

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper Land*  
*for the Leader*  
*Majority*  
*Anty Hsu*  
*Ken Diale*  
*on Tuesday*  
*29/7/2015*  
*[Signature]*

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYA INDUSTRIAL ESTATES  
LIMITED

FOR THE YEAR ENDED  
30 JUNE 2014



---

KENYA INDUSTRIAL ESTATES LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014

---

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

TABLE OF CONTENTS

|  |    |
|--|----|
| KEY INFORMATION OF KENYA INDUSTRIAL ESTATES LIMITED .....                | 3  |
| THE BOARD OF DIRECTORS.....  | 6  |
| MANAGEMENT TEAM.....   | 8  |
| CHAIRMAN'S STATEMENT.....  | 11 |
| REPORT OF THE CHIEF EXECUTIVE OFFICER .....                              | 13 |
| CORPORATE GOVERNANCE STATEMENT.....                                      | 14 |
| CORPORATE SOCIAL RESPONSIBILITY STATEMENT.....                           | 14 |
| REPORT OF THE DIRECTORS .....  | 15 |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES .....                           | 16 |
| REPORT OF THE INDEPENDENT AUDITORS ON KENYA INDUSTRIAL ESTATES LTD. .... | 17 |
| STATEMENT OF COMPREHENSIVE INCOME.....                                   | 19 |
| STATEMENT OF FINANCIAL POSITION .....                                    | 20 |
| STATEMENT OF CHANGES IN EQUITY .....                                     | 21 |
| STATEMENT OF CASH FLOWS.....   | 22 |
| SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....                         | 23 |
| NOTES TO THE FINANCIAL STATEMENTS .....                                  | 29 |

## KEY INFORMATION OF KENYA INDUSTRIAL ESTATES LIMITED

### Background information

Kenya Industrial Estates Ltd was established as a Limited liability Company under the Companies Act in 1967. At cabinet level, the company is represented by the Cabinet Secretary for Industrialisation and Enterprise Development, who is responsible for the general policy and strategic direction of the company.

### Principal Activities

The principal activity of the company is to promote and facilitate industrialisation through the provision of credit facilities, business development services and industrial work spaces.

### Directors

The Board of Directors is appointed in line with the Provisions of section 6 of the State Corporations Act (Chapter 446) Laws of Kenya.

The provisions of section 6 provide that the Board shall comprise of:

- a) A Chairman appointed by the President who shall be non-executive unless the President otherwise directs;
- b) The Chief Executive;
- c) The Principal Secretary of the parent Ministry;
- d) The Principal Secretary to the National Treasury; and
- e) Not more than seven other members not being employees of the state corporation, of whom not more than three shall be public officers, appointed by the Cabinet Secretary.

The appointment is by name and by notice in the Gazette and is for a renewable period of three years or for such shorter period as may be specified in the notice.

The Directors who served the company during the year/period were as follows:

- |    |   |                   |                              |
|----|---|-------------------|------------------------------|
| 1. | Wachira Mahihu  | - Chairman        | - Appointed on the 31/1/2014 |
| 2. | Julius Mokogi   | - Chief Executive | - Re-appointed on 23/12/2012 |
| 3. | Christopher Oisebe  |                   |                              |
|    | Alternate to the PS, National Treasury                                      |                   | -Appointed on 10/01/2014     |
| 4. | Geoffrey Mulama   |                   | -Appointed on 10/01/2014     |
|    | Alternate to the PS, Ministry of Industrialisation & Enterprise Development |                   |                              |
| 5. | Priscilla Onacha  |                   | -Re-appointed on 13/7/2012   |
| 6. | Nimo Ibrahim Mude   |                   | -Appointed on 13/7/2012      |
| 7. | Abdirizak Hussein   |                   | -Appointed on 22/10/2012     |

### Corporate Secretary

Edna Adala  
P.O. Box 78029-00507  
Nairobi.

Kenya Industrial Estates Limited  
Reports and Financial Statements  
For the year ended June 30, 2014

---

**Registered Officer**

KIE Building  
Likoni/ Lusingeti road  
P.O. Box 78029-00507  
Nairobi, KENYA

**Corporate Headquarters**

P.O. Box 78029-00507  
KIE Limited Building  
Likoni/ Lusingeti Road  
Nairobi, KENYA

**Corporate Contacts**

Telephone : (254) 6651349/53  
E-mail: amin@kie.co.ke  
Website: www.kie.co.ke

**Corporate Bankers**

1. National Bank of Kenya Ltd  
Harambee Avenue  
P.O. Box 72866-00200  
Nairobi, Kenya
2. Kenya Commercial Bank  
P.O Box 48400-00100  
Nairobi, Kenya
3. Standard Chartered Bank Kenya Ltd  
P.O Box 30001-00100  
Nairobi, Kenya
4. Cooperative Bank of Kenya Ltd  
P.O Box 48231-00100  
Nairobi, Kenya

**Independent Auditors**





Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya





Principal Legal Advisers

|    |  |
|----|--|
| 1. | The Attorney General<br>State Law Office<br>Harambee Avenue<br>P.O. Box 40112<br>City Square 00200<br>Nairobi, Kenya |
| 2. | M /s Millimo Muthomi &Co.Advocates<br>P.O Box 8154-00200<br>Nairobi, Kenya   |
| 3. | M /s Osoro Chege Kibathi & Company Advocates<br>P.O Box 21838-00100<br>Nairobi, Kenya                                |
| 4. | M /s J.S Khakula & Co.Advocates<br>P.O Box 924-50200<br>Bungoma, Kenya   |
| 5. | M/s Mburu Maina & Co Advocates<br>P.O Box 7451-30100<br>Eldoret, Kenya   |






Kenya Industrial Estates Limited  
 Reports and Financial Statements  
 For the year ended June 30, 2014

THE BOARD OF DIRECTORS

|   |   |   |
|---|---|---|
|    | <p>1. Wachira Mahihu<br/>       Chairman, Board of Directors</p>  | <p>Mr Wachira Mahihu is a holder of a Bachelor of science degree holder from USA; he is a pilot and a businessman with several years of experience in various sectors including insurance and hospitality industry. He previously served the company as a Director for a period of three years from November 2006 to August 2009.</p>   |
|    | <p>2. Dr. Kamau Thugge<br/>       Principal Secretary, National Treasury<br/>       Alternate: Christopher Oisebe</p>   | <p>Dr. Kamau Thugge is a distinguished economist with a PhD in Economics from Johns Hopkins University. Dr. Thugge has worked for mainly two organizations. Before his appointment to The National Treasury as the Principal Secretary, Dr. Thugge started his employment in the International Monetary Fund (IMF); he came back to the Ministry of Finance and again went to IMF.</p>  |
|  | <p>3. Dr. Wilson Songa (MBS)<br/>       Principal Secretary, Ministry of Industrialization and Enterprise Development (Shareholder)<br/>       Alternate: Geoffrey Mulama</p> | <p>Dr. Wilson Songa holds a BSc. in Agriculture from the University of Nairobi; MSc. in Crop Science from Wageningen Agricultural University, Netherlands and a PhD in Plant Pathology from University of Reading, United Kingdom.</p> <p>His experience spans over 17 years in the national agricultural research systems and 14 years in senior management and administration in various institutions in the agricultural sector at the national level while also representing Kenya in various capacities in Regional, African and international agriculture sector committees and fora.</p> |
|  | <p>4. Julius Mokogi<br/>       Managing Director</p>  | <p>Mr. Julius Obare Mokogi, Managing Director of Kenya Industrial Estates holds a Bachelor of Science and MBA, Finance, degrees.</p> <p>He is a Certified Public Accountant CPA (K) as well as a Certified Public Secretary CPS (K). Mr. Mokogi has a wealth of experience in banking and microfinance operations having worked with Kenya Commercial Bank, Cooperative Bank and K-Rep Bank.</p>  |

|    |   |   |
|----|---|---|
| 5. |  <p>Priscilla Onacha<br/>Director</p>      | <p>Priscilla Onacha has a wealth of experience from the banking sector having worked with Standard Chartered Bank for several years. She also has experience in Administration and Business Development.</p>  |
| 6. |  <p>Abdirizak Hussein<br/>Director</p>     | <p>Abdirizak Hussein holds an MBA (Strategic Management); Bachelor of Commerce (Accounting Option); and a Diploma in Project Planning.</p> <p>He has experience in Community development, project administration and financial analysis. He is a business man with several years of experience in various sectors including real estates and oil industry. He has served as a Director and Chairman of various companies in the private sector.</p> |
| 7. |  <p>Nimo Ibrahim Mude<br/>Director</p>    | <p>Nimo Mude holds an MBA (Finance Option) and Bachelor of Business Administration (Banking &amp; Finance). She has experience in Financial Management and Audit.</p>   |
| 8. |  <p>Edna Adala<br/>Company Secretary</p> | <p>Ms. Edna Adala holds a Bachelor of Laws (LL.B) Degree from the University of Nairobi together with a Post Graduate Diploma from the Kenya School of Law. She is currently pursuing an MBA in International Business Management. She is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. She has experience in legal matters and corporate secretarial services.</p>   |

