities | | 3,055,325,318 | 302,986,856 |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | - | - |
| Net cash used in financing activities | | - | - |
| Decrease in cash and cash equivalents | | (219,861,557) | 269,580,686 |
| MOVEMENT IN CASH AND CASH EQUIVALENTS | | | |
| At start of the year | | 297,319,489 | 27,738,803 |
| Effects of exchange rate changes on cash and cash equivalents | | (4,314,072) | - |
| At end of year | 19 | 73,143,860 | 297,319,489 |



**ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2004**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a. BASIS OF PREPARATION

The financial statements are presented in Kenya Shillings (KShs.) and prepared under the historical cost convention, as modified by the carrying of certain investments at fair value.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Managements best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b. PLANT, EQUIPMENT AND MOTOR VEHICLES

All items of plant, equipment and motor vehicles are recorded at cost less depreciation.

Depreciation is calculated on the reducing balance basis, at the following annual rates:

| | |
|----------------------------------|-------|
| - Computer System | - 30% |
| - Furniture, Fitting & Equipment | - 20% |
| - Motor Vehicles | - 25% |

Buildings are amortised at the rate of 6%.

Gains and losses on disposal of motor vehicles are determined by reference to their carrying amounts and are taken into account in determining the operating profit.

c. OTHER INVESTMENT

The Corporation has investments in securities issued by the Kenya Government. Any premium or discount is amortised through Profit & Loss Account, based on the life of the investment.



ACCOUNTING POLICIES Continued
FOR THE YEAR ENDED 30 JUNE 2004.

d. INVESTMENT INCOME

Investment income is stated net of investment expenses. Interest is recognized as income in the period in which it is earned.

e. TRANSLATION OF FOREIGN CURRENCIES

The transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates.

The difference arising from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

f. RETIREMENT BENEFIT OBLIGATIONS

The Corporation operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the Corporation and the employees.

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF).

The corporation's contribution to the defined contribution retirement benefit scheme and to the NSSF in respect of current service are charged to the profit and loss account in the year.

g. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short term, highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

h. STOCKS

Consumable stocks are valued at cost, on the basis of first in first out.

i. REVENUE RECOGNITION

Income has been recognized on accrual basis. An estimate for doubtful debts, specifically on Rural Housing Loans, is made when collection for the full amount is no longer probable.



NATIONAL HOUSING CORPORATION

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

1. TURNOVER

The sources of income are as stipulated below:

| ITEM | 2002/2003 Ksh. |
|--------------------------------|--------------------|
| Interest | 279,666,869 |
| Rents | 90,960,475 |
| Professional Fees | 2,237,630 |
| Gain on Sale of Houses | |
| Gain/(Loss) on Sale of Trusses | 571,428 |
| Other Income | 9,274,283 |
| TOTAL | 382,710,685 |

2. FOREIGN EXCHANGE GAIN/ (LOSS)

The US \$5,000,000 loan borrowed in 1974 at the rate of Ksh.7.00 to US \$1, is repaid at the ruling rates which stood at Sh.79.51 as at 30.06.2004 (Sh.74.40 as at 30.06.2003).

The losses or gains arising from the translations are recognized in the Profit & Loss Account.

3. INTEREST EXPENSE

The interest expense is made up of:

| | 2003/2004 Ksh. | 2002/2003 Ksh. |
|-------------------------|-------------------|--------------------|
| Bond Premiums Amortised | 1,166,680 | |
| Federal Home Loan | 2,184,500 | 3,529,209 |
| GOK Loans | | 163,046,804 |
| TOTAL | 3,347,782 | 166,576,013 |



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

4. STAFF COSTS

Staff costs comprise the following:

| | 2003/2004 Ksh | 2002/2003 Ksh. |
|--------------------------|-------------------|--------------------|
| Retirement Benefit costs | 9,164,224 | 9,023,992 |
| Salaries & Emoluments | 90,352,464 | 96,572,770 |
| TOTAL | 99,517,688 | 105,596,762 |

The number of persons employed by the Corporation by 30.06.2004 was 364 (2002/2003: 354).

