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AGRICULTURAL FINANCE CORPORATION

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

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AGRICULTURAL FINANCE CORPORATION

THE CORPORATION

Agricultural Finance Corporation is a government owned statutory body established under the Agricultural Finance Corporation Act Cap 323 of the Laws of Kenya enacted in 1963 for the purposes of assisting the development of Agriculture in the country and its registered offices are at:-

REGISTERED OFFICE

DEVELOPMENT HOUSE,
MOI AVENUE,
P.O. BOX 30367 – 00100 GPO,
NAROBBI,
KENYA

BOARD OF DIRECTORS

The following are members of the Board who served during the financial year.

Mr. Robert James Kigunda	- Chairman
Mr. Omurembe Iyadi	- Managing Director (Appointed 17.12.2003)
Mr. George Omari Nyamweya	- Managing Director (Replaced 17.12.2003)
Mrs. Rael Magut	- Member
Mr. Dominic Kiruthi	- Member
Mr. Gerald Munene Mugo	- Member
Mr. Masudi Ali Mwakileo	- Member
Eng. Michael Felix Alwala	- Member
Permanent Secretary, Ministry of Finance	- Member
Permanent Secretary, Ministry of Agriculture And Rural Development	- Member
Mrs. Gladys Nasieku Tarayia	- Corporation Secretary.

BANKERS

NATIONAL BANK OF KENYA LIMITED,
Harambee avenue,
P.O. BOX 72866,
NAIROBI.

AUDITORS

Controller & Auditor General,
Kenya National Audit Office,
P.O. Box 30084 - 00100 GPO,
NAIROBI.

AGRICULTURAL FINANCE CORPORATION

CHAIRMAN'S STATEMENT ON 2003/2004 FINANCIAL YEAR

I am pleased to present the Annual Report and the financial statements for the Corporation for the year ended 30th June 2004. This was a critical year in the history of the Corporation in that the new Government committed itself in re-structuring the Corporation in order to jump-start lending activities, which had stalled for many years. In executing that commitment, the Government pledged to inject an additional equity of Kshs.1.3 billion in five years with tranches of Kshs.260 million annually.

The Government's efforts to revive the economy through the Economic Recovery Strategy showed signs of success in the year. Gross Domestic Product grew from 2.8% in 2003 to 4.3% in 2004. This economic growth was supported by improved performance in the Agricultural and Tourism sectors, while improved governance in public sector normalized Government relations with development partners, resulting in funding of various projects.

Corporation's Performance

During the year under review the Corporation recorded a loss of Kshs.1.643 million compared to a profit of Kshs.295 million the previous year. This was mainly attributed to heavy provision for doubtful debts amounting to Kshs.1.3 billion on account of loans to farmers given prior to January 2003.

Loans disbursed to farmers amounted to Kshs.660.8 million compared to Kshs. 7.2 million in the previous year. This increase in lending was buoyed by a receipt of the second tranche of Kshs. 260 million from the Government and the Japanese grant of Kshs.769 million.

The Corporation disbursed loans amounting to Kshs.1.094 billion during the year, from Kshs.660.8 million in the previous year. The increase in lending was enhanced by the receipt of the third tranche of Kshs.260 million equity injection from the Government.

Corporate strategic plan

I am delighted to report that the Corporation's Strategic plan for the five year period 2005 -2010 was finalized in the year. This will provide a roadmap to the Corporation and shall provide the required strategies in achieving the strategic objectives.

Corporate governance

The Corporation complies fully with all requirements of good Corporate Governance. The Board and staff recognize their responsibilities of good citizenship especially with regard to social welfare, environmental care, economic value and principles of integrity.

The Board upholds the Corporation's long-term vision, sets broad goals, plans, and organizational policies and offers guidance on Strategic decisions.

Future prospects

With strategies in place, combined with the expected growth in the economy, the Board is optimistic that the Corporation's financial improvement will be sustained.

Tribute

Finally, I wish to thank the Board then headed by my predecessor Mr. Robert Kigunda for resuscitating the Corporation, the Management and Staff for their hard work, dedication and loyalty. I also thank our esteemed customers and the Government for their support.



PATRICK KINYORI
CHAIRMAN

JANUARY 2007

Board Committees

For effectiveness, the board operated through board committees. These committees were; Audit Committee, Finance and Credit Committee and the Staff Establishment Committee.

Corporate Governance Statement

The Board is committed to the Corporate Governance practices and is applying high standards of business integrity in all its activities.

The Future

During the year, the Board initiated the process of preparing a five-year strategic plan for the period 2005 – 2010. This is to provide a roadmap for the Board and Management in achieving the Corporation's strategic objectives.

Once the restructuring of the Corporation is completed, I believe the Corporation shall be the financial institution of choice for Agricultural Development in Kenya.

Appreciation

Finally on my own behalf and that of the entire Board, I take this opportunity to thank the Government for the financial support that has enabled the Corporation to restart operations, the Ministry of Agriculture for policy guidance, the esteemed customers for believing in us and management and staff for their loyalty, dedication and commitment.