MANAGEMENT TEAM

|   |   |  |
|---|---|--|
|    | <p>1. Julius O Mokogi<br/>Managing Director</p>                   | <p>Mr. Julius Obare Mokogi, Managing Director of Kenya Industrial Estates holds a Bachelor of Science and MBA, Finance, degrees.<br/>He is a Certified Public Accountant CPA (K) as well as a Certified Public Secretary CPS (K).<br/>Mr. Mokogi has a wealth of experience in banking and microfinance operations having worked with Kenya Commercial Bank, Cooperative Bank and K-Rep Bank.</p>  |
|   | <p>2. David O Opiyo<br/>Manger, Business Development Services</p> | <p>Mr. David Opiyo is an Engineer by profession and holds an MBA &amp; BSC in Mechanical Engineering from University of Nairobi.<br/>He joined KIE in 1978 and has risen within the company to his current position of Manager, Business Development Services.<br/><br/>Prior to his appointment to this position, he was the Manager, Special Projects. Previously, he served as the General Manager Operations in Head Office, Nairobi.</p>                      |
|  | <p>3. Edna Adala<br/>Manager, Legal &amp; Company Secretary</p>   | <p>Edna Adala holds a Bachelor of Laws (LL.B) Degree from the University of Nairobi together with a Post Graduate Diploma from the Kenya School of Law. She is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. She is a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya. She has experience in legal matters and corporate secretarial services.</p>                             |
|  | <p>4. Charles M. Mativo<br/>Finance Manager</p>                   | <p>Mr Mativo is an Accountant by profession and holds a Bachelor of Commerce degree from KCA University. He is a Certified Public Accountant and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has experience in Accounting and Finance. He joined the company in 1985.</p>  |
|  | <p>5. Monica C. Kotut</p>   | <p>Mrs. Kotut, is currently the Manager Corporate Strategy and Planning/Operations. She holds an MBA (HR Option) from Kenyatta University; Bachelor of Arts from Moi University and Higher National Diploma in Human Resource Management from the Institute of Human Resource management (IHRM). She is member of the Institute of Human Resource management. She joined KIE in 1994 as a Projects Officer and rose through the ranks to the current position.</p> |

Manager, Corporate Strategy, Planning & Operations



6. Reginald Kimanthi  
 Manager, Industrial Estates  
 Development & Incubations services

Mr. Kimanthi is an economist by profession and holds a BA in Cooperative Management from Kenyatta University. He joined KIE in 1986 as a Projects Officer and rose through the ranks to his current position as the Manager Estates, Industrial Estates Development and Incubation Services (IEDIS)



7. Matilda Mwachia  
 Manager, Human Resources & Administration

Matilda holds an MBA (Strategic Management); a Bachelor of Business Administration in Human Resource and a Diploma in Human Resource Management. She experienced in Human Resource management having worked with TSC for over (10) years before joining the Company in the year 2012.



8. Martha Mathenge  
 Manager, Risk Management

Ms Martha holds an MBA (Strategic Management) from Jomo Kenyatta University of Agriculture and Technology; A Bachelors degree in Education Arts; and also holds an Advanced International Diploma in Risk Management (Finance & Banking) from KPMG/SIDA Sweden. She has experience in Banking, having worked with Equity Bank for 5 years. She has been instrumental in setting up the Risk Department.



9. Joshua Obiero  
 Head, Special Projects

Mr. Obiero is an Engineer by profession and holds a Bachelor's degree in Mechanical Engineering from The University of Nairobi. He joined K.I.E in 1983, after working with the Industrial Research and Consultancy Unit (IRCU) as Design Engineer, Nairobi University. He is registered member with the Engineers Registration Board (ERB) of Kenya and Licensed EIA practitioner - Lead Expert - NEMA. Has served in various Managerial/Technical positions in the organization and is currently the Manager, Special Projects.

Kenya Industrial Estates Limited

Reports and Financial Statements  
For the year ended June 30, 2014



10. Vivian Wawasi  
Ag. Manager - ICT

Vivian holds a Bachelor's Degree in ICT from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and currently pursuing MSc in Project Management from the same University. She has vast experience in Project Management and Database Administration.

She has been instrumental in the implementation of ICT projects in the organization.

She joined the organization in 2010 as an ICT project Manager and rose to her current position.



11. Teobard Mugo  
Ag. Manager- Internal Audit

Mr Mugo is an Accountant by profession. He is a certified public accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) He is in charge of the Internal Audit Department. He joined the company in 1994.

## CHAIRMAN'S STATEMENT



Dear Shareholders,

I am pleased to report that during the 2013/2014 financial year, the company made good progress in delivering on its mandate whose focus is to champion the development of Micro Small and Medium Enterprises (MSMEs) throughout the country with specific focus on clustering of industries, rural industrialization and value addition to locally available raw materials as envisaged in the country's Vision 2030 blue print.

### The Micro, Small and Medium Enterprises (MSMEs) Sub-sector

The Kenya Vision 2030 recognizes the central role played by the manufacturing sector in the realization of the goal of making Kenya a newly industrialized middle income country by the year 2030. The development and promotion of MSMEs has been identified as a critical engine to propel this industrialization process. MSMEs have the potential to achieve rapid economic growth, while generating a considerable extent of employment opportunities.

### Overview of Business Performance

I wish to present to you KIE Ltd Annual Report and Financial Statements for the Financial Year 2013/2014. The company realized growth in the provision of credit facilities, provision industrial workspace/incubators and enhancement of entrepreneurship skills to MSMEs and facilitating linkages between MSMEs and large enterprises within and across sectors. Detailed report pertaining to the performance of the company during the period under review is presented in the Managing Director's statement.

### Transformation Agenda

Prior to 2013, the company focused on and successfully achieved key Strategic objectives which include: Financial restructuring; Re-organization of structures and management systems; Revamping the company's ICT systems; and Refocusing on core mandate comprising of the following products in an integrated manner namely: Establishing industrial parks (sheds); Providing sustainable credit; Providing business development services (BDS); and Facilitating sub-contracting/linkages.

The transformation agenda includes implementation of our newly developed Strategic Plan which is our operating Road Map for the period 2013-2018 whose theme is '*Scaling up operations and broadening outreach in line with vision 2030 aspirations*'. Our key strategic objective during this period include:- Scaling up company operations in line with Vision 2030 aspirations; Enhancing

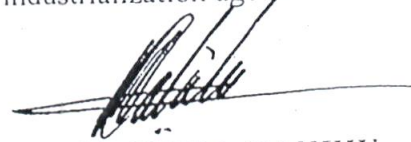
Kenya Industrial Estates Limited

Reports and Financial Statements  
For the year ended June 30, 2014

---

profitability and financial sustainability of the organization; Enhancing efficiency and effectiveness in service delivery; Enhancing institutional capacity; and Enhancing the company's corporate image.

During the year 2013/2014, the company made tremendous strides towards increased outreach to counties through building partnerships with county governments aimed at realizing the county industrialization agenda as a means of broadening the company's service outreach to all the 47 counties.



MR. WACHIRA MAHIHU  
CHAIRMAN, BOARD OF DIRECTORS

## REPORT OF THE CHIEF EXECUTIVE OFFICER



During the year under review, the company continued in pursuit of the realization of its mandate of promoting Industrialization in Kenya through the provision of quality and competitive industrial infrastructure, financial products and business development services.

### Business Performance

The company recorded an improved performance in operations in the 2013/2014. Disbursement of loans to MSMEs went up from Kshs 208.8 million to Kshs 237.6 million, a 14 % growth from 2012/2013. Debt collection grew by 20% from Kshs 253.9 million to Kshs 304.2 million. The number of entrepreneurs trained on business and entrepreneurship skills increased by 51.3% from 8,345 in 2012/2013 to 12,623 entrepreneurs trained in the period under review.

The company also constructed 66 additional industrial incubators/sheds in four (4) locations namely: Bomet, Machakos, Sagana and Meru. These incubators are targeted to provide MSMEs mainly engaged in value addition with affordable workspace. The industrial incubators are well equipped with the necessary industrial infrastructure to spur their growth and survival rate.

The institution facilitates MSMEs to access machinery, raw materials and markets for the finished products. This is achieved through facilitation of subcontracting/linkages between MSMEs and Large enterprises within and across sectors. During the financial year under review, the institution facilitated 183 linkages up from 140, a 31% growth. The linkages were mainly in the areas of machinery/equipment acquisition both locally and internally and access to markets through shows and exhibition and direct linkage with buyers. This resulted to the creation of 4,110 direct jobs up from 2,771, a 48% growth from the previous year.

On the balance sheet front, the company's property and equipment grew from Kshs 884.9 million to Kshs 1,245.6 million, an increase of 40.7 %, Investment property grew by 50% from Kshs 222.1 million to Kshs 333.8 million; and advances/loans to customers grew from Kshs 604.2 million to Kshs 821.3 million, an increase by 36%. Overall, the total assets grew by 25% from Kshs 2,441.1 million to kshs 3,056.1 million.