5. PROFIT BEFORE TAX

Profit before tax is stated after charging:

| ITEM | 2003/2004 Ksh | 2002/2003 Ksh |
|---------------------------------|--------------------|--------------------|
| Depreciation | 10,341,392 | 9,958,354 |
| Directors Fees | 1,105,467 | 1,407,690 |
| Auditors Remuneration | 553,450 | 666,250 |
| TOTAL | 11,999,309 | 12,032,294 |
| Other Operating Expenses | | |
| Loss on Capital Schemes | 21,683,233 | 1,916,899 |
| Property & Estates | 52,440,284 | 28,550,055 |
| Motor Vehicle Expenses | 4,573,201 | 5,877,887 |
| Repairs of Equipment | 4,779,463 | 4,366,283 |
| Travelling | 7,141,732 | 2,599,829 |
| Printing & Stationery | 6,511,952 | 3,014,188 |
| Office rents | 10,026,306 | 10,072,008 |
| Postage & Telephones | 4,343,908 | 6,656,431 |
| Advertising | 4,341,493 | 3,376,632 |
| Insurance | 2,939,009 | 2,702,975 |
| Bank Charges | 336,331 | 769,222 |
| Library Expenses | 439,516 | 492,480 |
| Staff Uniforms | 169,342 | 1,104,135 |
| Exhibition | 289,965 | 1,853,037 |
| Training | 3,439,107 | 2,621,791 |
| Bad Debts Provision- Specific | 4,016,131 | - |
| - General | 1,652,127 | 2,122,132 |
| Debt Collection Expenses | 4,071,049 | 1,784,742 |
| Legal Charges | 2,163,326 | 7,034,898 |
| Staff Sports Club | 523,745 | 683,385 |
| Miscellaneous Expenses | 1,387,698 | 1,505,250 |
| Loss on Deposits | - | 14,720,279 |
| Maintenance General | 168,047 | 103,576 |
| Donations | 53,424 | 50,000 |
| Entertainment | 5,795,029 | 3,523,094 |
| TOTAL | 140,623,465 | 107,501,208 |
| TOTAL | 158,628,876 | 119,533,502 |



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

6. TAX

Tax assessments have been agreed with Income Tax Department upto and including the year ended 31.12.1994. Assessment for the years 1995 to 1999 had not been agreed on, as at 30.06.2004.

7. (a) EQUITY

The Corporation is formed under the Housing Act, Cap 117 and is fully owned by the Government of Kenya.

The Cabinet approved the conversion of long term GOK loans and arrears due into Equity. The Corporation has prepared the accounts on the assumption that GOK debt has been converted into Equity. Equity comprise of:

| | 2003/2004 | 2002/2003 |
|-----------------------|----------------------|-------------------|
| | Ksh. | Ksh. |
| GOK Block Equity | 17,001,696 | 17,001,696 |
| Reserves | (239,131,373) | |
| Retained Losses | (269,047,370) | |
| Prior Year Adjustment | 3,440,116 | |
| GOK Conversion | 5,477,072,424 | |
| TOTAL | 4,819,318,520 | 17,001,696 |

7. (b) LONG TERM LOANS

The debt portfolio is as follows:

| | 2003/2004 | 2002/2003 |
|-------------------|-------------------|----------------------|
| | Ksh. | Ksh. |
| Due to GOK | 1,939,363,390 | 1,939,363,390 |
| Federal Home Loan | 37,905,215 | 68,290,533 |
| TOTAL | 37,905,215 | 2,007,653,923 |

8. TRDU PROJECT

The TRDU project was handed over to the Corporation from GOK in March 2002. The Corporation has been funding the Unit and its accounts are incorporated to those of NHC.

The amounts indicated of Sh.24 million represent the net worth of the separable net assets of the Unit at the time of handover.



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

9. RESERVES

These are losses made up as follows:

| | 2003/2004 | 2002/2003 |
|---------------------------|-----------|-----------------------|
| - Loss on sale of houses | - | Sh.133,035,868 |
| - Foreign exchange losses | - | Sh.106,115,505 |
| TOTAL | | Sh.239,151,373 |

The amounts in the sale of houses Equalization Account were gains / losses realized upon closure of schemes upto 1994 when they were taken to reserves. From 1995 such gains or losses have been taken to the Profit and Loss Account.

The Corporation borrowed US \$5,000,000 in 1974 at the rate of Ksh.7.00 to US \$1, but repaying the same at the ruling rates which stood at Sh.79.51 as at 30.06.2004 (Sh.74.40 as at 30.06.2003).

