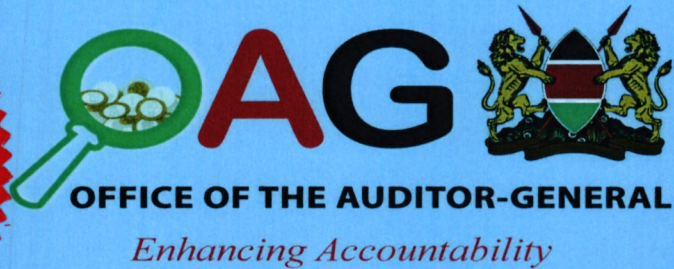
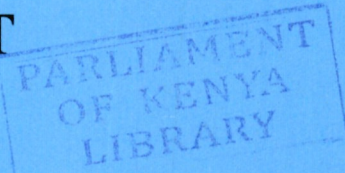


REPUBLIC OF KENYA



REPORT



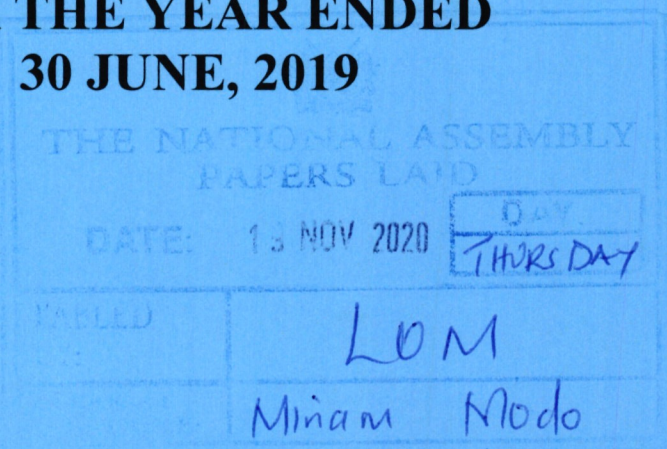
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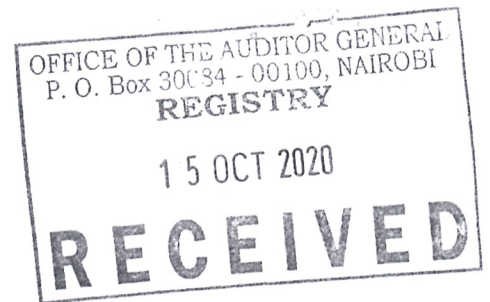
THE AUDITOR-GENERAL

ON

KENYA INDUSTRIAL ESTATES LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2019**



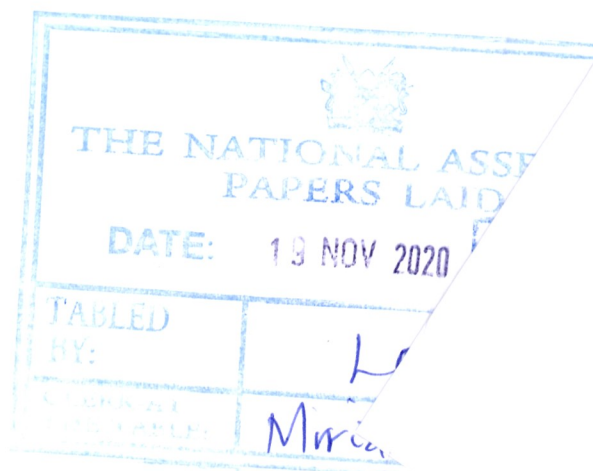


KENYA INDUSTRIAL ESTATES LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

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



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**Reports and Financial Statements
For the year ended June 30, 2019**

TABLE OF CONTENTS

I. KEY INFORMATION OF KENYA INDUSTRIAL ESTATES LIMITED2

II. THE BOARD OF DIRECTORS6

III. MANAGEMENT TEAM 11

IV. CHAIRPERSON’S STATEMENT 14

V. REPORT OF THE CHIEF EXECUTIVE OFFICER 16

VI. CORPORATE GOVERNANCE STATEMENT..... 17

VII. MANAGEMENT DISCUSSION AND ANALYSIS21

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT25

IX. REPORT OF THE DIRECTORS26

X. STATEMENT OF DIRECTORS’ RESPONSIBILITIES27

XI. REPORT OF THE INDEPENDENT AUDITORS ON KENYA INDUSTRIAL ESTATES LTD28

XII. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE, 2019.....29

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE, 2019.....30

XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE, 2019.....31

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE, 2019.....32

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE PERIOD ENDED 30TH JUNE, 2019.....33

XVII. NOTES TO THE FINANCIAL STATEMENTS35

NOTES TO THE FINANCIAL STATEMENTS (Continued).....36

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS68

APPENDIX II: PROJECTS IMPLEMENTED BY KIE74

APPENDIX III: INTER-ENTITY TRANSFERS.....74

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

I. 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 Industry, Trade and Cooperatives, who is responsible for the general policy and strategic direction of the company. The entity is domiciled in Kenya.

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.

Vision

The KIE Vision is "To be the Leader in Incubation of and Support Services to Micro, Small and Medium Enterprises in Kenya".

Mission

The KIE Mission Statement is "To finance, provide industrial workspace and offer business advisory services to Micro, Small and Medium Enterprises (MSMES) in Kenya"

Core Values

The Company upholds the following values;

- (a) Professionalism,
- (b) Accountability
- (c) Innovativeness
- (d) Drive
- (e) Oneness
- (f) Social responsible (PAIDOS)

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.

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019**

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 entity during the year/period were as follows:

No	Name	Position	Appointment date
1	Mugambi Imanyara	Chairman	Appointed Chairman of the Board of Directors on the 20 th September, 2018
2	Bob Karina	Director	Appointed on the 02/10/2015 Reappointed Director on 19/12/2018
3	Dr. Parmain ole Narikae, MBS	Managing Director	Appointed on 5/9/2016
4	Geoffrey Mwitari	Alternate Director to Principal Secretary, The National Treasury	Appointed on 14/10/2015
5	Lawrence Lelei	Alternate Director to Principal Secretary, State Department for Industrialization	Appointed on the 7/8/2018
6	Lucas Kirui	Director	Appointed on the 02/10/2015 Reappointed on 14/12/2018
7	Neto Agostinho	Director	Appointed on 14/12/2018
8	Harriette Igonanga Chiggai	Director	Appointed on 14/12/2018
9	Mark Kebenei	Director	Appointed on 14/12/2018
10	Evelyn Waithira Nyoike	Director	Appointed on 14/12/2018

Kenya Industrial Estates Limited

Reports and Financial Statements For the year ended June 30, 2019

Acting Manager, Legal Services

Charity Ndeke
P.O. Box 78029-00507
Nairobi5.