The company recorded a pre-tax loss of Kshs 74.9 million compared to a pretax loss of Kshs 8.7 million the previous year. This was mainly due to increase in operating expenses.

The company's focus to broaden outreach to all counties and bringing services closer to the public resulted to opening up of new branches namely, Kwale, Bomet and Migori. This brought the total number of branches to 44 spread across 33 counties.

A handwritten signature in black ink, appearing to read 'Julius O. Mokogi', written over a light background.

**JULIUS O. MOKOGI**  
**MANAGING DIRECTOR**

### **CORPORATE GOVERNANCE STATEMENT**

To strengthen accountability and to build confidence among stakeholders, the company is committed to sound principles of corporate governance and sustainability. The Board of Directors is responsible for the long term growth and the profitability of the company, whilst being accountable to shareholders for compliance with the law and maintaining the highest standards of corporate Governance and business ethics.

### **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Corporate Social responsibility (CSR) is an integral part of our business strategy. As a company we have been able to grow as a business due to good will from the communities where we do business. We see enterprise development as an important step towards alleviating poverty through wealth and employment creation.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the company's affairs.

### Principal activities

The principal activities of the company continue to be to promote and facilitate industrialisation through the provision of credit facilities, business development services and industrial work spaces.

### Results

The results of the company for the year ended June 30, 2014 are set out on page 17

### Dividends

The Directors do not recommend dividends.


### Directors

The members of the Board of Directors who served during the year are shown on page 5.

### Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

By Order of the Board

  
Edna Adala  
Corporate Secretary  
Nairobi

Date 12<sup>TH</sup> MARCH 2015

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of Kenya Industrial Estates Ltd, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year(period) ended on June 30, 2014. These responsibilities include: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

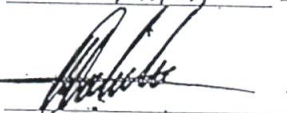
The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2014, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

The Kenya Industrial Estates Ltd financial statements were approved by the Board on

12<sup>TH</sup> MARCH 2015 and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL ESTATES LIMITED FOR THE YEAR ENDED 30 JUNE 2014

---

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Industrial Estates Limited set out on pages 19 to 47, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and 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.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Property, Plant and Equipment**

As similarly reported in the previous year, property, plant and equipment balance of Kshs.1,245,580,000 as at 30 June 2014 includes five (5) staff houses in Eldoret valued at Kshs.5,300,000 whose ownership documents were not provided for audit verification. According to the management, the matter is still in court and until the matter is resolved, the ownership of the houses is still in doubt. Further, ownership documents for one (1) plot in Voi, six (6) plots in Siaya and six (6) plots in Homabay were not made available for audit verification. Management purports to have already acquired allotment letters for Homabay plots. In addition, ownership of four (4) plots in Nakuru, Kisumu, Eldoret and Keroka are in dispute. No evidence was made available to show how and when the matter is likely to be concluded or what documents are at the National Land Commission.

In the circumstances, it has not been possible to confirm the ownership of the properties and the accuracy of the property plant and equipment balance of Kshs.1,245,580,000 as at 30 June 2014.

#### **2. Trade and Other Receivables**

- i. Included in the receivables balance of Kshs.60,628,000 as at 30 June, 2014 are staff advances and imprests totalling Kshs.4,4132,896, out of which Kshs.1,987,770 relates to staff who have since left the Company. Although management has explained that it is in the process of putting in place a policy to ensure that, in future, no staff will leave the Company before advances owing are settled, no evidence was made available to confirm recovery of the debts.
- ii. Further, included in the receivables balance of Kshs.60,628,352 is rent arrears of Kshs. 9,978,252 which has not been recovered.
- iii. The receivables balance of Kshs.60,628,352 was arrived at after netting off provisions for bad debts amounting to Kshs.122,087,355 without a clear policy in place in determining the declaration for bad debts specifically for staff advances and imprests, rent arrears and other debtors.

In absence of a bad debt policy, the facilities are subject to abuse and may lead to loss of finances through irregular write-offs. The accuracy and legality of the current provisions of Kshs. 122,087,355 could not be confirmed.

### 3. Loan to Micro finance Institutions

During the year under review, the Company received development grants from the Government amounting to Kshs.730,000,000 all of which was capitalised. Details of from the Ministry indicate that Kshs.430,000,000 was issued for development activities such as construction works while Kshs.300,000,000.00 was for loaning to Industrial Micro Enterprises and individuals undertaking industrial endeavours across the country. Although the loaning policy is in place, no policy guideline is provided on how the amounts would be treated after recovery. All along, the amounts appear to be included in other operational finances thereby precipitating the loaning amounts to utilisation for operation rather than creating a revolving fund. The amount disbursed as loans appear to be liquidated for operations after recovery of the loan.

In absence of an elaborate policy on utilisation and treatment as well as lack of separate specific accountability, the amounts are prone to being utilised for unintended purposes.

### Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the companies Act, Cap 486 of the Laws of Kenya.

### Emphasis of the Matter

#### 4. Accumulated Negative Reserve

I draw attention to note 24 of the financial statements which describe a negative reserve balance as similarly reported in the previous year, the company recorded a loss of Kshs.65,595,000 against a loss of Kshs.8,740,000 during the previous period which translates to a substantial decline of Kshs.56,855,000 or about 651% drop in financial performance. This brought the cumulative reserves to a negative balance of Kshs.1,098,339,000 (2013: Kshs.1,397,000) as at 30 June 2014.

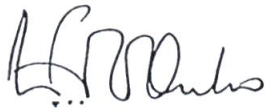
Further, the statement of financial position as at 30 June 2014 reflects total current liabilities of Kshs.1,486,421,000 against current assets of Kshs.83,287,000, resulting in a negative working capital of Kshs.1,403,134,000 (2013: Kshs.1,252,339,000).

Consequently, the Company is therefore technically insolvent and its existence as a going concern is dependent upon continued financial support of the Government and its creditors. My opinion is not qualified with respect to this matter

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act Cap 486 and Public Audit Act 2003, I report based on my audit, that:

- i. 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; and,
- ii. in my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and,
- iii. The company's statement of financial position is in agreement with the books of account.



**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

Nairobi

31 March 2015

STATEMENT OF COMPREHENSIVE INCOME

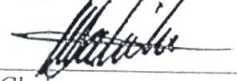
|   | Note | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|---|------|------------------|------------------|
| <b>REVENUES</b>                               |      |                  |                  |
| Interest Income                               | 1    | 107,260          | 69,753           |
| Grants from National Government               | 2    | 107,021          | 110,912          |
| Rent Income                                   | 3    | 33,271           | 32,357           |
| Gains on Disposal of Non-Financial Assets     | 4    | 130              | -                |
| Other Income                                  | 5    | 40,286           | 42,296           |
|   |      | <u>287,968</u>   | <u>255,318</u>   |
| <b>TOTAL REVENUES</b>                         |      |                  |                  |
| <b>OPERATING EXPENSES</b>                     |      |                  |                  |
| Administration Costs                          | 6(a) | 116,886          | 105,045          |
| Staff costs                                   | 6(b) | 209,446          | 199,497          |
| Directors Emoluments                          | 6(c) | 12,255           | 7,990            |
| Depreciation of property, plant and equipment | 14   | 39,947           | 23,524           |
| Amortisation of Leasehold Land                | 15   | 5,115            | 3,300            |
| Amortisation of Intangible Assets             | 16   | 4,107            | 4,069            |
|   |      | <u>387,756</u>   | <u>343,425</u>   |
| <b>TOTAL OPERATING EXPENSES</b>               |      |                  |                  |
| <b>OPERATING PROFIT/(LOSS)</b>                | 7    | (99,788)         | (88,107)         |
| Finance Income                                | 8    | 4,923            | 2,903            |
| Finance Costs                                 | 9    | (28,108)         | (28,413)         |
|   |      | <u>(122,973)</u> | <u>(113,617)</u> |
| <b>PROFIT/ (LOSS) BEFORE PROVISIONS</b>       |      |                  |                  |
| Less Provisions for Bad Debts                 | 10   | (57,378)         | (104,877)        |
| <b>PROFIT/(LOSS) BEFORE TAXATION</b>          |      | <u>(65,595)</u>  | <u>(8,740)</u>   |
| Less Corporation Tax                          | 11   | (9,289)          | -                |
| <b>PROFIT/ (LOSS) AFTER TAXATION</b>          |      | <u>(74,884)</u>  | <u>(8,740)</u>   |
| Earnings per share – basic and diluted        | 12   | <u>(19)</u>      | <u>(2)</u>       |
| Dividend per share                            | 13   | <u>-</u>         | <u>-</u>         |

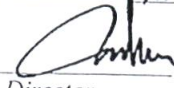
Kenya Industrial Estates Limited  
 Reports and Financial Statements  
 For the year ended June 30, 2014