God bless.


PATRICK KINYORI
CHAIRMAN

FEBRUARY 2007

AGRICULTURAL FINANCE CORPORATION

THE DIRECTORS REPORT

ON

THE 2003/2004 FINANCIAL STATEMENTS

The Directors have pleasure in presenting their report together with the audited financial statements of the Agricultural Finance Corporation for the year ended 30th June 2004, which show the state of affairs of the Corporation.

Directors

The following are members of the Board who served during the financial year.

Mr. Robert James Kigunda	- Chairman
Mr. Omurembe Iyadi	- Managing Director (Appointed 17.12.2003)
Mr. George Omari Nyamweya	- Managing Director (Replaced 17.12.2003)
Mrs. Rael Magut	- Member
Mr. Dominic Kiruthi	- Member
Mr. Gerald Munene Mugo	- Member
Mr. Masudi Ali Mwakileo	- Member
Eng. Michael Felix Alwala	- Member
Permanent Secretary, Ministry of Finance	- Member
Permanent Secretary, Ministry of Agriculture And Rural Development	- Member
Mrs. Gladys Nasieku Tarayia	- Corporation Secretary

Management

During the year, Mr. Omurembe Iyadi who is the Managing Director was responsible to the Board on the day-to-day management of the Corporation and was assisted by the following senior members of staff: -

Mrs. Gladys N. Tarayia	- Deputy Managing Director/Corporation Secretary
Mr. K.W.C. Tallam	- Human Resources Manager
Mr. Francis K. Maritim	- Ag. Financial Controller
Mr. Richard K. Malel	- Ag. Technical Services Co-ordinator
Mr. Job Kemei	- Ag. Chief Planning Officer
Mr. H. A. Shikokoti	- Chief Internal Auditor

Staff Compliment

The Corporation had a staff compliment of 563 members out of which 339 were deployed in the field offices and 224 at the Head Office.

Branch Network

During the year the Corporation operated a network of 31 branches and six Regional offices.

Operations

Agricultural Finance Corporation is a Government owned statutory body established under the Agricultural Finance Corporation Act (CAP 323 of the Laws of Kenya) enacted in 1963 for the purpose of facilitating the development of agriculture in the Country through affordable credit.

The Corporation's lending activities improved greatly in the year as compared to the preceding periods. During the year a total of Kshs.660.8 million was lent out to clients up from Kshs.7.2 million in the previous year. In this regard, the principal loan portfolio increased by Kshs.575 million to Kshs.1.859 billion at 30th June 2004 from Kshs.1.284 billion at 30th June 2003. This increase was facilitated by the receipt of Kshs.260 million and Kshs.769 million Government equity and a grant from the Japanese Government respectively.

Similarly, the total collections increased during the year by 75% from Kshs.138.7 million to Kshs.242.9 million. This was as a result of the management's aggressive collection efforts through interest concession strategy aimed at resolving the non-performing loan portfolio.

Results

	Kshs. '000' 2004	Kshs. '000' 2003	Kshs. '000' Increase/(Decrease)
Total Income	868,020	1,279,794	(411,774)
Total Expenses	2,510,961	854,963	1,655,998
Profit (Loss) before tax	(1,642,941)	424,831	(1,244,224)

There was a reduction in income from Kshs.1,279.8 million in the year 2003 to Kshs.868 million in 2004. This was attributed to an earlier Government approved write off of non-performing loans. The increase in expenses from Kshs.855 million in 2003 to Kshs.2,511 million in 2004 was as a result of the provisions made for non performing loans.

The result of the above scenario impacted on the net income for the year 2004 giving rise to a loss of Kshs.1,642.9 million.

Operating Expenses

Operating expenses increased by Kshs.60.8 million from Kshs.344.7 million in year 2003 to stand at Kshs.405.5 million in the year 2004. This increase of 17.6% is as a result of the increased cost of operations upon commencement of lending activities arising from both the Government of Kenya equity injection and grants.

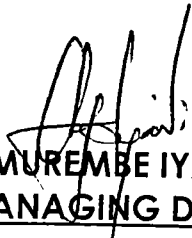
Non-Performing Loans

The Corporation increased the provisioning of bad and doubtful debts during the year under review in line with the Central Bank of Kenya prudential guidelines to financial institutions.

In this regard the Corporation provided for the non-performing portfolio amounting to Kshs.2,105.5 million as doubtful debts during the year up from Kshs.510.2 million the previous year, an increase of Kshs.1,595.3 million which is 313% increase.

Future

The Board and Management are committed to the finalization of restructuring programmes aimed at turn-around for the Corporation to achieve long-term financial sustainability.


OMUREMBE IYADI
MANAGING DIRECTOR.