The figure of Sh.106,115,505 represents losses accumulated over the years following translation of the amount due into Kenya Shillings at the ruling rates. Foreign exchange losses/gains incurred after 1993 (Sh.65.1424 to \$1, at 30.06.1993) are recognized annually in the profit and loss account.

The accumulated losses were set off against shareholder's funds at the point of implementing the Corporation's capital restructuring in 2003/2004.

10. RETAINED PROFITS / (LOSSES)

| | 2003/2004 Ksh. | 2002/2003 Ksh. |
|------------------------|--------------------|----------------------|
| Bal.b/d | | (388,629,397) |
| Prior Year Adjustments | | (45,502,242) |
| Profit / (Loss) | 138,866,616 | (4,912,730) |
| TOTAL | 138,866,616 | (439,044,370) |

The accumulated losses as at 2002/2003 were set off as explained in Note 9, above.



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

11. PROPERTY, PLANT & EQUIPMENT MOVEMENT SCHEDULE

| | LAND & BUILDING | MOTOR VEHICLE | PLANT EQUIPMENT | FURNITURE & FITTING | COMPUTER SYTEM | TOTAL AMOUNT |
|------------------------|--------------------|------------------|--------------------|------------------------|-------------------|-----------------|
| COST | | | | | | |
| At 1ST JULY 2003 | 113,367,667 | 38,414,745 | 20,554,366 | 21,213,611 | 36,498,163 | 230,048,552 |
| Additions | | 12,284,228 | 1,548,460 | 981,839 | 1,428,085 | 16,242,610 |
| Disposals | | 7,575,846 | - | - | - | 7,575,846 |
| At 30TH JUNE 2004 | 113,367,667 | 43,123,127 | 22,102,826 | 22,195,450 | 37,926,248 | 238,715,318 |
| DEPRECIATION | | | | | | |
| At 1ST JULY 2003 | 35,001,835 | 24,859,168 | 9,686,832 | 17,674,282 | 24,730,770 | 111,952,887 |
| Charge for the year | - | 4,417,321 | 1,792,403 | 745,292 | 3,386,378 | 10,341,394 |
| Amortisation Buildings | 2,859,429 | - | - | - | - | 2,859,429 |
| On disposal | - | 6,948,297 | - | - | - | 6,948,297 |
| At 30TH JUNE 2004 | 37,861,264 | 22,328,192 | 11,479,235 | 18,419,574 | 28,117,148 | 118,205,413 |
| NET BOOK VALUE | | | | | | |
| At 30TH JUNE 2004 | 75,506,403 | 20,794,935 | 10,623,591 | 3,775,876 | 9,809,100 | 120,509,905 |
| At 1ST JULY 2003 | 78,365,832 | 13,555,577 | 10,867,534 | 3,539,329 | 11,767,393 | 118,095,665 |

Amortisation on Buildings is treated as loan charges under Property and Estates in the Profit and Loss. An amount of Shs.2,859,429 has been charged to Profit & Loss.

Depreciation on other fixed asset items at Sh.10,341,394 has also been included in the Profit and Loss Account.

12. LONG TERM LOANS

These include loans to Councils, Rural Housing Loans, Car Loans and Tenant Purchase Loans.



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

| | 2003/2004 Ksh. | 2002/2003 Ksh. |
|------------------------|----------------------|----------------------|
| Local Authorities | 844,232,121 | 929,656,441 |
| Rural Housing Loans | 7,676,347 | 9,499,155 |
| Car Loans | 3,708,506 | 4,952,072 |
| TOTAL | 855,617,974 | 944,107,668 |
| TENANT PURCHASE | | |
| Schemes at Cost | 1,281,118,641 | 1,254,974,707 |
| Repayments | (621,685,176) | (440,431,285) |
| NET | 659,433,465 | 814,543,422 |
| TOTAL LOANS | 1,515,051,439 | 1,758,651,090 |

Provision for loss on long term loans advanced is provided on Rural Housing Loans only. The other loans are secured on the property.

Tenant Purchase Houses can be repossessed for reallocation in cases where purchasers default on the provisions of the Tenant Purchase agreement.

13 . INVESTMENTS

These are investments held with the Consolidated Bank of Kenya

| | 2003/2004 Ksh. | 2002/2003 Ksh. |
|--|-------------------|-------------------|
| 4% Non-Cum Pref. Shares of Sh.20.00 each. | 4,100,000 | 4,100,000 |
| Ordinary Shares of Sh.20 each | 1,100,000 | 1,100,000 |
| TOTAL | 5,200,000 | 5,200,000 |

These shares are valued at cost. They arose following take-over of some troubled financial institutions by the Government. These institutions were Jimba Credit, Union Bank and Business Finance Ltd.