STATEMENT OF FINANCIAL POSITION

|                                      | Note  | 2014<br>Kshs'000   | 2013<br>Kshs'000 |
|--------------------------------------|-------|--------------------|------------------|
| <b>ASSETS</b>                        |       |                    |                  |
| <b>Non-Current Assets</b>            |       |                    |                  |
| Property, plant and equipment        | 14    | 1,245,580          | 884,946          |
| Leasehold Land                       | 15    | 524,464            | 529,324          |
| Intangible assets                    | 16    | 35,315             | 37,384           |
| Investment property                  | 17    | 333,790            | 222,101          |
| Unquoted investments                 | 18    | 11,200             | 11,200           |
| Staff receivables due after one year | 21(c) | 1,184              | 71,157           |
| Loans                                | 19    | 821,288            | 604,202          |
| <b>Total Non-Current Assets</b>      |       | <u>2,972,821</u>   | <u>2,360,314</u> |
| <b>Current Assets</b>                |       |                    |                  |
| Inventories                          | 20    | 6,367              | 3,822            |
| Trade and other receivables          | 21(a) | 60,628             | 63,042           |
| Bank and cash balances               | 22    | 16,292             | 13,955           |
| <b>Total Current Assets</b>          |       | <u>83,287</u>      | <u>80,819</u>    |
| <b>Total Assets</b>                  |       | <u>3,056,108</u>   | <u>2,441,133</u> |
| <b>EQUITY AND LIABILITIES</b>        |       |                    |                  |
| <b>Capital and Reserves</b>          |       |                    |                  |
| Ordinary share capital               | 23    | 80,277             | 80,277           |
| Capital Reserves                     | 24    | (1,098,339)        | (961,397)        |
| <b>Capital and Reserves</b>          |       | <u>(1,018,062)</u> | <u>(881,120)</u> |
| <b>Non-Current Liabilities</b>       |       |                    |                  |
| Borrowings                           | 25    | 27,484             | 158,830          |
| Government grant                     | 32    | 2,560,265          | 1,830,265        |
| <b>Total Non-Current Liabilities</b> |       | <u>2,587,749</u>   | <u>1,989,095</u> |
| <b>Current Liabilities</b>           |       |                    |                  |
| Borrowings                           | 25    | 1,343,137          | 1,242,853        |
| Trade and other payables             | 26    | 129,835            | 83,051           |
| Retirement benefit obligations       | 25    | -                  | -                |
| Provision for leave pay              | 28    | 9,965              | -                |
| Bank overdraft                       | 22    | 3,484              | 7,254            |
| <b>Total Current Liabilities</b>     |       | <u>1,486,421</u>   | <u>1,333,158</u> |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |       | <u>3,056,108</u>   | <u>2,441,133</u> |

The financial statements were approved by the Board on 12<sup>TH</sup> MARCH 2015 and signed on its behalf by:

  
 Chairman

  
 Director

  
 Director

Reports and Financial Statements  
 For the year ended June 30, 2014

## STATEMENT OF CHANGES IN EQUITY

|   | Ordinary<br>share<br>capital<br>Kshs'000 | Capital<br>Reserve<br>Kshs'000 | Profit on<br>sale of<br>Sheds<br>Kshs'000 | GOK<br>Irredeemable<br>Loans<br>Kshs'000 | Revaluation<br>reserve<br>Kshs'000 | Retained<br>earnings<br>Kshs'000 | Total<br>Kshs'000 |
|---|--|--------------------------------|---|--|------------------------------------|----------------------------------|-------------------|
| At July 1, 2012                             | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 207,594                            | (2,072,480)                      | (1,503,192)       |
| Transfer of excess depreciation             | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Deferred tax on excess depreciation         | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Fair value adjustment on quoted investments | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Total comprehensive income                  | -  | -                              | -   | -  | 630,811                            | (8,740)                          | 622,071           |
| Dividends paid – 2011                       | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Interim dividends paid – 2012               | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Proposed final dividends                    | -  | -                              | -   | -  | -                                  | -                                | -                 |
| At June 30, 2013                            | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 838,405                            | (2,081,220)                      | (881,121)         |
| At July 1, 2013                             | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 838,405                            | (2,081,220)                      | (881,121)         |
| Prior year Adjustment                       | -  | -                              | -   | -  | -                                  | (62,057)                         | (62,057)          |
| Issue of new share capital                  | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Transfer to Retained profit                 | -  | -                              | -   | -  | -                                  | (74,884)                         | (74,884)          |
| Transfer of excess depreciation             | -  | -                              | -   | -  | (-)                                | -                                | -                 |
| Deferred tax on excess depreciation         | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Fair value adjustment on quoted investments | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Total comprehensive income                  | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Dividends paid – 2012                       | -  | -                              | -   | -  | -                                  | -                                | (-)               |
| Interim dividends paid – 2013               | -  | -                              | -   | -  | -                                  | (-)                              | (-)               |
| Proposed final dividends                    | -  | -                              | -   | -  | -                                  | (-)                              | -                 |
| At June 30, 2014                            | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 838,405                            | (2,218,161)                      | (1,018,062)       |

Reports and Financial Statements  
For the year ended June 30, 2014

STATEMENT OF CHANGES IN EQUITY

|   | Ordinary<br>share<br>capital<br>Kshs'000 | Capital<br>Reserve<br>Kshs'000 | Profit on<br>sale of<br>Sheds<br>Kshs'000 | GOK<br>Irredeemable<br>Loans<br>Kshs'000 | Revaluation<br>reserve<br>Kshs'000 | Retained<br>earnings<br>Kshs'000 | Total<br>Kshs'000 |
|---|--|--------------------------------|---|--|------------------------------------|----------------------------------|-------------------|
| At July 1, 2012                             | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 207,594                            | (2,072,480)                      | (1,503,192)       |
| Transfer of excess depreciation             | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Deferred tax on excess depreciation         | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Fair value adjustment on quoted investments | -  | -                              | -   | -  | 630,811                            | (8,740)                          | 622,071           |
| Total comprehensive income                  | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Dividends paid – 2011                       | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Interim dividends paid – 2012               | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Proposed final dividends                    | -  | -                              | -   | -  | -                                  | -                                | -                 |
| At June 30, 2013                            | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 838,405                            | (2,081,220)                      | (881,121)         |
| At July 1, 2013                             | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 838,405                            | (2,081,220)                      | (881,121)         |
| Prior year Adjustment                       | -  | -                              | -   | -  | -                                  | (62,057)                         | (62,057)          |
| Issue of new share capital                  | -  | -                              | -   | -  | -                                  | (74,884)                         | (74,884)          |
| Transfer to Retained profit                 | -  | -                              | -   | -  | (-)                                | -                                | -                 |
| Transfer of excess depreciation             | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Deferred tax on excess depreciation         | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Fair value adjustment on quoted investments | -  | -                              | -   | -  | -                                  | -                                | -                 |
| Total comprehensive income                  | -  | -                              | -   | -  | -                                  | -                                | (-)               |
| Dividends paid – 2012                       | -  | -                              | -   | -  | -                                  | (-)                              | (-)               |
| Interim dividends paid – 2013               | -  | -                              | -   | -  | -                                  | (-)                              | (-)               |
| Proposed final dividends                    | -  | -                              | -   | -  | -                                  | (-)                              | -                 |
| At June 30, 2014                            | 80,277                                   | 22,523                         | 68,637                                    | 190,257                                  | 838,405                            | (2,218,161)                      | (1,018,062)       |

**STATEMENT OF CASH FLOWS**

|   | Note  | 2014<br>Kshs'000            | 2013<br>Kshs'000           |
|---|-------|-----------------------------|----------------------------|
| <b>OPERATING ACTIVITIES</b>                             |       |                             |                            |
| Cash generated from/(used in) operations                | 29(a) | (104,565)                   | (206,405)                  |
| Interest received                                       | 8     | 4,923                       | 2,903                      |
| Interest paid   | 29(d) | 170                         | 596                        |
| Net cash generated from/(used in) operating activities  |       | <u>(99,472)</u>             | <u>(202,906)</u>           |
| <b>INVESTING ACTIVITIES</b>                             |       |                             |                            |
| Purchase of property, plant and equipment               | 14    | (519,483)                   | (431,838)                  |
| Proceeds from disposal of property, plant and equipment |       | 570                         | 198                        |
| Levies on Leasehold Land                                | 15    | (474)                       | (219)                      |
| Purchase of intangible assets                           | 16    | (2,037)                     | (916)                      |
| Purchase of investment property                         | 17    | (11,325)                    | -                          |
| Net cash generated from/(used in) investing activities  |       | <u>(532,749)</u>            | <u>(432,775)</u>           |
| <b>FINANCING ACTIVITIES</b>                             |       |                             |                            |
| GOK Development Grant                                   |       | 697,498                     | 682,000                    |
| Repayment of borrowings                                 | 29(b) | (59,170)                    | (43,596)                   |
| Net cash generated from/(used in) financing activities  |       | <u>638,328</u>              | <u>638,404</u>             |
| <b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> |       | <b>6,107</b>                | <b>2,723</b>               |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>   | 29(c) | <b>6,701</b>                | <b>3,978</b>               |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>     | 29(c) | <b><u><u>12,808</u></u></b> | <b><u><u>6,701</u></u></b> |

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Kenya Industrial Estates Ltd accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company and all values are rounded to the nearest thousand (Kshs'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

### 2. Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collect ability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the Company actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. In-kind contributions**

In-kind contributions are donations that are made to the Company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

**4. Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

**5. Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

|  |  |
|--|--|
| Buildings and civil works              | 40 years or the unexpired lease period |
| Plant and machinery                    | 12.5 years                             |
| Motor vehicles, including motor cycles | 5 years                                |
| Computers and related equipment        | 5 years                                |
| Office equipment                       | 12.5 years                             |
| Office furniture and fittings          | 10 years                               |

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5 Depreciation and impairment of property, plant and equipment (Continued)**

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**6. Intangible assets**

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use over ten years.