SEPTEMBER 2006

AGRICULTURAL FINANCE CORPORATION

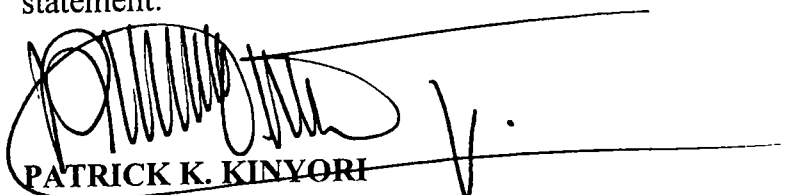
FINANCIAL STATEMENTS AS AT 30 JUNE 2004

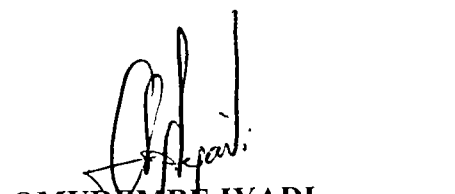
STATEMENT OF DIRECTORS RESPONSIBILITIES

The Agricultural Finance Corporation Act Cap 323 and the State Corporations Act Cap 446 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the directors to ensure that the Corporation keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting Standards and the manner required by the Agricultural Finance Corporation Act Cap 323. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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


PATRICK K. KINYORI
CHAIRMAN


OMUREMBE IYADI
MANAGING DIRECTOR

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2004

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

Respective Responsibilities of the Directors and the Controller and Auditor General

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

Basis of Opinion

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

Comments

1. Consultancy Services

In October 2003, the former Managing Director without Board's approval hired an ex-employee of the Corporation as a consultant to carry out a recruitment exercise at a cost of Kshs. 1,546,000.00 to the Board. It is not clear how the consultant was identified and the fee determined without competitive tendering. Although the Corporation has indicated that it has requested the Office of the President to assist in the recovery of Kshs. 1,546,000.00 from the former Managing Director, no evidence of the request has been seen.

2. The Overpayment of the Former Chief Executive

The former Managing Director received a salary of Kshs. 1,166,120 per month instead of the approved gross of Kshs. 347,720.00 resulting to an overpayment of Kshs. 3,273,600.00 during the year under audit review. Although it has been indicated that the Corporation has written to the Office of the President to assist in the recovery of the amount, no recovery has so far been made.

Opinion

Except for the matters discussed above, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June 2004 and of the loss and cash flows for the year then ended and comply with the Agricultural Finance Corporation Act, (Cap 323).



E.N. MWAI

CONTROLLER AND AUDITOR GENERAL

Nairobi

01 September 2005

Date:


AGRICULTURAL FINANCE CORPORATION
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2004

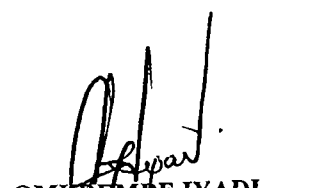
	NOTES	2004 Kshs'000	2003 Kshs'000
INCOME:			
INTEREST INCOME:			
LARGE SCALE	3.3	554,583	650,500
SMALL SCALE	4.3	69,573	151,019
SEASONAL CROP	5.3	30,328	428,248
TOTAL INTEREST INCOME		654,484	1,229,767
LESS:INTEREST EXPENSE:			
REDEEMABLE LOANS		36,147	29,269
REBATE INTEREST		423	2,357
ADB LOAN (PIGS)		4,792	4,050
		41,362	35,676
NET INTEREST INCOME		613,122	1,194,091
OTHER INCOMES:			
APP. LEGAL & INSP. FEES		69,041	5,975
INTEREST ON SHORT TERM DEPOSITS	17(a)	14,791	13,726
RENT INCOME	17(b)	28,613	29,352
PROFIT ON SALE OF ASSETS		70,937	1,322
LANGATA INSTITUTE	17(c)	22,250	(3,537)
INSURANCE COMMISSION		43	46
SUNDRIES		7,861	3,143
		213,536	50,027
TOTAL OPERATING INCOME		826,658	1,244,118
OTHER EXPENSES:			
BOARD MEMBERS' ALLOWANCES		2,096	891
STAFF COSTS	18	218,800	179,047
ADMINISTRATION	19	108,676	95,683
DEPRECIATION	10	34,562	33,408
		364,134	309,029
PROFIT BEFORE PROV.D. DEBTS & TAX		462,524	935,089
DOUBTFUL DEBTS	20	2,105,465	510,258
PROFIT/(LOSS)BEFORE TAXATION		(1,642,941)	424,831
TAXATION	12(b)	-	129,885
PROFIT AFTER TAXATION		(1,642,941)	294,946
TO REVOLVING FUND.	15	-	(172)
TO GENERAL RESERVE		(1,642,941)	294,774