Registered Offices

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) 6651348/53
E-mail: admin@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 Ltd
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

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Independent Auditors

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

Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

II. THE BOARD OF DIRECTORS

 1. Mugambi Imanyara Chairman Board of Directors.	Mugambi Imanyara holds a Bachelor of Laws (LLB) degree from the University of Nairobi and a Post Graduate Diploma from the Kenya School of Law. He is an advocate of the High Court of Kenya and a Certified Public Secretary. He is a member of the Law Society of Kenya, the International Commission of Jurists and the Commonwealth Law Association. He has over 28 years' experience in private practice and consultancy and has consulted extensively for both the Government of Kenya and Non-Governmental Organisations
 2. Dr. Kamau Thugge Principal Secretary, National Treasury Alternate: Geoffrey Mwitari	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.
 3. Betty C. Maina, CBS Principal Secretary, State Department for Industrialization Alternate: Lawrence Lelei	Betty C. Maina, CBS is the Principal Secretary, State Department for Industrialization. She holds an MSc degree in Development Administration from the University College London and BA degree in Land Economics from the University of Nairobi. She is a seasoned professional with more than 20 years' experience in organisational leadership and development, engaged in policy analysis and influence. She is a proven and capable leader with ability to prepare and implement strategic business plans and mobilise the necessary resources for implementation. She is adept at policy analysis, communication and negotiation with decision makers at all levels. She joined the Ministry of Industry, Trade and Cooperatives on 24th January, 2018.
 4. Dr. Parmain ole Narikae Managing Director	Dr. Parmain ole Narikae is the Managing Director. He holds Doctorate in Business Administration. He also holds an MBA and Bachelor of Science Degree in Business Administration (First class honors) from United States International University. He has wide experience as a career banker having served in senior leadership position as Chief Manager, General Manager and Executive Director in Co-operative Bank and Chase Bank. He is a member of the Institute of Directors. He joined on 5th September, 2016.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

 5. Bob Karina Director	Bob Karina holds a Master of Science (MSc) in Corporate Finance from the University of Liverpool (UK). He is an accomplished stockbroker, an information technology professional and a successful businessman. He has broad experience in advising institutional and corporate investors, corporate finance consulting and research analysis. He is also the Chairman and Founder of Faida Investment Bank. He joined the Company on the 2nd October, 2015 and was reappointed on 19/12/2018.
 6. Lucas Kirui Director	Lucas Kirui holds a Diploma in Sales and Marketing and has experience in procurement management. He also has experience in Marketing and administration. He joined the Company on the 2nd October, 2015 and was reappointed on 19/12/2018.
 7. CPA Geoffrey K. Mwitari Alternate Director to Principal Secretary, The National Treasury	CPA Geoffrey Mwitari holds an MBA in Strategic Management from Moi University. He is a Certified Public Accountant registered with ICPAK and has wide knowledge in Government Finance and Accounting. Currently working with the National Treasury, Directorate of Accounting Services. He joined the Company on the 14th October, 2015.
 8. Lawrence Lelei Alt. Director, PS State Department Industrialization	Lawrence Lelei is Alternate Director to the Principal Secretary, State Department for Industrialization. He is Currently pursuing a Master's Degree in Economics (Cooperation & Human Development) at Kenyatta University. He also holds a Bachelor of Arts Degree (Economics Major) from Kenyatta University. He has vast experience in public sector budgeting, performance contracting, policy review and analysis. He has also served in the Business Environment Delivery Unit that oversaw reengineering of various government services leading to a number of reforms that catapulted Kenya to position 80 in the 2018 World Bank Doing Business Rankings. He is a member of the Economists Society of Kenya. He joined the Company on the 7th August, 2018.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

 9. Mark K. Kebenei Director	Mark K. Kebenei holds a Bachelor's of Science degree in Finance and Economics from the University of Birmingham, Alabama, USA. He is also pursuing his Executive Master's Degree (EMBA) from the University of Alabama, USA. He is a seasoned Professional and Corporate leader and has vast knowledge in Financial Management, Investments and Institutions, and also a concentration on Analysis and Policy. He is an established businessman in the petroleum and gas industry. He joined the Company on 14/12/2018.
 10. Evelyn Waithira Nyoike, HSC Director	Evelyn Waithira Nyoike, HSC is a holder of Master's Degree in Communication from the University of Nairobi, and an Undergraduate Degree in Community Development from Daystar University. She was conferred by H.E. Mwai Kibaki, an award in the order of the Head of State Commendation (HSC) for her immense contribution in championing Paradigm Shifts in Agribusiness and Civic Education to the Society. Evelyn has had an iconic career in the media spanning over a decade, working with Kenya Broadcasting Corporation before moving to the Royal Media Services where she was recognized country-wide as the best Morning Show Hostess on a range of matters, majorly Agribusiness, Civic Education and emerging matters in business and Social Economic Affairs. She has a blazing passion for empowering other people in the spheres economic and/or otherwise, and spends her free time educating the Public and Communities on various Empowerment Engagements. She joined the Company on the 14th December, 2018.
 11. Harriette Chiggai Director	Harriette Chiggai is an Advocate of the High Court of Kenya. She is the Vice President of the Law Society of Kenya. She has an MBA- Finance and Governance. She is a Certified Mediator (CPM) and a Certified Governance Trainer. She is a Member Mediation and Accreditation Committee of the Supreme Court of Kenya. She is the Founder of the Face of Bar, the Western Jurists and the Nairobi County Youth Board Forums. She is also the Chairman and a Board member of Siasa Place. She is a certified resident ambassador to the Netherlands having achieved the DVP world greatest potentials on the rule of law and governance. She previously served as a Council Member Law Society of Kenya where she chaired in -house Committee and the Young Lawyers Committee (among founding members). She has also served as a member, Youth Committee-National Chambers of Commerce and Industry and Deputy Secretary General East Africa Law Society and Chaired the EALS Young Lawyers Committee (Caucus). She has vast experience in Corporate Governance and Board Management. She is a Legal Consultant and trainer in the vast legal field Including Corporate Governance, labour laws, intellectual property and strategy and risk management.