**7. Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software often years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**8. Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the Company, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

**9. Unquoted investments**

Unquoted investments are stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

**10. Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

**11. Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**12. Taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

**13. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

**14. Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

**15. Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Company or not, less any payments made to the suppliers.

**16. Retirement benefit obligations**

The company operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200.00 per employee per month.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**17. Provision for staff leave pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**18. Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Company operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as in profit or loss.

**19. Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**20. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

**21. Provision for bad and doubtful debts**

The organization applies the banking regulations issued by the Central Bank on risk classification for loans and provisioning for bad and doubtful loans, using prudential guidelines Classification and Provisioning.

| Category | Classification     | Provisioning                                 |
|----------|--------------------|--|
| A        | Normal class       | general provision of 1% of loan balance      |
| B        | Watch class        | general provision of 2% of loan balance      |
| C        | Sub-standard class | 20% of loan balance less suspended interest. |
| D        | Doubtful class     | 100% of loan balance less suspended interest |
| E        | Loss class         | 100% of loan balance less security           |

**22. New Standards and Amendments Not Yet Effected**

The company did not early adopt new or amended standards in 2013/2014.

23 **Critical Accounting Estimates and Judgement**

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area of judgement in applying the entities accounting policies is dealt with below:

**Impairment losses**

- At the end of each reporting period, the Corporation reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS

|  | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|--|------------------|------------------|
| <b>1 INTEREST INCOME</b>                             |                  |                  |
| Loans  | 105,626          | 66,289           |
| Mortgage   | 1,311            | 3,235            |
| Staff Loans  | 323              | 229              |
|  | <u>107,260</u>   | <u>69,753</u>    |
|  | =====            | =====            |
| <b>2 GRANTS FROM NATIONAL GOVERNMENT</b>             |                  |                  |
| Current grants received                              | 107,021          | 110,912          |
|  | <u>107,021</u>   | <u>110,912</u>   |
|  | =====            | =====            |
| <b>3 RENT INCOME</b>                                 |                  |                  |
| Rent Income  | 33,271           | 32,357           |
|  | <u>33,271</u>    | <u>32,357</u>    |
|  | =====            | =====            |
| <b>4 GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS</b>   |                  |                  |
| Disposal of office equipment, furniture and fittings | 130              | -                |
|  | <u>130</u>       | <u>-</u>         |
|  | =====            | =====            |
| <b>5 OTHER INCOME</b>                                |                  |                  |
| Sale of tender documents                             | 62               | 956              |
| Business Development Services Income                 | 20,535           | 16,812           |
| Loan processing charges                              | 11,421           | 9,104            |
| Fines and penalties                                  | 1,590            | 7,823            |
| Miscellaneous receipts                               | 6,678            | 7,601            |
|  | <u>40,286</u>    | <u>42,296</u>    |
|  | =====            | =====            |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

|  | 2014<br>Kshs'000 | 2013<br>Kshs,000 |
|--|------------------|------------------|
| <b>6(a) ADMINISTRATION COSTS</b>                                   |                  |                  |
| Electricity and water  | 3,189            | 2,867            |
| Communication services and supplies                                | 11,260           | 10,622           |
| Transportation, travelling and subsistence                         | 19,550           | 23,101           |
| Advertising, printing, stationery and photocopying                 | 15,763           | 11,699           |
| Rent expenses  | 6,547            | 4,359            |
| Staff training expenses  | 2,113            | 6,677            |
| Hospitality supplies and services                                  | 20               | 26               |
| Insurance costs  | 5,321            | 6,466            |
| Bank charges and commissions                                       | 2,642            | 3,124            |
| Office and general supplies and services                           | 7,365            | 6,260            |
| Auditors' remuneration   | 464              | 464              |
| Legal fees   | 4,792            | 1,662            |
| Consultancy fees   | 9,107            | 7,766            |
| Repairs and maintenance  | 5,153            | 1,976            |
| Other operating expenses   | 23,600           | 17,976           |
|  | <u>116,886</u>   | <u>105,045</u>   |
|  | =====            | =====            |
| <b>6(b) STAFF COSTS</b>  |                  |                  |
| Salaries and allowances of permanent employees                     | 183,009          | 184,440          |
| Wages of temporary employees                                       | -                | -                |
| Compulsory national health insurance schemes                       | -                | -                |
| Compulsory national social security schemes                        | 648              | 598              |
| Other pension contributions  | 14,336           | 13,001           |
| Leave pay and gratuity provisions                                  | 11,453           | 1,458            |
| Staff welfare  | -                | -                |
|  | <u>209,446</u>   | <u>199,497</u>   |
|  | =====            | =====            |
| <b>The average number of employees at the end of the year was:</b> |                  |                  |
| Permanent employees – Management                                   | 49               | 50               |
| Permanent employees – Unionisable                                  | 209              | 228              |
| Temporary and contract employees                                   | 2                | 1                |
|  | <u>260</u>       | <u>279</u>       |
|  | =====            | =====            |
| <b>6(c) DIRECTORS EMOLUMENTS</b>                                   |                  |                  |
| Directors' emoluments  | 12,255           | 7,990            |

Reports and Financial Statements  
For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|   | 2014<br>Kshs'000 | 2013<br>Kshs, 000 |          |          |               |                 |
|---|------------------|-------------------|----------|----------|---------------|-----------------|
| <b>7 OPERATING PROFIT/(LOSS)</b>                                      |                  |                   |          |          |               |                 |
| The operating profit/(loss) is arrived at after charging/(crediting): |                  |                   |          |          |               |                 |
| Staff costs (note 6b)   | 209,446          | 199,497           |          |          |               |                 |
| Depreciation of property, plant and equipment                         | 39,947           | 23,524            |          |          |               |                 |
| Amortisation of intangible assets                                     | 4,107            | 4,069             |          |          |               |                 |
| Amortisation of Leasehold Land  | 5,115            | 3,300             |          |          |               |                 |
| Directors' emoluments - fees  | 12,255           | 7,990             |          |          |               |                 |
| Auditors' remuneration - current year fees                            | 464              | 464               |          |          |               |                 |
| Interest receivable   | 107,260          | 69,753            |          |          |               |                 |
| Interest payable  | 28,108           | 28,413            |          |          |               |                 |
| Rent receivable   | 33,271           | 32,357            |          |          |               |                 |
|   | <u>439,973</u>   | <u>369,367</u>    |          |          |               |                 |
|   | =====            | =====             |          |          |               |                 |
| <b>8 FINANCE INCOME</b>   |                  |                   |          |          |               |                 |
| Interest income on short-term bank deposits                           | 4,923            | 2,903             |          |          |               |                 |
|   | <u>4,923</u>     | <u>2,903</u>      |          |          |               |                 |
|   | =====            | =====             |          |          |               |                 |
| <b>9 FINANCE COSTS</b>  |                  |                   |          |          |               |                 |
| Accrued Interest expense on loans                                     | 28,108           | 28,413            |          |          |               |                 |
|   | <u>28,108</u>    | <u>28,413</u>     |          |          |               |                 |
|   | =====            | =====             |          |          |               |                 |
| <b>10 PROVISION FOR BAD AND DOUBTFUL DEBTS</b>                        |                  |                   |          |          |               |                 |
|   | 2014<br>Kshs'000 | 2013<br>Kshs'000  |          |          |               |                 |
| Provision for Bad Debts   | 57,378           | 104,877           |          |          |               |                 |
|   | <u>57,378</u>    | <u>104,877</u>    |          |          |               |                 |
|   | =====            | =====             |          |          |               |                 |
| Type of provisions  | Loans            | Mortgages         | Staff    | Rent     | write<br>off  | Total           |
|   | Kshs'000         | Kshs'000          | Kshs'000 | Kshs'000 | Kshs'000      | Kshs'000        |
| General Provision   | (326)            | (37,969)          |          |          | -             | (38,295)        |
| Specific Provision  | (53,077)         |                   |          |          | -             | (53,077)        |
| Write off   |                  |                   |          |          | 33,995        | 33,995          |
| Total Provision   | <u>(53,403)</u>  | <u>(37,969)</u>   | -        | -        | <u>33,995</u> | <u>(57,377)</u> |
|   | =====            | =====             |          |          | =====         | =====           |

Kenya Industrial Estates Limited  
 Reports and Financial Statements  
 For the year ended June 30, 2014

|                           | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|---------------------------|------------------|------------------|
| <b>11 CORPORATION TAX</b> |                  |                  |
| Tax Expenses              | 9,289            | -                |
|                           | <u>9,289</u>     | <u>-</u>         |
|                           | =====            | =====            |

This relates to tax arrears from 1995 to 2002 owed to the Tax Authority.