AGRICULTURAL FINANCE CORPORATION
BALANCE SHEET AS AT 30TH JUNE, 2004

ASSETS:	NOTES	2004		2003
		Kshs.'000		Kshs.'000
Non current assets				
Property and equipment	10		850,739	869,706
Repossessed farm properties	7		105,249	87,595
Deferred tax asset	12(a)		189,625	189,625
Loan to farmers	3.4, 4.4 & 5.4		811,702	422,380
Staff loans	8	108,853		113,193
Prov. For doubtful debts	9	(6,156)	102,697	(4,524)
			<u>2,060,012</u>	<u>1,677,975</u>
Current assets				
Cash and bank balances	2(a)		739,530	1,822
Short term deposits	2(b)		120,888	260,336
Debtors	2(c)		110,745	112,112
Consumable stores	2(d)		2,115	1,827
Loan to farmers	3.5, 4.5 & 5.5	4,057,060		3,417,528
Prov. For doubtful debts	6	(2,916,674)	1,140,386	(1,437,983)
			<u>2,113,664</u>	<u>2,355,642</u>
Total assets			<u><u>4,173,676</u></u>	<u><u>4,033,617</u></u>
CAPITAL AND LIABILITIES				
Capital and reserves				
Grants	16		899,771	130,771
Government equity capital	21		1,907,766	1,647,766
General reserve	14(a)		337,879	1,415,329
Revaluation reserve	14(b)		175,363	175,363
			<u>3,320,779</u>	<u>3,369,229</u>
Non current liabilities				
Redeemable loans	13		568,454	568,497
Current liabilities				
Trade creditors	11(a)		230,405	53,366
Other creditors	11(b)		54,038	42,525
			<u>284,443</u>	<u>95,891</u>
Total capital and liabilities			<u><u>4,173,676</u></u>	<u><u>4,033,617</u></u>

The accounts on pages 1 to 16 were approved by the Board of Directors on 28/10/2005 and were signed on its behalf by:


ROBERT KIGUNDA
CHAIRMAN


OMKREMBE IYADI
MANAGING DIRECTOR

AGRICULTURAL FINANCE CORPORATION
CASH FLOW STATEMENT
FOR YEAR ENDED 30TH JUNE 2004

	2004 Kshs.'000	2003 Kshs.'000
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit/(loss) before taxation	(1,642,941)	424,831
Adjustments for:		
Depreciation	34,562	33,408
Loss on disposal of assets	237	-
Profit on disposal of assets	(70,500)	(1,196)
Profit on disposal of repossessed properties	(675)	(127)
Prior year adjustment	565,491	5,945
Due to Agency written back	-	479,141
Loan write off	-	(1,861,759)
Interest conversion to equity and reserves	-	2,361,352
Increase/(Decrease) to creditors from reserves	-	(105)
(Increase)/Decrease to debtors from reserves	-	35,033
(Decrease)/Increase to repossessed properties	(17,654)	(25,845)
(Increase)/Decrease in loans to farmers	449,837	1,302,156
(Decrease)/Increases in loans to staff	5,972	6,127
Increase in consumable stores	(288)	177
(Decrease)/Increases in debtors	1,367	(36,643)
Increase in creditors & LP Tractor deposits	188,552	(2,347,816)
Increase in due to Agency	-	(477,921)
	-----	-----
NET CASH FROM OPERATING ACTIVITIES	(486,040)	(103,242)
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase/ (Disposal)of fixed assets	(15,832)	(1,203)
Proceeds from disposal of fixed assets	70,500	1,196
Proceeds from disposal of F.P.I.P	632	127
	-----	-----
NET CASH FLOW FROM INVESTING ACTIVITIES	55,300	120
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES		
Government equity received	260,000	260,000
Government grant received	769,000	-
	-----	-----
NET CASHFLOW FROM FINANCING ACTIVITIES	1,029,000	260,000
	-----	-----
NET INCREASE IN CASH & CASH EQUIVALENTS	598,260	156,878
Cash and cash equivalent 1 July 2003	262,158	105,280
	-----	-----
Cash and cash equivalent 30 June 2004	860,418	262,158
	=====	=====

AGRICULTURAL FINANCE CORPORATION
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2004

1.ACCOUNTING POLICIES:

(a)Accounting convention

The accounts of the Corporation are prepared under the historical cost convention modified to include revaluation of certain assets.

(b)Depreciation

Fixed assets are depreciated over their estimated useful lives using the straight line method of depreciation. The following rates of depreciation have been used:

Freehold land Nil
 Leasehold premises and improvements rates are based on the unexpired lease term or 50 years whichever is less.

Motor vehicles	25%
Show stands	10%
Furniture	12.5%
Fittings	20%
Office equipment	20%
Office and Residential Buildings	2%
Computers	33.3%

(c)Interest

Interest receivable and payable is calculated and included on the accrual basis.

(d)Provision for doubtful debts

Specific provision is made in respect of loans whose recovery is considered doubtful.

2(a).CASH AND BANK BALANCE	2004	2003
	Kshs.'000	Kshs.'000
Current Accounts	735,031	(360)
Branch Collection Accounts	1,352	365
Branch Imprest Accounts	3,147	1,817
	<u>739,530</u>	<u>1,822</u>
2(b).SHORT TERM DEPOSITS		
Short Term Deposits	120,750	260,000
Interest Receivable on S.T.Ds	138	336
	<u>120,888</u>	<u>260,336</u>

These are funds held in Short Term Deposits at National Bank of Kenya which mature on monthly basis. The funds are for operations and lending activities.