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

14. GOVERNMENT SECURITIES

The maturity profile of government securities at year end:

| | 2003/2004 | 2002/2003 |
|--------------------|------------------|-----------|
| | Ksh. | Ksh. |
| In 1 to 5 Years | 1,918,570 | - |
| In 5 to 10 Years | 1,489,765 | - |
| Amortised Discount | 1,130 | - |
| Amortised premium | 16,361 | - |
| TOTAL | 3,425,826 | - |

The discount and premiums on purchase of the securities has been written down to the Profit And Loss Account, based on the lifespan of a particular security.

15. HOUSING SCHEMES IN PROGRESS

These are valued at cost, and comprises of:

| | 2003/2004 | 2002/2003 |
|-----------------|--------------------|--------------------|
| | Ksh. | Ksh. |
| Tenant Purchase | 189,716,845 | 189,716,845 |
| Mortgage | 149,415,175 | 149,415,175 |
| Other Projects | 13,198,744 | 13,198,744 |
| TOTAL | 352,330,764 | 352,330,764 |

16. LOAN AMOUNTS RECEIVABLE

| | 2003/2004 | 2002/2003 |
|----------------------------|----------------------|----------------------|
| | Ksh. | Ksh. |
| Rural Housing Loans | | |
| Amounts Due | 238,342,450 | 238,342,450 |
| Repayments | (76,342,248) | (76,342,248) |
| Provision for Bad Debts | (34,202,482) | (34,202,482) |
| | 127,797,720 | 127,797,720 |
| Local Authorities | 2,235,765,486 | 2,235,765,486 |
| Staff Car Loans | 1,666,090 | 1,666,090 |
| TOTAL | 2,365,229,296 | 2,365,229,296 |

A general Provision for Bad debts is provided for Rural Housing Loans only. Local Authority loans and Staff Car Loans are secured on the properties.



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

17. CONSUMABLE STOCK

Stock has been valued at cost, and is made up of

| | 2003/2004 | 2002/2003 |
|-------------------|------------------|------------------|
| | | Ksh. |
| Consumable Stores | 3,999,752 | 3,520,206 |
| Stock of Timber | 1,376,301 | 1,272,094 |
| W.I.P at TRDU | 1,057,253 | 1,660,455 |
| TOTAL | 6,433,306 | 6,452,755 |

18. DEBTORS AND PREPAYMENTS

These are made up of:

| | 2003/2004 | 2002/2003 |
|----------------------|--------------------|--------------------|
| | Ksh. | Ksh. |
| Rent Arrears | 78,205,313 | 80,184,056 |
| Sundry Debtors | 80,299,189 | 76,861,036 |
| Conveyancing Prepaid | (12,134,608) | (12,217,068) |
| TOTAL | 146,369,874 | 144,828,024 |

Conveyancing prepaid refers to amounts paid by house purchasers for conveyancing expenses. The amount had not been paid over to the service provider by NHC at the Balance Sheet date.

19. CASH AND CASH EQUIVALENTS

For purposes of the cash flow statement, cash and cash equivalents comprise the following:

| | 2003/2004 | 2002/2003 |
|------------------------|-------------------|--------------------|
| | Ksh. | Ksh. |
| Bank Balance | 73,143,850 | 140,435,094 |
| Short Term Deposits | | |
| Central Bank of Kenya | | 156,884,396 |
| Prudential Bank | | 73,499,878 |
| Indo-Africa | | 3,000,000 |
| Continental Credit Ltd | | 12,215,964 |
| Provisions for loss | | (88,715,843) |
| SUBTOTAL | | 156,884,395 |
| TOTAL | 73,143,850 | 297,319,489 |



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

Bank balances represent balances at bank per the cash books.

The Corporation made provision for loss on Short Term Deposits held at Prudential Bank, Indo-Africa and Continental Credit Ltd. The losses were written off to the Profit and Loss for the five years to 30.06.2003.

20. LOAN AMOUNTS PAYABLE

These comprise of:

| | 2003/2004 | 2002/2003 |
|-------------------|-----------|----------------------|
| | Ksh. | Ksh. |
| GOK Loans | | 3,537,709,042 |
| Federal Home Loan | | - |
| TOTAL | | 3,537,709,042 |

The amounts due on GOK Loans represent amounts that have now been recognized as GOK equity. The conversion has been taken into account in 2003/2004.