	She is passionate about leadership, governance, youth mentorship and development. She was nominated by PAW Africa as the 2015 Phenomenal African Woman of the year based on her contribution to mentorship programmes and progressive leadership and governance. She joined the Company on the 14th December, 2018.
 12. Neto Agostinho Director	Neto Agostinho is a trained Lawyer from the University of Nairobi. He participated in Human Rights events at the University of Nairobi named Africa's Fourth Best Oralist on issues Human Rights in 2004, at an event organized by Center for Human Rights, Pretoria, held at Dar es Salaam University. He is currently a masters Student on International Relations at the United States International University in Africa. Neto represented Ndhwa Constituency, in Homabay County at the National Assembly of Kenya, as a member of Parliament. He was first elected to Parliament in September 2012 following a by-election in the Constituency and got re-elected in March 2013. He served in the Committees of Delegated legislation and Justice and legal Affairs at the National Assembly. He was the Vice Chair of Bunge Sports Club, and the Convener of the Parliamentary Caucus on Human Rights. He was also the vice Chair of Common Wealth Africa Parliamentary Human Rights Group. Neto has a special interest in Human Rights and international Relations. He participates in various Human Rights related activities that range from equality to Economic Social Cultural rights. The legislations he championed in Parliament included amongst other laws, the Health Records and Information Managers Act, the Refugee Bill, The Reparations Bill and the Employment Skills Development bill. Neto serves as an expert Human Rights Resource person, and has trained parliamentarians in the South East Asia region in March 2016 – Sri Lanka on the role of parliamentarians in promoting and protecting Human Rights. He participated in Human Rights panel discussions in Glion III hearings in Switzerland May 2016. He participated as an expert in Geneva, Switzerland to help draw recommendations for Human Rights Council on early child and forced marriages in November 2016. He has also participated as an expert at the World Refugee Council session in Dar es Salaam Tanzania in 2018 to help highlight durable solutions for Refugees in Horn of Africa. He was a resource person in March 2019 for the Parliament of Georgia on Human Rights and National Security, a program of the European Union. He was a resource person for Parliamentarians in the Pacific region, on Human Rights and Protection of Human Rights at the Parliament of Tonga, courtesy of the Commonwealth Human Rights Secretariat, in April 2019. Neto Currently is the co- leader of the United Green Movement, a movement which amongst other things, seeks to help realize, civil, political economic, social cultural and Brotherhood Rights in Kenya. He is a member of the Board of Directors of Kenya's National Environmental Authority (NEMA). He joined the Company on 14/12/2018.

Kenya Industrial Estates Limited

Reports and Financial Statements For the year ended June 30, 2019



13. Charity Ndeke
Acting Manager, Legal Services

Charity M. Ndeke is an advocate of the High Court of Kenya. She holds a Bachelor of Laws Degree (LLB) from the University of Nairobi and a Post Graduate Diploma from the Kenya School of Law (KSL). She is also a Certified Secretary and a member of the Institute of Certified Secretaries.

She has vast experience in Commercial law.

She joined the Company in January, 2015.

III. MANAGEMENT TEAM

 1. Dr. Parmain ole Narikae Managing Director	Dr. Parmain ole Narikae is the Managing Director. He holds Doctorate in Business Administration. He also holds an MBA and Bachelor of Science Degree in Business Administration (First class honors) from United States International University. He has wide experience as a career banker having served in senior leadership position as Chief Manager, General Manager and Executive Director in Co-operative Bank and Chase Bank. He is a member of the Institute of Directors. He joined on 5th September, 2016.
 2. Monica C. Kotut Manager, Corporate Strategy and Planning	Mrs. Monica Kotut is currently the Manager, Corporate Strategy and Planning. 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.
 3. Joseph Otieno Ayieko Acting Manager, Business Advisory Services	Mr. Joseph Ayieko holds an Msc in Entrepreneurship from Jomo Kenyatta University of Science and Technology, Bachelor of Business Administration with Information Technology, Diploma in Community Based Project Planning and Management, Diploma in Cooperative Audit, CPA- (Part II) and Certificate in Rural Credit Management, Certified ILO Trainer on Gender and Entrepreneurship, Certified in Strategic Management and Leadership. He has over Twenty-five (25) years of work experience within MSME Sector. He is a consultant and entrepreneurship trainer on sustainable rural economic empowerment, a trained Environmental Impact and Environmental Audit Assessor and a member of Eastern Africa Network for Gender and Enterprise Development Trust.
 4. Charity Ndeke Acting Manager, Legal Services	Charity M. Ndeke is an advocate of the High Court of Kenya. She holds a Bachelor of Laws Degree (LLB) from the University of Nairobi and a Post Graduate Diploma from the Kenya School of Law (KSL). She is also a Certified Secretary and a member of the Institute of Certified Secretaries. She has vast experience in Commercial law. She joined the Company in January, 2015.

Kenya Industrial Estates Limited

Reports and Financial Statements For the year ended June 30, 2019

5.	 CPA Charles M. Mativo Finance Manager	CPA Charles Mativo is an Accountant by profession and holds a Bachelor of Commerce degree from KCA University. He is a Certified Public Accountant CPA (K) and 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.
6.	 Joseph K. Tele Manager, Industrial Estates Development & Incubations services	Mr Joseph K. Tele holds Masters of Business administration degree from Kenyatta University and Bachelor of Commerce Degree in Accounting and Auditing from University of Poona. He is currently pursuing masters of management and leadership degree at MUA. He joined KIE in 1987 as a projects Accountant and has previously held various management positions as Finance manager and Credit Risk Manager. Mr Tele is also a Board member of Kenegut Secondary School.
7.	 Matilda Mwachia Manager, Human Resources & Administration	Ms. Matilda Mwachia holds an MBA (Strategic Management); a Bachelor of Business Administration in Human Resource and a Diploma in Human Resource Management. She is experienced in Human Resource management having worked with TSC for over (10) years before joining the Company in the year 2012.
8.	 Reginald Kimanthi Manager, Operations	Mr. Reginald 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 as Branch Manager, Regional Manager and Head of Department as is currently the Manager, Operations.

9.  Rosemary Kalui Manager, Special Projects	Ms. Rosemary Kalui holds a Bachelor's Degree in Science, Business Administration, from University of East Africa Baraton; Diploma in Appraisal, Monitoring and Evaluation of Small and Micro-Enterprise Development Programmes-Durham University Business School(UK). She also has a Higher Diploma in Counselling from Kenya Association of Professional Counsellors. She has vast experience in staff training, project appraisal and monitoring and evaluation. She was instrumental in the setting up the Business Development and Group guarantee scheme in KIE. She has served in various Management and Counselling positions in the organization prior to her appointment as Manager, Special Projects.
10.  CPA Teobard Mugo Manager, Internal Audit	CPA Teobard Mugo is an Accountant by profession and holds a Bachelor of Commerce degree from KCA University. 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.
11.  Doreen K. Kimathi Assistant Manager, Credit/Risk Department	Mrs. Doreen Kimathi is currently the Assistant Manager in charge of Credit Department. She holds an MBA (Strategic Management) from USIU-Africa, Bachelor of Commerce (Honours), Kenyatta University; and is currently pursuing her PhD in Entrepreneurship at Jomo Kenyatta University of Agriculture and Technology (JKUAT). She has vast banking and finance experience spanning over 13 years. She joined KIE in 2017.

IV. CHAIRPERSON'S STATEMENT



It is my pleasure to present to you the Financial Year 2018/2019 Annual Report and Financial Statements for Kenya Industrial Estates Limited. For the period, the company realized significant growth 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.