2(c).DEBTORS

Unallocated loan disbursements	27	(2)
Auction fees & advert. charges	47,629	45,528
Development house rent accrued	42,457	41,342
Other rent receivable	1,676	928
Prepaid expenses	1,664	1,566
Employees other deductions	3,052	3,787
Due from Alico	239	-
Retired staff pension	-	7,716
Local authority service charge	162	
Other accounts receivable	39,052	35,528
Recoverable fees and charges	-	1,146
Agrarian Building Society	-	33,946
Suspense	3,486	-
Funds at Trust Bank Ltd (under receivership)	106,990	106,990
Less:Accum.Prov. For D.Debts	<u>(135,689)</u>	<u>(166,363)</u>
BALANCE AT 30TH JUNE,2004	<u>110,745</u>	<u>112,112</u>

2(d).COSUMABLE STORES

These are stocks of stores valued at cost at the end of the Financial year.

	2004	2003
	Kshs.'000	Kshs.'000
Stationery & Office Supplies Stock	<u>2,115</u>	<u>1,827</u>

3. LARGE SCALE LOANS.

	2004 Kshs.'000	2003 Kshs.
BALANCE AS AT 1ST JULY 2003		
3.1 Not Yet Due: Principal	478,077	595,100
Interest	40,360	52,200
3.2 Arrears: Principal	477,135	560,400
Interest	638,053	682,200
Interest on arrears	1,118,680	1,210,800
Rehabilitation	110	100
	<u>2,752,415</u>	<u>3,101,600</u>
3.3 ADD: TRANSACTIONS DURING THE YEAR		
Advances	102,381	5,700
Interest earned	554,583	650,400
Repayments	(184,262)	(98,500)
Writeoff	-	(850,300)
Net Transfers to farm properties	(43,610)	(56,600)
	<u>429,092</u>	<u>(349,200)</u>
BALANCE AS AT 30TH JUNE 2004	<u>3,181,507</u>	<u>2,752,400</u>
ANALYSIS OF BALANCES AS AT 30TH JUNE 2004		
3.4 Not Yet Due: Principal	500,899	478,000
Interest	39,025	40,300
3.5 Arrears: Principal	523,524	477,100
Interest	671,856	638,000
Interest on arrears	1,446,093	1,118,600
Rehabilitation	110	100
BALANCE AS AT 30TH JUNE 2004	<u>3,181,507</u>	<u>2,752,400</u>
3.6 PROVISION FOR DOUBTFUL DEBTS:		
Balance as at 1st July 2003	1,010,342	1,079,800
Adjustment for finalised cases	(357,890)	
Charge for the year	1,262,570	243,400
Bad debts	-	(312,900)
BALANCE AS AT 30TH JUNE 2004	<u>1,915,022</u>	<u>1,010,300</u>
3.7 LOANS OPENED BUT NOT DISBURSED		
Balance as at 1st July 2003	8,296	10,000
Opened during the year	122,395	13,970
Drawings	(102,381)	(5,780)
BALANCE AS AT 30TH JUNE 2004	<u>28,310</u>	<u>8,290</u>

4 SMALL SCALE LOANS.

	2004 Kshs'000	2003 Kshs'000
	-----	-----
BALANCE AS AT 1ST JULY 2003	24,363	44,888
4.1 Not Yet Due: Principal	1,464	2,384
Interest	73,800	155,408
4.2 Arrears: Principal	18,947	43,453
Interest	142,478	465,373
Interest on arrears	213	213
ICA loans	917	917
North Tetu & Vihiga	-----	-----
	262,182	712,636
	=====	=====
 4.3 ADD: TRANSACTIONS DURING THE YEAR		
Advances	295,739	1,421
Interest earned	69,573	151,019
Repayments	(24,898)	(27,325)
Transfers & Writeoff	-	(575,569)
	-----	-----
	340,414	(450,454)
	-----	-----
 BALANCE AS AT 30TH JUNE 2004	602,596	262,182
	=====	=====
 ANALYSIS OF BALANCES AS AT 30TH JUNE 2004		
4.4 Not Yet Due: Principal	300,433	24,363
Interest	13,558	1,464
4.5 Arrears: Principal	80,846	73,800
Interest	20,937	18,947
Interest on arrears	185,654	142,478
ICA loans	251	213
North Tetu & Vihiga	917	917
	-----	-----
 BALANCE AS AT 30TH JUNE 2004	602,596	262,182
	=====	=====
 4.6 PROVISION FOR DOUBTFUL DEBTS:		
Balance as at 1st July 2003	184,872	267,800
Charge for the year	175,859	77,381
Adjustment for finalised cases	(160,840)	-
Bad debts	-	(160,309)
	-----	-----
 BALANCE AS AT 30TH JUNE 2004	199,891	184,872
	=====	=====
 4.7 LOANS OPENED BUT NOT DISBURSED		
Balance as at 1st July 2003	38,411	764
Opened during the year	321,424	39,068
Drawings	(295,739)	(1,421)
	-----	-----
 BALANCE AS AT 30TH JUNE 2004	64,096	38,411
	=====	=====