The amount on the Federal Home Loan represent two installments on the \$5 million loan that had not been paid as at 30.06.2004.

21. TRADE AND OTHER PAYABLES

These comprise of:

| | 2003/2004 | 2002/2003 |
|-------------------|-----------|--------------------|
| | Ksh. | Ksh. |
| House Deposits | | 61,507,116 |
| TP Service Charge | | 26,203,162 |
| Contractors | | 13,276,315 |
| Sundry Creditors | | 38,720,038 |
| TOTAL | | 139,706,631 |

House deposits are amounts received from prospective house purchasers in respect of the various housing schemes. The amounts are treated as creditors until allocation of the houses is done.

Tenant Purchase service charge are amount accrued and payable by tenant house purchasers to cater for maintenance of common areas and insurance of properties against fire and perils.



NOTES FORMING PART OF THE FINANCIAL STATEMENTS Continued
FOR THE YEAR ENDED 30 JUNE 2004

22. TAXATION

This is a provision for taxation pending the finalization of tax returns and self assessment.

23. RELATED PARTY TRANSACTIONS

(a) Staff Loans

The amounts outstanding (balances not due) on loans to officers of the Corporation are:

| | 2003/2004 Ksh. | 2002/2003 Ksh. |
|-----------------------|-------------------|-------------------|
| Tenant Purchase Loans | 31,715,055 | 33,328,437 |
| Car Loans | 3,309,955 | 4,952,072 |
| TOTAL | 35,025,010 | 38,280,509 |

These loans have been advanced per the terms prescribed in the terms of employment and the Corporation Regulations.

(b) Directors Fees

The directors' Fees were Sh.7,105,267 (2002/2003: Sh.1,407,690).

24. CASH GENERATED FROM OPERATING ACTIVITIES

| | 2003/2004 Shs. | 2002/2003 Shs. |
|---|------------------------|---------------------|
| CASHFLOW GENERATED FROM OPERATIONS | | |
| Net Profit (Loss) before Tax | 4,912,730 | (4,912,730) |
| Adjustments for items not involving movement of cash | | |
| Depreciation | 9,958,354 | 9,958,354 |
| Amortisation of Fixed Assets | 2,856,343 | 2,856,343 |
| RHL bad debts Provisions | 2,122,132 | 2,122,132 |
| Foreign Exchange (Gain) / Loss | (4,082,860) | (4,082,860) |
| Adjustment on proposed financial subsidiary | 3,912,528 | 3,912,528 |
| Gain on sale of Motor Vehicles | (1,078,632) | (1,078,632) |
| Prior year adjustments | (45,502,242) | (45,502,242) |
| Operating profit before working capital | (36,727,147) | (36,727,147) |
| Working capital adjustments: | | |
| Increase in debtors & prepayments | 49,355,448 | 49,355,448 |
| Increase in stock | (1,739,110) | (1,739,110) |
| Increase in creditors | 32,667,820 | 32,667,820 |
| Increase in withholding tax | - | - |
| Housing schemes in progress | (62,508,079) | (62,508,079) |
| Arrears on loan charges | (118,539,285) | (118,539,285) |
| Short term deposits | (40,073,047) | (40,073,047) |
| Loans due to Government | 144,157,190 | 144,157,190 |
| Working capital changes | 3,320,937 | 3,320,937 |
| TOTAL CASH GENERATED | (3,275,186,255) | (33,406,170) |



NATIONAL HOUSING CORPORATION

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *Continued*
FOR THE YEAR ENDED 30 JUNE 2004

25. REDEMPTION OF LONG TERM LOANS

Long term loans include loans to Local Authorities, Rural Housing Loans and staff car loans. *See Note 12.*

| | | 2002/2003 |
|------------------------|--|--------------------|
| | | Ksh. |
| LONG TERM LOANS | | |
| At Start | | 1,031,784,792 |
| Advances | | 3,367,406 |
| Repayments | | (91,044,530) |
| TOTAL | | 944,107,668 |
| | | |
| TENANT PURCHASE | | |
| At Start | | 901,503,278 |
| Adjustment/Advances | | |
| Repayments | | (86,959,855) |
| TOTAL | | 814,543,423 |