Business Environment

Globally, economic growth decelerated to 3.6 per cent in 2018 from 3.8 per cent in 2017. Growth in emerging markets and developing economies decelerated from 4.7% in 2017 to 4.6% in 2018. The sub-Saharan Africa's remained on a recovery path growing by 3.0 % during the review period compared to a growth of 2.9 % in 2017.

The global inflation rose to 3.6 % in 2018 from the revised rate of 3.2 % in 2017 mainly attributable to robust global oil demand. Prices of agricultural produce remained broadly stable but declined slightly in the second half of the year. The country's inflation rate remained low at 4.7 % in 2018 compared to 8.0% in 2017 majorly as a result of considerable declines in prices of food after the shortage experienced in 2017. The world trade dropped to 3.9 % in 2018 compared to 5.2 % in 2017 as a result of trade tensions involving major economies and elevated trade policy uncertainties. The global unemployment rate dropped from 5.7% in 2017 to 5.3% in 2018. The labour participation rate stood to 61.4% in 2018. The Kenyan economy created 840.6 thousand new jobs in 2018 out of which the informal sector which accounted for 83.6% of the total employment, created 762.1 thousand jobs.

The Kenya Gross Domestic Product (GDP) is estimated to have expanded by 6.3 % in 2018 compared to a revised growth of 4.9% in 2017. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. The manufacturing sector expanded by 4.2% in 2018 compared to a revised growth of 0.5 % in 2017 mainly buoyed by increased agro-processing. Other sectors that grew notably in 2018 are Electricity Supply, Transportation and Storage, Information and Communication Technology, Accommodation and Food Services.

The Current account deficit narrowed to stand at 441.8 Billion in 2018 compared to 503.4 Billion in 2017 mainly due to a faster growth of imports of goods and services.

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

The Kenya Vision 2030 and the Governments "Big 4 Agenda" 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 sector registered a favourable performance within the period mainly on account of increase in production of dairy products, tea, coffee and sugar due to favourable weather conditions. The sector registered an increased growth of 4.2 per cent in 2018 compared to the modest

Kenya Industrial Estates Limited

Reports and Financial Statements For the year ended June 30, 2019

growth of 0.5 per cent in 2017. There was an increase in loans advanced to the sector by 6.5 per cent from KShs. 315.3 billion in 2017 to KShs. 335.7 billion in 2018. In addition, there was an increase in financing of projects approved by industrial financial institutions increased to KShs. 1.3 billion in 2018

The development and promotion of MSMEs has been identified as a critical engine to propel the country's industrialization process. MSMEs have the potential to achieve rapid economic growth, while generating a considerable extent of employment opportunities.

Business Performance

In year 2018/2019 Financial Year, KIE incubated MSMEs by providing affordable credit/loan facilities to the tune of KShs 401.7 million benefiting 631 enterprises, provided industrial workspace/incubators to 82 enterprises, and built the capacity of 43,924 MSMEs through training on entrepreneurship skills. The organization also facilitated linkages between 2,079 SMEs and large enterprises within and across sector. Through this multipronged approach, the company supported MSMEs in textile and garments, furniture and wood, food processing and construction creating 29,340 jobs. These achievements were realized despite of the challenges the company encountered within the period.

Transformation Agenda

In the period under review the organization continued with its transformation agenda as envisioned in the strategic plan 2017-2020 whose theme is 'Scaling up Operations and Broadening Outreach in Line with Vision 2030 Aspirations'. Our key strategic objective during this period included: - Scaling up company operations in line with Vision 2030 aspirations; Enhancing profitability and financial sustainability of the organization; Enhancing efficiency and effectiveness in service delivery; Enhancing institutional capacity; and Enhancing the company's corporate image.

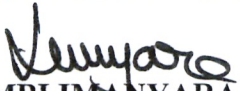
Appreciation

I highly appreciate the Government of Kenya, through the Ministry of Industry, Trade and Cooperative and all the Ministries, State departments and Agencies that provided great support to the company during this period

To my fellow Board members, I express my gratitude for your priceless role and devotion to scale the company to greater heights.

To our esteemed customers, I express my highest regard for choosing the company as your number one partner in your entrepreneurship endeavours.

I wish to thank our competent, committed and dedicated management and staff for their steadfast and indefatigable efforts towards the realization of organization's mandate.


MUGAMBI MANYARA,
CHAIRPERSON, BOARD OF DIRECTORS

V. REPORT OF THE CHIEF EXECUTIVE OFFICER



It is my great delight to present to you the company Annual Report for the year ended 30th June 2019. This was a great year as the company got new leadership at the Board.

I am very happy to report that the company coped with challenges encountered during the year under review to realize its mandate of promoting Industrialization in Kenya through the provision of quality and competitive industrial infrastructure, financial products and business Advisory services.

Business Performance

The company recorded a remarkable improved performance in operations in the year 2018/2019 compared to 2017/2018 in spite of the loss occasioned by the budget cut. Disbursement of loans to MSMEs was Kshs 401.7 million in 2018/19 compared to Kshs. 210.3 Million in 2017/2018. The number of entrepreneurs trained on business and entrepreneurship skills increased by 22.5 % from 35,852 in 2017/2018 to 43,924 entrepreneurs trained in the period under review.

The institution is very vital in the achievement of the Governments ‘‘ Big 4 Agenda’’ by facilitating MSMEs to access machinery, raw materials and markets for their finished products. This is achieved through facilitation of backward and forward linkages between MSMEs and Large Enterprises together with suppliers and market distribution chains within and across sectors. During the financial year under review, the institution facilitated 2,079 linkages compared to 1,349 linkages the previous year. The linkages were mainly in the areas of machinery/equipment acquisition both locally and internationally. In addition, access to markets is also facilitated through shows, exhibition and direct linkage with buyers. In the period under review KIE created 29,340 jobs compared to 19,204 in the previous year. These achievements were realised despite the challenges encountered within the period.

The Company Assets as at 30th June 2019 stood at Kshs. 3.30 Billion compared to Kshs. 3.32 Billion as at 30th June 2018. Current Assets amounted to Kshs. 333.3 Million as at 30th June 2019 Compared to Kshs 266.3 million as at 30th June 2018 while current liabilities amounted to Kshs. 343.3 Million as at 30th June 2019 compared to Kshs. 1.567 Billion as at 30th June 2018. The reduction in current liabilities is attributed to the Government decision to write-off loans owed by KIE.

A large, stylized handwritten signature in black ink, reading 'Parmain Ole Nariakae'.

**DR. PARMAIN OLE NARIKAE
MANAGING DIRECTOR**

VI. 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 of Kenya Industrial Estates (KIE) Limited 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.