**12 EARNINGS PER SHARE**

The earnings per share is calculated by dividing the profit after tax of Kshs. (74,884,000) (2013: Kshs. (8,740,000)) by the average number of ordinary shares in issue during the year of 4,013,865 (2013: 4,013,865). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

**13 DIVIDEND PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2014, no dividend in respect of the year ended June 30, 2014 shall be proposed just like year 2013 when no dividend was proposed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 14 PROPERTY, PLANT AND EQUIPMENT Kshs'000

| 2014                     | Buildings & civil works | Office equipment | Motor vehicles, including, motor cycles | Computers & related equipment | furniture & fittings | Capital work in progress | Total     |
|--------------------------|-------------------------|------------------|---|-------------------------------|----------------------|--------------------------|-----------|
| <b>COST OR VALUATION</b> |                         |                  |   |                               |                      |                          |           |
| At July 1, 2013          | 307,604                 | 29,296           | 63,723                                  | 44,130                        | 51,363               | 430,669                  | 926,785   |
| Additions                | 121,773                 | 2,889            | -                                       | 78                            | 5,382                | 389,361                  | 519,483   |
| Transfers                | -                       | -                | -                                       | -                             | -                    | (100,364)                | (100,364) |
| Disposals                | -                       | (13)             | -                                       | (891)                         | (388)                | -                        | (1,292)   |
| Adjustments              | (497)                   | -                | -                                       | -                             | -                    | (17,151)                 | (17,648)  |
| At June 30, 2014         | 428,880                 | 32,172           | 63,723                                  | 43,317                        | 56,357               | 702,515                  | 1,326,964 |
| <b>DEPRECIATION</b>      |                         |                  |   |                               |                      |                          |           |
| At July 1, 2013          | 3,224                   | 1,537            | 29,249                                  | 5,554                         | 2,276                | -                        | 41,840    |
| Charge for the year      | 10,819                  | 3,049            | 12,050                                  | 9,113                         | 4,916                | -                        | 39,947    |
| Impairment loss          | -                       | -                | -                                       | -                             | -                    | -                        | -         |
| Eliminated on disposal   | -                       | (2)              | -                                       | (346)                         | (55)                 | -                        | (403)     |
| At June 30, 2014         | 14,043                  | 4,584            | 41,299                                  | 14,321                        | 7,137                | -                        | 81,384    |
| <b>NET BOOK VALUE</b>    | 414,837                 | 27,588           | 22,424                                  | 28,996                        | 49,220               | 702,515                  | 1,245,580 |
| At June 30, 2013         | 304,380                 | 27,759           | 34,474                                  | 38,576                        | 49,088               | 430,669                  | 884,945   |

Property, plant and equipment include the following items that are fully depreciated:

|  | Cost or Valuation | Normal Annual depreciation charge |
|--|-------------------|-----------------------------------|
| Office equipment                       | -                 | 12.5%                             |
| Motor vehicles, including motor cycles | -                 | 20%                               |
| Computers and related equipment        | -                 | 20%                               |
| Furniture and fittings                 | -                 | 10%                               |
|  | <u>-</u>          | <u>-</u>                          |
|  | <u><u>-</u></u>   | <u><u>-</u></u>                   |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PROPERTY, PLANT AND EQUIPMENT Kshs'000

| 2013                       | Buildings & civil works | Office equipment | Motor vehicles, including, motor cycles | Computers & related equipment | furniture & fittings | Capital work in progress | Total          |
|----------------------------|-------------------------|------------------|---|-------------------------------|----------------------|--------------------------|----------------|
| <b>COST OR VALUATION</b>   |                         |                  |   |                               |                      |                          |                |
| At July 1, 2012            | 292,717                 | 49,730           | 51,717                                  | 46,609                        | 21,045               | 126,823                  | 588,641        |
| Elimination on Revaluation | (292,717)               | (49,502)         |   | (32,452)                      | (21,045)             |                          | (395,716)      |
| Revaluation Value          | 270,708                 | 23,926           |   | 26,444                        | 45,173               |                          | 366,251        |
| Additions                  | 36,895                  | 5,142            | 12,006                                  | 3,854                         | 6,781                | 367,159                  | 431,837        |
| Transfers                  |                         |                  |   |                               |                      | (63,313)                 | (63,313)       |
| Disposals-                 |                         |                  |   | (325)                         | (591)                |                          | (916)          |
| At June 30, 2013           | 307,604                 | 29,296           | 63,723                                  | 44,130                        | 51,363               | 430,669                  | 926,785        |
| <b>DEPRECIATION</b>        |                         |                  |   |                               |                      |                          |                |
| At July 1, 2012            | 54,657                  | 29,587           | 18,575                                  | 15,598                        | 6,113                |                          | 124,530        |
| Elimination on Revaluation | (54,657)                | (29,587)         |   | (15,543)                      | (6,113)              |                          | (105,900)      |
| Charge for the year        | 3,224                   | 1,536            | 10,919                                  | 5,535                         | 2,310                |                          | 23,524         |
| Eliminated on disposal     |                         |                  | (245)                                   | (35)                          | (35)                 |                          | (315)          |
| At June 30, 2013           | 3,224                   | 1,536            | 29,249                                  | 5,555                         | 2,275                | -                        | 41,839         |
| <b>NET BOOK VALUE</b>      | <b>304,380</b>          | <b>27,760</b>    | <b>34,474</b>                           | <b>38,575</b>                 | <b>49,088</b>        | <b>430,669</b>           | <b>884,946</b> |
| At June 30, 2012           | 238,060                 | 20,143           | 33,142                                  | 31,011                        | 14,932               | 126,823                  | 539,380        |

Property, plant and equipment include the following items that are fully depreciated:

|  | Cost or Valuation | Normal Annual depreciation charge |
|--|-------------------|-----------------------------------|
| Office equipment                       | -                 | 12.5%                             |
| Motor vehicles, including motor cycles | -                 | 20%                               |
| Computers and related equipment        | -                 | 20%                               |
| Furniture and fittings                 | -                 | 10%                               |
|  | <u>          </u> | <u>          </u>                 |
|  | ==                | ==                                |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

|                             | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|-----------------------------|------------------|------------------|
| <b>15 LEASEHOLD LAND</b>    |                  |                  |
| <b>COST</b>                 |                  |                  |
| At July 1                   | 532,628          | 101,003          |
| Elimination                 | -                | (100,885)        |
| Revaluation                 | -                | 532,290          |
| Additions                   | 474              | 219              |
| Adjustments                 | (220)            | -                |
| At June 30                  | <u>532,882</u>   | <u>532,628</u>   |
| <b>AMORTISATION</b>         |                  |                  |
| At July 1                   | 3,303            | 25,733           |
| Elimination                 | -                | (25,729)         |
| Charge for the year         | 5,115            | 3,300            |
| Disposals                   | -                | -                |
| Impairment loss             | -                | -                |
| At June 30                  | <u>8,418</u>     | <u>3,304</u>     |
| <b>NET BOOK VALUE</b>       |                  |                  |
| At June 30                  | <u>524,464</u>   | <u>529,324</u>   |
| <b>16 INTANGIBLE ASSETS</b> |                  |                  |
| <b>COST</b>                 |                  |                  |
| At July 1                   | 45,916           | 45,000           |
| Additions                   | 2,037            | 916              |
| Disposals                   | -                | -                |
| At June 30                  | <u>47,953</u>    | <u>45,916</u>    |
| <b>AMORTISATION</b>         |                  |                  |
| At July 1                   | 8,531            | 4,463            |
| Charge for the year         | 4,107            | 4,069            |
| Disposals                   | -                | -                |
| Impairment loss             | -                | -                |
| At June 30                  | <u>12,638</u>    | <u>8,532</u>     |
| <b>NET BOOK VALUE</b>       |                  |                  |
| At June 30                  | <u>35,315</u>    | <u>37,384</u>    |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|                                | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|--------------------------------|------------------|------------------|
| <b>17 INVESTMENT PROPERTY</b>  |                  |                  |
| Opening valuation              |                  |                  |
| Movements during the year      |                  |                  |
| Transfer from WIP              | 222,101          | 36,152           |
| Additions                      |                  |                  |
| Disposals                      | 100,364          | 63,613           |
| Fair value gains/(losses)      | 11,325           | -                |
| Closing valuation              |                  | 122,636          |
|                                | <u>333,790</u>   | <u>222,101</u>   |
| <b>AMORTISATION</b>            |                  |                  |
| At July 1, 2013                |                  |                  |
| Charge for the year            |                  |                  |
| Disposals                      | -                | -                |
| Impairment loss                | -                | -                |
| At June 30, 2014               |                  |                  |
| <b>NET BOOK VALUE</b>          |                  |                  |
| At June 30, 2014               | <u>333,790</u>   | <u>222,101</u>   |
|                                | <u>333,790</u>   | <u>222,101</u>   |
| <b>18 UNQUOTED INVESTMENTS</b> |                  |                  |
| <b>COST</b>                    |                  |                  |
| At July 1                      |                  |                  |
| Additions                      |                  |                  |
| Disposals                      | 11,200           | 11,200           |
| At June 30                     |                  |                  |
|                                | <u>11,200</u>    | <u>11,200</u>    |
| <b>IMPAIRMENT</b>              |                  |                  |
| At July 1                      |                  |                  |
| Disposals                      |                  |                  |
| Impairment loss in the year    |                  |                  |
| At June 30                     |                  |                  |
| <b>NET BOOK VALUE</b>          |                  |                  |
| At June 30                     | <u>11,200</u>    | <u>11,200</u>    |