5. SEASONAL CROP LOANS.

	2004 Kshs'000	2003 Kshs'000
Balance as at 1st July 2003	-----	-----
5.1 Not Yet Due: Principal	-	-
Interest	-	-
5.2 Arrears: Principal	230,397	449,313
Interest	13,548	32,064
Interest on arrears	581,367	1,486,634
	-----	-----
	825,312	1,968,011
	=====	=====
5.3 ADD: TRANSACTIONS DURING THE YEAR		
Advances	262,715	-
Interest earned	30,328	428,248
Repayments	(33,696)	(12,823)
Transfers & Writeoff	-	(1,558,124)
	-----	-----
	259,347	(1,142,699)
	-----	-----
BALANCE AS AT 30TH JUNE 2004	1,084,659	825,312
	=====	=====
ANALYSIS OF BALANCES AS AT 30TH JUNE 2004		
5.4 Not Yet Due: Principal	262,518	-
Interest	3,844	-
5.5 Arrears: Principal	190,487	230,397
Interest	13,621	13,548
Interest on arrears	614,189	581,367
	-----	-----
BALANCE AS AT 30TH JUNE 2004	1,084,659	825,312
	=====	=====
5.6 PROVISION FOR DOUBTFUL DEBTS:		
Balance as at 1st July 2003	242,769	730,627
Adjustment for finalised cases	(83,510)	-
Charge for the year	642,502	162,377
Bad debts	-	(650,235)
	-----	-----
BALANCE AS AT 30TH JUNE 2004	801,761	242,769
	=====	=====
5.7 LOANS OPENED BUT NOT DISBURSED		
Balance as at 1st July 2003	(10)	34
Opened during the year	382,709	(44)
Drawings	(262,715)	-
	-----	-----
BALANCE AS AT 30TH JUNE 2004	119,984	(10)
	=====	=====

Note that the Loans to Farmers figure of Shs4,057,060,000 under Current Assets includes an amount of Shs 308,575,000 being the instalments falling due within the next 12 months.

6. PROVISION FOR BAD AND DOUBTFUL DEBTS:

The provision for bad and doubtful loans to farmers is arrived at by identifying specific bad and doubtful debts on various classes of loans.

The provision is as follows:

LOANS:	2004 Kshs'000	2003 Kshs'000
LARGE SCALE LOANS (3.6)	1,915,022	1,010,342
SMALL SCALE LOANS (4.6)	199,891	184,872
SEASONAL CROP LOANS (5.6)	801,761	242,769
	<u>2,916,674</u>	<u>1,437,983</u>

7. REPOSSESSED FARM PROPERTIES:

These are revalued at the total of the principal and interest due at the date of foreclosure less subsequent recoveries. The amount outstanding as at 30th June, 2004 was Kshs 210,463,287.00. However, the Corporation has been unable to realise these properties and is of the opinion that if a forced sale could be effected, material losses would arise. In view of this, a 50% provision has been made against these balances leaving a net figure of Kshs 105,249,434.00. The Corporation is of the opinion that the provision is sufficient to cover any possible losses that may arise when such properties are eventually sold.

8. LOANS TO STAFF

	HOUSE LOANS Kshs'000	CAR LOANS Kshs'000	PERSONAL ADVANCES Kshs'000	TOTALS Kshs'000
BALANCE AT 01.07.03				
Principal	79,007	4,104	356	83,467
Interest	24,809	3,178	1,738	29,725
	-----	-----	-----	-----
	103,816	7,282	2,094	113,192
	-----	-----	-----	-----
TRANSACTIONS IN THE YEAR:				
Advances	3,837	1,703	2,542	8,082
Interest earned	8,388	830	394	9,612
Repayments	(18,348)	(1,446)	(2,055)	(21,849)
Adjustment	(331)	(4)	151	(184)
	-----	-----	-----	-----
	(6,454)	1,083	1,032	(4,339)
	-----	-----	-----	-----
Balance as at 30.06.2004	97,362	8,365	3,126	108,853
	=====	=====	=====	=====
ANALYSIS OF BALANCES				
Principal	63,554	4,358	995	68,907
Interest	33,808	4,007	2,131	39,946
	-----	-----	-----	-----
Balance as at 30.06.2004	97,362	8,365	3,126	108,853
	=====	=====	=====	=====

9. PROVISION FOR DOUBTFUL DEBTS -STAFF LOANS:

This relates to specific amounts owed by ex-staff whose recovery is deemed doubtful.