The Company has adopted high standards and applies strict rules of conduct based on the best corporate practices. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

1. Observing high standards of ethical and moral behavior;
2. Acting in the best interest of the Company;
3. Remunerating and promoting fairly and responsibly;
4. Recognizing the legitimate interests of stakeholders;
5. Ensuring that the Company acts as a good corporate citizen.

The Company has a Board Charter which sets out the roles, composition and responsibilities of the Board of Directors.

The Board of Directors

The Board of Directors is the highest governing body of the Company. The Board is appointed within the provisions of Section 6 (1) (e) of the State Corporations Act. The Board exercises leadership, enterprise integrity and judgement in directing the Company so as to achieve continuing prosperity for the Company and its shareholders. It at all times acts in the best interests of the Company in a manner based on transparency, integrity, accountability and responsibility. Removal of the members of the Board is done in accordance with the provisions of Section 7 of the State Corporations Act or by resignation.

Role and Functions of the Board

In providing leadership and strategic direction to the Company, the Board is tasked with the following key responsibilities:

1. Determining the business strategies, plans and policies that underpin the corporate strategy;
2. Discussing and approving strategic plans, policies and annual budgets;
3. Continually monitoring the exercise of delegated power by management;
4. Ensuring that a comprehensive system of policies and procedures is in place and that appropriate governance structures exist to ensure the smooth, efficient and prudent stewardship of the Company;
5. Identifying and reviewing key risks, opportunities and strengths relating to the Company;
6. Ensuring that the company's organisational structure and capability are appropriate for implementing the chosen strategies;

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

7. Setting policies on internal control and obtaining regular assurance that the system is functioning effectively and is effective in managing risks;

Board members are inducted and continuously trained to enrich their skills as they steer the Company to higher levels. Their performance is evaluated yearly.

In discharging their roles, the Board members are required to declare any conflict of interest or the absence of the same in all matters.

The Board members are also expected to continually adhere to the code of conduct and ethics as stipulated in the Mwongozo Code of Governance for State Corporations. Governance audit is carried out to promote appropriate ethics within the organisation.

Board Committees:

For efficient decision making by the Board in discharging its duties and responsibilities, the following Principal Committees have been set up and meet under well-defined terms of reference set by the Board.

1. Finance and Investment Committee;
2. Audit Committee;
3. Human Resource and Legal Committee.

The Board defines terms of reference under which the respective Committee's operate. The Company Secretary is the secretary to all the Board Committees except the Audit Committee where the Head of Internal Audit is the secretary. The Committees submit reports of their activities to the Board.

Finance and Investment Committee

The objective of the Committee is to provide leadership in the achievement of attractive returns on the Company's equity and discuss and determine the prudence of financial management and to review the asset mix and volumes, return on investment and the cost of both assets and liabilities in order to achieve the institution's short-term and long-term goals.

The membership of the Finance and Investment Committee is comprised as follows:

1. Bob Karina - Chairperson
2. Evelyn Nyoike
3. Harriette Chiggai
4. Lawrence Lelei (Alternate to the PS, State Department for Industrialisation)
5. Geoffrey Mwitari (Alternate to the PS National Treasury)

Audit Committee

This is an oversight Committee of the Board. The Committee assists the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparations of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The Committee reviews and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

The membership of the Audit Committee is comprised as follows:

1. Harriette Chiggai - Chairperson
2. Agostinho Neto
3. Lucas Kirui
4. Lawrence Lelei (Alternate to the PS, State Department for Industrialization)
5. Mark Kebenei

Human Resource and Legal Committee

The Committee's principal objective is to recommend to the Board strategic directions in matters relating to HR and legal compliance.

The membership of the Human Resources and Legal Committee is comprised as follows:

1. Lucas Kirui- Chairperson
2. Bob Karina
3. Geoffrey Mwitari (Alternate to the Cabinet Secretary, The National Treasury)
4. Agostinho Neto

Board Meetings

The Board of Directors meets regularly as required in order to effectively and efficiently monitors the implementation of the Company's planned strategy, review it in conjunction with its financial performance and business development and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning.

The Notice and Agenda and detailed Board Papers of meetings are circulated on a timely basis to ensure that the directors receive accurate, timely and clear information to enable it discharge their duties.

The Board held 6 meetings during the year under review. Each Board member belongs to two Committees. Thee attendance was as follows:

Name Of Non-executive Director	Expected No. of meetings in the year 2017/18	No. of meetings attended	% Attendance
Bob Karina	6	6	100
Lukas Kirui	6	6	100
Mugambi Imanyara	2	2	100
Lawrence Lelei	6	6	100
Harriette Chiggai	6	6	100
Mark Kebenei	6	6	100
Evelyn Nyoike	6	6	100
Agostinho Neto	6	6	100

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Board Remuneration

Board members are remunerated for their services in accordance with the relevant legislative provisions and/or guidance from the State Corporations Advisory Committee. Details of Directors emoluments during the year are shown on page 53 note 6 (c). Directors are entitled to sitting allowance for every meeting attended, lunch allowance (in lieu of lunch being provided) accommodation allowance and mileage reimbursement where applicable within set limits of state corporations. In addition, the Chairman is paid a monthly honorarium.

Directors Shareholding

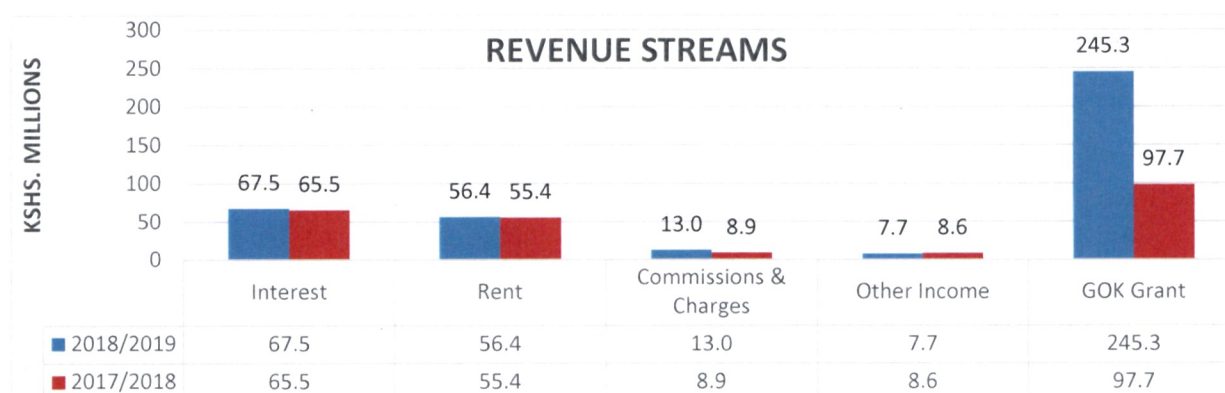
None of the Directors owns shares in the Company in their individual capacity.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