The unquoted investment relate to investment of 440,000 non-cumulative preference shares of Kshs.20 each and 120,000 ordinary shares of Kshs.20 each at Consolidated Bank of Kenya ltd.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|  | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|--|------------------|------------------|
| <b>19 LOANS</b>                            |                  |                  |
| Loan gross                                 | 1,112,691        | 1,194,741        |
| Interest suspended                         | (256,277)        | (530,657)        |
| Specific provision                         | (62,042)         | (86,052)         |
| General provision                          | 26,916           | 26,170           |
| Net loan balance                           | <u>821,288</u>   | <u>604,202</u>   |
| <b>20 INVENTORIES</b>                      |                  |                  |
| Stationery and general stores              | 6,367            | 3,822            |
|  | <u>6,367</u>     | <u>3,822</u>     |
| <b>21 (a) TRADE AND OTHER RECEIVABLES</b>  |                  |                  |
| Trade receivables (note 19 (b))            | 178,302          | 180,338          |
| Deposits and prepayments                   | -                | -                |
| Staff receivables (note 19 (c))            | 1,429            | 1,332            |
| Other receivables                          | -                | -                |
| Gross trade and other receivables          | <u>179,731</u>   | <u>181,670</u>   |
| Provision for bad and doubtful receivables | (119,103)        | (118,628)        |
| Net trade and other receivables            | <u>60,628</u>    | <u>63,042</u>    |
| <b>21 (b) TRADE RECEIVABLES</b>            |                  |                  |
| Gross trade receivables                    | 178,302          | 180,338          |
| Provision for doubtful receivables         | (119,103)        | (118,628)        |
|  | <u>59,199</u>    | <u>61,710</u>    |

At June 30, the ageing analysis of the gross trade receivables was as follows:

|                         |                |                |
|-------------------------|----------------|----------------|
| Less than 30 days       | 53,688         | 57,864         |
| Between 30 and 60 days  | 621            | 456            |
| Between 61 and 90 days  | 444            | 932            |
| Between 91 and 120 days | 620            | 1,216          |
| Over 120 days           | 122,929        | 119,870        |
|                         | <u>178,302</u> | <u>180,338</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 (c) STAFF RECEIVABLES

|  | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|--|------------------|------------------|
| Staff loans                              | 23,315           | 179,577          |
| Interest suspended                       | (21,686)         | (77,752)         |
| Specific provision                       | (627)            | 2,982            |
| General provision                        | 182              | (33,650)         |
| Staff advances and imprest               | 4,414            | 4,238            |
| Provision for staff advances and imprest | (2,985)          | (2,906)          |
|  | <u>2,682</u>     | <u>72,489</u>    |
| Less: Amounts due within one year        | (1,429)          | (1,332)          |
| Amounts due after one year               | <u>1,184</u>     | <u>71,157</u>    |

22 BANK AND CASH BALANCES

|                | Kshs'000      | Kshs'000      |
|----------------|---------------|---------------|
| Cash at bank   | 15,997        | 13,805        |
| Cash in hand   | 295           | 150           |
|                | <u>16,292</u> | <u>13,955</u> |
| Bank overdraft | (3,484)       | (7,254)       |
|                | <u>12,808</u> | <u>6,701</u>  |

The bulk of the cash at bank was held at Standard Chartered Bank Kenya Limited, Kenya Commercial Bank and National Bank of Kenya Limited, the company's main bankers.

23 ORDINARY SHARE CAPITAL

Authorised:

|  | Kshs'000      | Kshs'000      |
|--|---------------|---------------|
| 10,000,000 ordinary shares of Kshs.20 par value each | 200,000       | 200,000       |
|  | <u>80,277</u> | <u>80,277</u> |

Issued and fully paid:

4,013,865 ordinary shares of Kshs.20 par value each

24 RESERVES

|                         | Kshs'000           | Kshs'000         |
|-------------------------|--------------------|------------------|
| Capital Reserves        | 22,523             | 22,523           |
| Profit on sale of sheds | 68,637             | 68,637           |
| GOK Irredeemable Loans  | 190,257            | 190,257          |
| Revaluation Reserves    | 838,405            | 838,405          |
| Retained Earnings       | (2,218,161)        | (2,081,220)      |
|                         | <u>(1,098,339)</u> | <u>(961,397)</u> |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**CAPITAL RESERVES**

This relates to assets donated to the company by development partners

**PROFIT ON SALE OF SHEDS**

This relates to profit on disposal of company sheds between 1990 and 2008

**GOK IRREDEEMABLE LOANS**

The amount of Kshs.190, 257,000.00 includes book value of Kshs.137, 900,000.00 industrial sheds constructed as at 30<sup>th</sup> June, 1985 from Government of Kenya loans and Kshs.52, 266,000.00 accrued interest on Government of Kenya loans up to 30<sup>th</sup> June, 1985. These loans are irredeemable subordinated to equity and bear no interest.

**REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**RETAINED EARNINGS**

The retained earnings represent amounts available for distribution to the company shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

|    |   |                  |                  |
|----|---|------------------|------------------|
| 25 | <b>BORROWINGS</b>   | Kshs'000         | Kshs,000         |
|    | Balance at beginning of the year                                      | 1,401,683        | 1,416,866        |
|    | Interest Accrued  | 28,108           | 28,413           |
|    | Repayments of domestics borrowings during the year                    | (59,170)         | (43,596)         |
|    | Balance at end of the year  | <u>1,370,621</u> | <u>1,401,683</u> |
|    | Less: Amounts due within one year (current portion)                   | 1,343,137        | 1,242,853        |
|    | Amounts due after one year (non-current portion)                      | <u>27,484</u>    | <u>158,830</u>   |
|    | The analyses of both external and domestic borrowings are as follows: |                  |                  |
|    | <b>External Borrowings</b>  |                  |                  |
|    | Dollar denominated loan from 'A'                                      | 824,124          | 807,034          |
|    |   | <u>824,124</u>   | <u>807,034</u>   |
|    | <b>Domestic Borrowings</b>  |                  |                  |
|    | Kenya Shilling loan from Youth Enterprise Fund                        | 51,709           | 76,089           |
|    | Kenya Shilling loan from Women Enterprise Fund                        | 445              | 34,225           |
|    | Kenya Shilling loan from GOK  | 494,343          | 484,335          |
|    |   | <u>546,497</u>   | <u>594,649</u>   |
|    | Total balance at end of year  | <u>1,370,621</u> | <u>1,401,683</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 TRADE AND OTHER PAYABLES

|                | Kshs'000       | Kshs'000      |
|----------------|----------------|---------------|
| Trade payables | 14,740         | 18,571        |
| Other payables | 115,095        | 64,480        |
|                | <u>129,835</u> | <u>83,051</u> |

27 RETIREMENT BENEFIT OBLIGATIONS

The company operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by an external administrator. All contributions from both the company and its employees are remitted to the fund manager and the administrator is informed.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200.00 per employee per month.