The balance in the accounts is arrived at as shown below:

	2004 Kshs. '000	2003 Kshs. '000
Balance as at 01.07.03	4,524	3,069
Charge for the year:		
House loans	906	0
Car loans	437	907
Personal advances	289	548
	-----	-----
Balance as at 30.06.04	6,156	4,524
	=====	=====

10. PROPERTY AND EQUIPMENT

	LAND Kshs'000	BUILDINGS Kshs'000	MOTOR VEHICLES Kshs'000	FURNITURE & EQUIPMENT Kshs'000	COMPUTERS Kshs'000	TOTALS Kshs.'000
COSTS:						
BAL. 01.07.03	9,350	1,027,371	44,313	172,707	24,450	1,278,191
ADDITIONS	-	38	9,360	1,545	4,889	15,832
REVALUATION	-	-	-	-	-	-
DISPOSALS	-	(665)	-	-	-	(665)
TRANSFERS	18	-	-	-	-	18
BAL. 30.06.2004	9,368	1,026,744	53,673	174,252	29,339	1,293,376
DEPRECIATION:						
BAL. 01.07.03	-	182,515	44,313	157,286	24,371	408,485
ADJUSTMENT	-	-	-	-	-	-
CHARGE FOR YR.	-	20,176	2,340	10,385	1,661	34,562
DISPOSALS	-	(410)	-	-	-	(410)
BAL. 30.06.2004	-	202,281	46,653	167,671	26,032	442,637
NET BOOK VAL.						
BAL. 30.06.2004	9,368	824,463	7,020	6,581	3,307	850,739
BAL. 30.06.2003	9,350	844,856	-	15,421	79	869,706

The movement of Kshs. 665,000 on buildings was occasioned by Kimilili office which was condemned by the Government and demolished. Posting of Kshs. 18,000 on land was a recognition of the cost of land on which the building stood.

11(a).TRADE CREDITORS

	2004 Kshs'000	2003 Kshs'000
Borrowers' Credit Balances	74,978	42,252
Unprocessed Loan Receipts	1,646	500
Interest accrued on redeemable loans	40,780	-
Due to Agency	232	-
Due to Marketing Bodies	9,228	9,228
Loan drafts outstanding	103,541	1,386
BALANCE AT 30TH JUNE 2004	230,405	53,366

11(b).OTHER CREDITORS

Sundry creditors general	32,033	19,864
Insurance receipts	1,335	3,883
Stale cheques	87	198
External audit fee accrued	3,705	2,805
Gratuity	16,878	15,775
BALANCE AT 30TH JUNE 2004	54,038	42,525

12(a).DEFERRED TAX:

The net deferred tax asset is arrived at as follows:

	Kshs'000	Kshs'000
Balance B/F as at 01.07.03	189,625	-
Further charges for prior years	-	319,515
Tax charge for the year	-	(129,890)
Balance C/F	189,625	189,625

12(b).TAXATION:

	Kshs'000	Kshs'000
Balance as at 1st July 2003	-	70,925
Tax charge for year	-	129,885
Transfer to Deferred Tax	-	(200,810)
BALANCE AT 30TH JUNE 2004	-	-

13.REDEEMABLE LOANS:

The redeemable loans outstanding as at 30th June 2004 were as follows:

	2004 Kshs'000	2003 Kshs'000
KFW SMALL SCALE	6,159	6,202
IDA 105	7,721	7,721
IDA 344	24,299	24,299
IDA 1143 KE	9,841	9,841
IBRD 1995 KE	258,036	258,036
AFC CREDIT 4	182,748	182,748
A D B (PIGS)	79,650	79,650
	568,454	568,497

14(a).GENERAL RESERVE

	2004 Kshs'000	2003 Kshs'000
	-----	-----
Balance as at 1st July 2003	1,415,329	(791,288)
Deferred tax Adjustment	-	374,496
Prior year adjustment	565,491	5,945
Restructuring adjustment	-	1,531,404
Profit/(Loss) after taxation for the year	(1,642,941)	294,946
	-----	-----
	337,879	1,415,503
Transfer to revolving fund	-	(172)
Rounding off adjustment	-	(2)
	-----	-----
Balance as at 30th June 2004	<u>337,879</u>	<u>1,415,329</u>

14(b).REVALUATION RESERVE

Property and Equipment are stated at cost or as revalued from time to time less accumulated depreciation. The corporation's policy is to revalue property once every five years.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve.

All other decreases are charged to the Income Statement.

However, there was no revaluation during the Financial Year.

15.REVOLVING FUND

	2004 Kshs'000	2003 Kshs'000
	-----	-----
Balance as at 1st July 2003	-	1,797
Transfer from General reserve	-	172
Transfer to General reserve	-	(1,969)
	-----	-----
Balance as at 30th June 2004	<u>-</u>	<u>-</u>

The transfer to the revolving fund represents 2% on interest earned on scheme 06 as per section 2.08 of the agreement between the Government of Kenya and the Corporation. The scheme was written off in 2003 accounts.