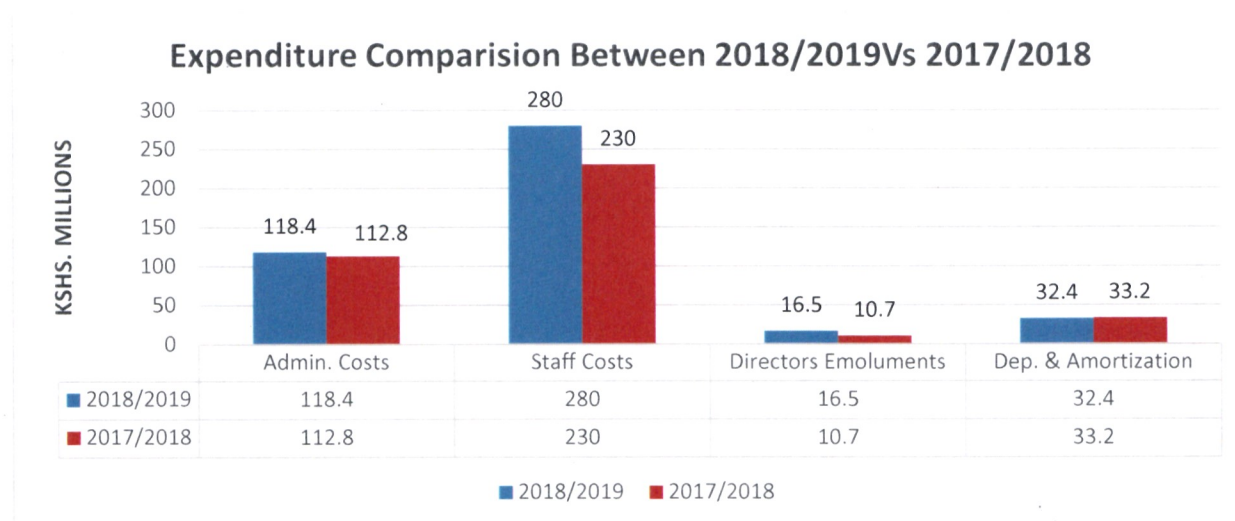
1. Financial Performance

a) Pre-tax

During the Financial year 2018/2019, the Company posted a pre-tax loss of Kshs.93.6 Million. This is compared to a loss of Kshs. 167.1 million for the last Financial Year 2017/2018. The overall Return on investment for the financial year is (2.5%).



The company's operating expenditure for the Financial year under review was Kshs 487.5 million compared Kshs 407.5 million in the Financial year 2017/2018.



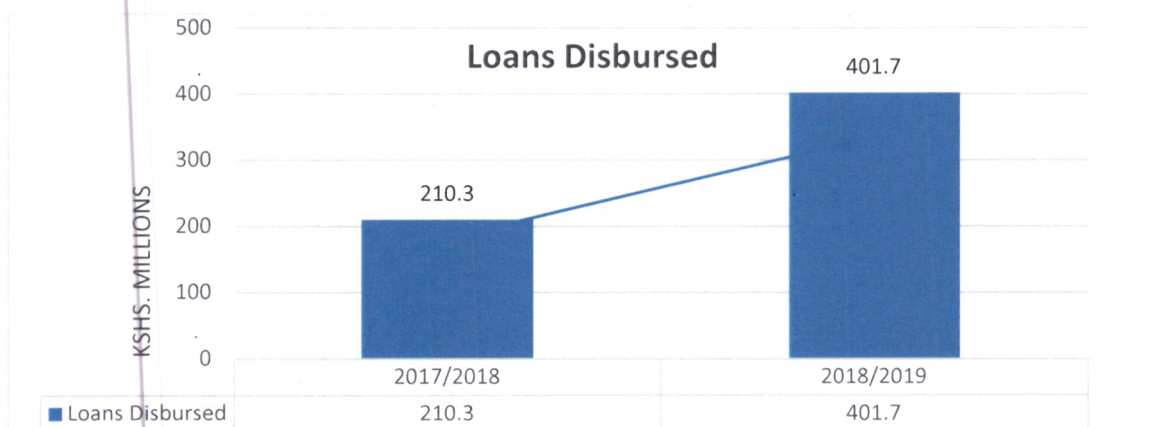
b) Company Financial Position

The company total assets as at 30th June, 2019 stood at Kshs. 3.29 Billion compared to Kshs 3.32 Billion for same period in the last Financial Year. The company current assets amounted to Kshs. 333.3 Million compared to current liabilities amounting to Kshs. 343.3 million. Current assets for same period in the last financial year amounted to Kshs.266.3 million while current liabilities for same period in the last financial year amounted to Kshs.1.57 Billion. The organizations financial position has greatly improved following the approval by the Cabinet and The National Treasury to write of long outstanding loans.

2. Operations

KIE has products which are designed to meet the needs of customers. There was a marked improvement in performance during the period under review compared to the previous period as demonstrated below:

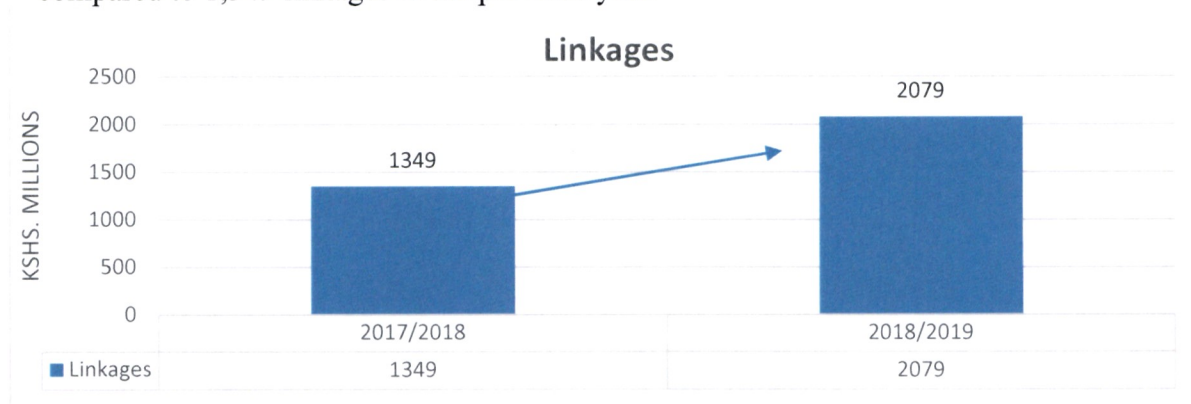
a) Credit to SMEs: For the period under review, the company recorded 55.4% increase in amount of credit offered SMEs to a tune of Kshs. 401.7 million compared to Kshs.210.3 Million in 2017/2018 Financial Year.



b) Entrepreneurship Training: For the period under review, the company recorded 22.5 % growth in number of SMEs trained to 43,924 SMEs across the country compared to 35,852 trained in 2017/2018 Financial Year.



c) Linkages: For the period under review, the company recorded 54.1% growth in linkages of SMEs to large enterprises, market and suppliers of machinery. The company linked 2,079 SMEs compared to 1,349 linkages in the previous year.