28 PROVISION FOR LEAVE PAY

|  | Kshs'000     | Kshs'000 |
|--|--------------|----------|
| Balance at beginning of the year           | -            | -        |
| Additional provision at end of year        | 9,965        | -        |
| Leave paid out or utilised during the year | (-)          | (-)      |
| Balance at end of the year                 | <u>9,965</u> | <u>-</u> |

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|     | 2014<br>Kshs'000   | 2013<br>Kshs'000 |
|-----|--|------------------|
| 29  | NOTES TO THE STATEMENT OF CASH FLOWS   |                  |
| (a) | Reconciliation of operating profit/(loss) to<br>Cash generated from/(used in) operations |                  |
|     | Operating profit/(loss)  | (99,788)         |
|     | Depreciation   | (88,107)         |
|     | Amortization of Leasehold Land   | 39,947           |
|     | Amortisation of Intangible Assets  | 23,524           |
|     | (Gain)/loss on disposal of property, plant and equipment                                 | 5,115            |
|     | Tax Provision  | 3,300            |
|     | Rent Income  | 4,107            |
|     | Other Income   | 4,069            |
|     | Interest Income  | 130              |
|     | Operating profit/(loss) before working capital changes                                   | 627              |
|     | (Increase)/decrease in inventories   | (9,289)          |
|     | (Increase)/decrease in trade and other receivables                                       | -                |
|     | Increase/(decrease) in trade and other payables  | (33,271)         |
|     | Advances to Customers  | (32,357)         |
|     | Collection from Loans, Rent, Mortgage & Other Income                                     | (40,286)         |
|     | Increase/(decrease) in provision for staff leave pay                                     | (42,296)         |
|     | Cash generated from/(used in) operations   | (69,753)         |
|     | (240,595)  | (200,992)        |
|     | (2,545)  | (708)            |
|     | 2,414  | (46,121)         |
|     | 46,784   | (19,375)         |
|     | (226,106)  | (189,603)        |
|     | 305,518  | 250,394          |
|     | 9,965  | -                |
|     | (104,565)  | (206,405)        |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

|    |  | 2014             | 2013             |
|----|--|------------------|------------------|
|    |  | K.shs'000        | K.shs'000        |
| 29 | NOTES TO THE STATEMENT OF CASH FLOWS (Continued) |                  |                  |
|    | (b) Analysis of changes in loans                 |                  |                  |
|    | Balance at beginning of the year                 | 1,401,683        | 1,416,866        |
|    | Receipts during the year                         | -                | -                |
|    | Repayments during the year                       | (59,170)         | (43,596)         |
|    | Repayments of previous year's accrued interest   | (-)              | (-)              |
|    | Foreign exchange (gains)/losses                  | -                | -                |
|    | Accrued interest                                 | 28,108           | 28,413           |
|    | Balance at end of the year                       | <u>1,370,621</u> | <u>1,401,683</u> |
|    | (c) Analysis of cash and cash equivalents        |                  |                  |
|    | Short term deposits                              | -                | -                |
|    | Cash at bank                                     | 12,513           | 6,551            |
|    | Cash in hand                                     | 295              | 150              |
|    | Balance at end of the year                       | <u>12,808</u>    | <u>6,701</u>     |
|    | (d) Analysis of interest paid                    |                  |                  |
|    | Interest on loans (note 9)                       | 28,108           | 28,413           |
|    | Interest on loans capitalised                    | 28,108           | 28,413           |
|    | Balance at beginning of the year                 | 28,108           | 28,413           |
|    | Balance at end of the year                       | 549,466          | 521,649          |
|    | Interest paid                                    | <u>(577,404)</u> | <u>(549,466)</u> |
|    |  | <u>170</u>       | <u>596</u>       |

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the company, holding 100% of the company's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the company, both domestic and external.

There were no other company transactions involving the Government of Kenya.

(b) Employees

The company provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

CAPITAL COMMITMENTS

|   | Kshs'000       | Kshs'000       |
|---|----------------|----------------|
| Amounts authorised and contracted for                   | 987,836        | 1,049,950      |
| Less: Amounts incurred and included in work-in-progress | (639,256)      | (359,757)      |
|   | <u>348,580</u> | <u>690,193</u> |
|   | <u>=====</u>   | <u>=====</u>   |

31 CONTINGENT LIABILITIES

a) BANK OVERDRAFT

|                                  | Kshs'000     | Kshs'000     |
|----------------------------------|--------------|--------------|
| Bank overdraft                   | 3,422        | 3,422        |
| Legal claims against the company | -            | -            |
|                                  | <u>3,422</u> | <u>3,422</u> |
|                                  | <u>=====</u> | <u>=====</u> |

The company may be required to pay interest on the Bank Overdraft of Kshs.3.422 million with Continental Bank. The interest is expected to accrue from the date the Bank was placed under official Receivership. However, assurance in writing had been given that the interest charged in excess of the interest receivable from deposits will be borne by the Continental Credit Finance, these were related Institutions.

b) Land and Buildings

There is disputed ownership of staff houses in Eldoret where titles were obtained fraudulently. The matter is in court.

c) Corporation Tax

This exists for the Financial Years 1997 and 1998 where the company has filed a section 90 appeal against self-assessment

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 32 GRANTS

|                          | 2014             | 2013             |
|--------------------------|------------------|------------------|
|                          | Kshs'000         | Kshs'000         |
| Norwegian grant          | 146,039          | 146,039          |
| EEC grant                | 1,857            | 1,857            |
| GTZ grant for ISL        | 17,593           | 17,593           |
| GTZ Rep. Financing grant | 4,385            | 4,385            |
| KFW grant for ISL loans  | 72,943           | 72,943           |
| GTZ co-operation fund    | 3,705            | 3,705            |
| GOK grant                | 2,295,777        | 1,565,777        |
| UNDP grant               | 6,766            | 6,766            |
| EEC grant                | 11,200           | 11,200           |
|                          | <u>2,560,265</u> | <u>1,830,265</u> |

## 33 INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

## 34 PROVISION FOR BAD AND DOUBTFUL DEBTS

The provision for bad debts includes provision on loans and mortgages made in the year and write backs on loans which were previously provided and were recovered in the year.

## 35 CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balance.

The analysis of capital managed by the company is as shown below:

|                             | 2014               | 2013             |
|-----------------------------|--------------------|------------------|
|                             | Kshs'000           | Kshs'000         |
| Share Capital               | 80,277             | 80,277           |
| Retained Earnings           | (1,098,339)        | (961,397)        |
| <b>Equity</b>               | <u>(1,018,062)</u> | <u>(881,120)</u> |
| Total Borrowings            | 1,370,621          | 1,401,683        |
| Local and external Loans    | 3,484              | 7,254            |
| Bank Borrowings (Overdraft) |                    |                  |
| Local and external Loans    | <u>1,374,105</u>   | <u>1,408,937</u> |
| Less Cash & Bank Balance    | (16,292)           | (13,955)         |
| <b>Net Debt</b>             | <u>1,357,813</u>   | <u>1,394,982</u> |
| <b>Gearing</b>              | <u>-133%</u>       | <u>-158%</u>     |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market rents. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The most important types of risk for the company are credit, liquidity and market risk.

(a) Credit risk management

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company. The company's credit risk is primarily attributable to liquid funds and loans advanced. Credit risk on liquid funds is low because the counter parties are banks with high ratings assigned by the banking regulator. The company has a rigorous policy of analysis credit risk on loan advances.

The amount that best represents the company's maximum exposure to credit risk at 30th June is made up as follows:

|              | 2014<br>KShs'000 | 2013<br>KShs'000 |
|--------------|------------------|------------------|
| Bank balance | 15,997           | 13,805           |
| Loans        | 821,288          | 604,202          |
|              | <u>837,285</u>   | <u>618,007</u>   |

(b) Liquidity risk management

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from financial liabilities. The ultimate responsibility for liquidity risk management rests with the board of directors. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecasts and actual cash flows.

The analysis below shows the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the<sup>3</sup> remaining period at the end of the reporting date. The amounts disclosed in the table below are undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

|                               | Within 12<br>Months<br>Kshs'000 | Over 12<br>Months<br>Kshs'000 |
|-------------------------------|---------------------------------|-------------------------------|
| At 30 <sup>th</sup> June 2014 |                                 |                               |
| Local and external Loans      | 1,343,137                       | 27,484                        |
| Bank Overdraft                | 3,484                           | -                             |
|                               | <u>1,346,621</u>                | <u>27,484</u>                 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| At 30 <sup>th</sup> June 2013 | Kshs'000         | Kshs'000       |
|-------------------------------|------------------|----------------|
| Local and external Loans      | 1,242,853        | 158,830        |
| Bank Overdraft                | 7,254            | -              |
|                               | <u>1,250,107</u> | <u>158,830</u> |

(e) Market risk management

The company takes on exposure to market risks, which is the risk that changes in market prices such as interest rate and foreign exchange rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Directors. Market risk exposures are measured by the use of sensitivity analyses. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk. The market risk exposure for the company relates primarily to interest rate risks.

(i) Interest rate risk

The company is exposed to both cash flow and fair value interest rate risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. The company holds interest bearing assets in form of loans to customers. The interest on loans is fixed and is not likely to change.

The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings. The company's borrowings comprise a loan and an overdraft facility from local financial institutions and other loans from international and multilateral institutions disclosed under note 20&23. The company ensures that interest charged on its borrowings is at the lowest rates possible.

The table below summarizes the estimated impact on profit of a 10 percentage point decline/increase in interest rates available from lenders:-

|   | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|---|------------------|------------------|
| ±10%point decrease/increase in borrowing rate | <u>137,062</u>   | <u>140,168</u>   |

Kenya Industrial Estates Limited  
 Reports and Financial Statements  
 For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

IAS:24 Disclosures

a) Key management compensation

The remuneration of directors and other members of key management during the period were as follows:

|                             | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|-----------------------------|------------------|------------------|
| Salaries and other benefits | 34,861           | 30,075           |

b) Other transactions that are collectively significant are detailed as follows:-

| Government of Kenya |  | 2014<br>Kshs'000 | 2013<br>Kshs'000 |
|---------------------|--|------------------|------------------|
| (i)                 | Outstanding balances at the year end<br>Included in trade and other receivables: | 32,500           | 40,000           |
|                     | Net amount owed by the Government of Kenya                                       | 32,500           | 40,000           |