16. GRANTS

	2004	2003
	Kshs'000	Kshs'000
DETAILS	-----	-----
Development	20,611	20,611
Rehabilitation	18,752	18,752
I C A	2,500	2,500
Special Emergency Fund	3,470	3,470
Ministry of Finance	40,000	40,000
IDA 105/344	2,168	2,168
IDA 692	3,335	3,335
Vihiga	700	700
North Tetu	149	149
IADP	278	278
Narok Agricultural Dev. Project	760	760
World Bank Credit 4	21,925	21,925
IDA 1143 KE	14,529	14,529
IDA 1995 KE	1,594	1,594
Japanese Grant Scc Scheme 42 2004	769,000	-
	-----	-----
	899,771	130,771
	=====	=====

17. OTHER INTEREST INCOME

	2004	2003
	Kshs'000	Kshs'000
	-----	-----
Short Term Deposits	2,276	5,148
Staff Loans	9,613	8,578
Bank Balances	2,902	-
	-----	-----
	14,791	13,726
	=====	=====

18. STAFF COSTS:

	2004 Kshs'000	2003 Kshs'000
	-----	-----
Salaries	120,011	108,204
House Allowance	42,512	17,513
Transport Allowance	3,164	-
Hardship allowance	130	168
Outpatient medical expenses	4,637	10,456
Inpatient medical expenses	1,607	771
Pension and Insurance	33,496	28,374
Leave Allowance	1,036	1,172
Gratuity	2,990	6,598
Training expenses	1,528	1,580
Other emoluments	7,689	3,320
Meritorious Awards	-	891
	-----	-----
	218,800	179,047
	=====	=====

19. ADMINISTRATION EXPENSES:

	2004 Kshs'000	2003 Kshs'000
	-----	-----
Conferences	358	101
Travel & Hotel expenses	15,918	7,252
General office exp. & security	16,327	12,279
Audit fees & Expenses	900	540
Legal fees	5,966	(127)
Telephone & telex	5,104	2,775
Office rentals	17,222	19,820
Water	678	563
Electricity & Gas	2,144	5,116
Publicity & show expenses	5,434	2,789
Stamps & postages	1,957	1,823
Printing & stationery	5,994	4,326
EDP stationery & operation expenses	575	876
Donations	180	330
Corporate responsibility	45	-
Subscriptions & periodicals	1,094	818
Maintenance of Buildings	1,353	845
Maintenance of Furniture & equipment	1,390	1,314
Maintenance of other assets	175	718
Vehicle fuel & oil	8,295	5,834
Vehicle maintenance expenses	7,181	17,423
Professional consultants	1,664	900
Bank charges	2,126	2,142
Taxes & Licences	1,022	1,017
Land rent & rates	1,518	1,347
Insurance of corporation assets	2,671	4,104
Welfare	1,316	467
Other Miscellaneous expenses	69	291
	-----	-----
	108,676	95,683
	=====	=====

20.DOUBTFUL DEBTS CHARGES FOR THE YEAR:

		2004	2003
		Kshs'000	Kshs'000
Large scale loans:		-----	-----
Scheme	1	70,222	27,428
	2	631,320	61,839
	3 & 7	10,336	430
	5	9,930	43,799
	31	540,762	109,977
	45	-	-
	98..99	-	-
		-----	-----
		1,262,570	243,473
Small scale loans:		=====	=====
	4	656	70
	6	21,479	5,477
	8	3,162	63,024
	9	641	114
	10..12	36,380	1,086
	14	20,485	-
	16	15	-
	30	93,041	7,610
	99	-	-
		-----	-----
		175,859	77,381
Seasonal crop loans:			
	26	72,912	37,596
	27	1,346	66,968
	29	15	16,885
	32	5,651	5,776
	33	6,500	4,174
	34	-	2,391
	35..41	556,078	28,586
		-----	-----
		642,502	162,376
		2,080,931	483,230
		-----	-----
REPOSSESSED FARM PROPERTIES		18,500	25,809
SMALL DEBITS WRITE-OFF		1,129	7
		-----	-----
		19,629	25,816
		-----	-----
NET LOANS TO FARMERS		2,100,560	509,046
		-----	-----
SUNDRY DEBTORS:			
TRUST BANK LIMITED		-	(4,529)
EX-STAFF LOANS		1,632	1,455
DEVELOPMENT HOUSE		3,273	4,286
		-----	-----
		4,905	1,212
		-----	-----
		2,105,465	510,258
		=====	=====

21. GOVERNMENT EQUITY

The Financial Restructuring of the Corporation was approved by the National Assembly vide certificate of sessional paper No. 1 of 2003 dated 6th November, 2002. To this effect the Government will inject additional equity to the Corporation amounting to Kshs. 1.302 billion in the next five years. The second tranche of Kshs. 260.4 million was received during the financial year 2003/2004.

22. CONTINGENT LIABILITIES:

There are no contingent liabilities.

23. DIRECTORS

The directors who served during the year to the date of this report were:-

Mr. Robert James Kigunda	Chairman
Mr. Omurembe Iyadi	Managing Director
Mrs. Rael Magut	Member
Mr. Dominic Kiruthi	Member
Mr. Gerald Munene Mugo	Member
Mr. Masudi Ali Mwakileo	Member
Eng. Michael Felix Alwala	Member
Permanent Secretary	Ministry of Finance
Permanent Secretary	Ministry of Agriculture and Rural Development