3. Key projects and investment being implemented by KIE

The company is currently implementing one project namely Credit to Small and Medium Enterprises.

Credit to Small and Medium Enterprises (SMEs)

This project aims at providing affordable medium to long-term credit to SMEs in the manufacturing sector which is core to the country vision of becoming a newly industrialized, globally competitive and prosperous middle income country by year 2030. The total project cost is estimated at Kshs.3.35 Billion and is being implemented over three financial years up to 2021/2022. The expected outputs of the project are: Disbursement of Kshs.3.35 Billion to SMEs, Creation of 9,249 new enterprises, Creation new 46,205 direct jobs and Creation of over 231,000 indirect jobs. Other benefits of the project are: Stimulating rural industrialization, Wealth Creation, Equitable distribution of wealth, Support to Youth and Women, Value addition to local raw materials and increase in contribution to government taxes by SMEs. The project completion rate is at 32.7% with total expenditure of kshs.1.095 Billion as at 30th June, 2019.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Under the same programme, the company completed constructing a SME Incubation Centre in Nairobi. The incubation centre will incubate 30 enterprises, create 300 new direct jobs and 1500 indirect jobs.

4. Major risks facing the entity

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 major risks for the company are credit, liquidity market and operational risk.

a) Credit Risk Management

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. The company's credit risk is primarily attributable to liquid funds and loans advanced to customers. The company credit risk attributable to liquid funds is low because the counter parties are banks with high reputation. Credit risk attributable to loans is managed through a framework that sets out policies and procedures covering its measurement and management. The company has ensured clear segregation of duties between transaction originators in the business (Filed officers and Business Development) and approvers in the Risk Function. All credit exposure limits are approved within a defined credit approval authority matrix. The company also manages its credit exposures through the principle of diversification across products, geographical locations, industries and client segments. Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, credit insurance and guarantees.

b) Liquidity Risk Management

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. KIE's Board of Directors have built a liquidity risk management framework for managing the company short-term, medium and long-term funding requirements. KIE continuously monitors forecasts and actual cash flows to ensure company's liquidity requirements are met.

c) Market Risk Management

It is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect KIE. KIE currently is not actively affected by foreign exchange risk and equity/commodity prices due to its nature of business.

Interest rate risk is the risk of loss from fluctuations in the future cash flows because of a change in market interest rates which affects KIE's investment. KIE interest rate regime is fairly stable and not driven by on-going market dynamics.

d) Operational Risk

Operational risk is the potential for loss arising from inadequate or failed internal processes, people and systems or from the impact of external events. The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities carried out within KIE. KIE endeavours to discuss all operational risks with department heads and unit managers to ensure effective controls are in place with a review at least once a year.

5. Material arrears in statutory/financial obligations

The company has no material arrears in statutory and financial obligations.

6. Entity's compliance with statutory requirements

The company does not have any governance issues among the Board or members of top management. Further there is no conflict of interest.

VIII. 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 that we operate within. We see enterprise development as an important step towards alleviating poverty through wealth and employment creation. We have always believed KIE can – and should – have a positive impact on the communities we serve.

KIE recognises that it has responsibilities to all stakeholders, including the interests of employees and their families, the need to foster the KIE's business relationships with partners, customers, suppliers and others; and the impact of the company operations on the local communities and surrounding environment where it operates.

KIE is dedicated to supplying products of the highest quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards. KIE makes a contribution to local charities and communities in areas where it operates its business.

Towards this, the company sponsored and participated in corporate runs/races whose objective is to raise funds for community causes; for instance, The Mater Heart Run. The company also sponsored and participated in student-organized events at The University of Nairobi and offered career guidance, financial literacy lessons and entrepreneurship mentorship to students.

The company planted trees at its office compound in Nairobi, Central and Nyanza regions. This is to mitigate the impacts of industrial activities on nature and consequently weather behaviour and patterns.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the company's affairs.

Principal activities

The principal activities of the company are 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, 2019 are set out on page 30.

Dividends

The Directors do not recommend dividends.

Directors

The members of the Board of Directors who served during the year are shown on page 3.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board


Charity Ndeke
Acting Manager, Legal
Nairobi

Date _____

X. 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.

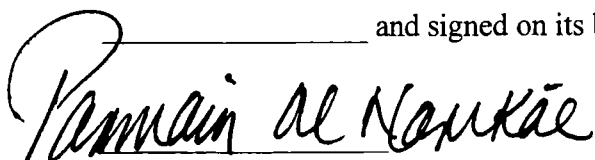
The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2019. These responsibilities include: (i) maintaining 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.

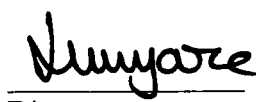
The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 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, 2019, 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.

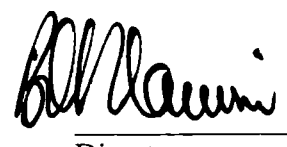
Approval of the financial statements

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

_____ and signed on its behalf by:

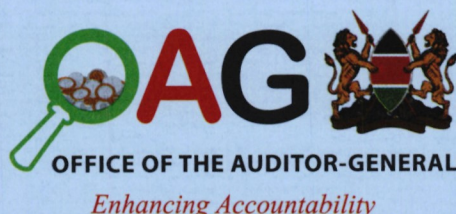

Director


Director


Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL ESTATES LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Industrial Estates Limited set out on pages 29 to 73 which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of cash flows and statement of comparison of budget and actual amounts 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 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Industrial Estates Limited as at 30 June, 2019, 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, 2015.

Basis for Qualified Opinion

1. Non-Performing Loans

The statement of financial position reflects Kshs.596,071,000 being loans balance as at 30 June, 2019. Note 18 to the financial statements reflects Kshs.778,918,000 for gross loans out of which loans with a cumulative value of Kshs.294,000,175 (38%) are non-performing and have been outstanding for more than one year.

The recoverability of the loans and interest remains doubtful with a likelihood of affecting the Company's financial performance.

2. Long Outstanding Trade Payables

Included in trade and other payables balance of Kshs.122,735,000 as reflected under Note 26 in the financial statements is Kshs.3,007,939 and Kshs.14,011,946 for trade

payables and other payables respectively, which have been outstanding for more than a year.

Failure to settle liabilities as and when they fall due may affect future business relationship with suppliers and other stakeholders.

3. Trade and Other Receivables

The trade and other receivables as at 30 June, 2019 reflects a balance of Kshs.26,412,000. However, the following anomalies were noted;

3.1. Non-Movement of Trade Receivables

Note 21(a) reflects a balance of Kshs.156,410,000 for trade receivables which includes debts amounting to Kshs.25,330,858 which did not record any decrease from the respective balances of previous years. Although management has indicated that they have pursued all means to recover the debts without success, the same should be recovered.

3.2. Long Outstanding Staff Receivables

Note 21(c) reflects a balance of Kshs.4,649,000 as staff receivables which includes Kshs.2,523,623 relating to advances and imprests to staff members who have since left the Company's service. As previously reported, recoverability of the same remains doubtful.

In view of the foregoing, it has not been possible to confirm that the trade and other receivables balance of Kshs.26,412,000 as at 30 June, 2019 is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Industrial Estates Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Financial Performance

I draw attention to Note 34 to the financial statements which describes the rationale upon which the Management is addressing the going concern of the Company. During the year under review, the Company recorded a loss before tax of Kshs. 93,551,000 (2018: loss of Kshs.167,101,000), which brought the cumulative retained earnings to negative Kshs.3,432,517,000. Further, the statement of financial position as at 30 June, 2019 reflects total current liabilities of Kshs.343,253,000 against total current assets of Kshs.333,331,000 resulting in a negative working capital of Kshs.9,922,000.

As reported in previous years, the company is technically insolvent and its existence as a going-concern is dependent upon continued support by the Government, the creditors and other stakeholders.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE LEGAL AND REGULATORY REQUIREMENTS

As required by Companies Act 2015, I report based on 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;
- ii. In my opinion, adequate accounting records have been kept by the Company so as appears from the examination of those records; and,
- iii. The Company financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are

inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

27 October, 2020

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

**XII. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30TH JUNE, 2019**

	Note	2019 Kshs'000	2018 Kshs'000
REVENUES			
Revenue	1	123,947	120,832
Cost of sales	2	-	-
Gross profit		<u>123,947</u>	<u>120,832</u>
Grants from National Government	3	245,284	97,700
Interest Income	4	3,988	4,350
Other Income	5	20,686	17,501
TOTAL REVENUES		<u>393,905</u>	<u>240,383</u>
OPERATING EXPENSES			
Administration Costs	6	487,456	380,416
Finance costs	7	-	27,068
TOTAL OPERATING EXPENSES		<u>487,456</u>	<u>407,484</u>
LOSS BEFORE TAXATION	9	(93,551)	(167,101)
Less Taxation (Tax Charge)	10	1,987	(996)
LOSS AFTER TAXATION		<u>(95,538)</u>	<u>(166,105)</u>
Earnings per share – basic and diluted	11	<u>(24)</u>	<u>(41)</u>
Dividend per share	12	<u>-</u>	<u>-</u>

Kenya Industrial Estates Limited

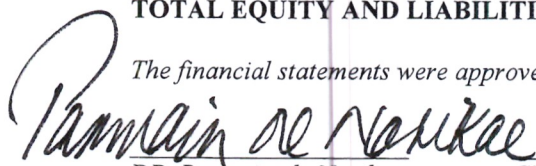
Reports and Financial Statements

For the year ended June 30, 2019

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE, 2019

	Note	2019 Kshs'000	2018 Kshs'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	829,270	764,511
Leasehold Land	14	502,988	508,177
Intangible assets	15	14,984	19,034
Investment property	16	996,718	1,004,865
Unquoted investments	17	-	11,200
Staff receivables due after one year	21(b)	14,767	10,626
Loans	18	596,071	737,587
Total Non-Current Assets		2,954,798	3,056,000
Current Assets			
Inventories	19	15,134	6,130
Trade and other receivables	21(a)	26,412	122,987
Bank and cash balances	22	291,785	137,228
Total Current Assets		333,331	266,345
Total Assets		3,288,129	3,322,345
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	23	80,277	80,277
Capital Reserves	24	2,828,964	1,640,467
Capital and Reserves		2,909,241	1,720,744
Non-Current Liabilities			
Deferred Tax Liability	32	35,635	34,214
Total Non-Current Liabilities		35,635	34,214
Current Liabilities			
Borrowings	25	218,518	1,438,518
Trade and other payables	26	122,735	121,075
Provision for leave pay	28	2,000	5,909
Bank overdraft	22	-	1,885
Total Current Liabilities		343,253	1,567,387
TOTAL EQUITY AND LIABILITIES		3,288,129	3,322,345

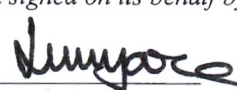
The financial statements were approved by the Board on _____ 2019 and signed on its behalf by:



DR. Parmain ole Narikae
Managing Director



CPA Charles M. Mativo
Finance Manager
ICPAK No.3736



Mugambi Imanyara
Board Chairman

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2019**

**XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE, 2019
Kshs'000**

	Ordinary share capital	Capital Reserve	Disposal of Sheds	Irredeemable Loans	GOK	Revaluation reserve	Grants	Retained earnings	Total
At July 1, 2018	80,277	22,523	68,637	190,257	190,257	838,405	3,435,265	(2,948,028)	1,687,336
Government grant							196,394		196,394
Transfer to Retained Profit								3,119	3,119
Total comprehensive Loss								(166,105)	(166,105)
At June 30, 2019	80,277	22,523	68,637	190,257	190,257	838,405	3,631,659	(3,111,014)	1,720,744
At July 1, 2018	80,277	22,523	68,637	190,257	190,257	838,405	3,631,659	(3,111,014)	1,720,744
Government grant							300,000		300,000
Prior year adjustments								(225,965)	(225,965)
GOK loan write off							1,210,000		1,210,000
Transfer to Retained profit (Loss)								(95,538)	(95,538)
At June 30, 2019	80,277	22,523	68,637	190,257	190,257	838,405	5,141,659	(3,432,517)	2,909,241

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2019**

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE, 2019

	Note	2019 Kshs'000	2018 Kshs'000
OPERATING ACTIVITIES			
Cash generated from / (used in) operations	29(a)	(57,803)	(243,729)
Interest received	4	3,988	4,350
Net cash generated from/ (used in) operating activities		(53,815)	(239,379)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(91,704)	(25,678)
Capital work in progress & Investment property adjustment	35	11,961	(-)
Net cash generated from/ (used in) investing activities		(79,743)	(25,678)
FINANCING ACTIVITIES			
GOK Development Grant		300,000	196,394
Repayment of borrowings	25(a)	(10,000)	(11,000)
Net cash generated from/ (used in) financing activities		290,000	185,394
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		156,442	(79,663)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29(b)	135,343	215,006
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29(b)	291,785	135,343

Note: Disclosure on changes in Financing Cash flow is on note 29(c)

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE PERIOD ENDED 30TH JUNE, 2019

	Original budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference	Percentage (%) variance	Explanation on material variances
	2018-2019	2018-2019	2018-2019	2018-2019			
Revenue	Shs'000'	Shs'000	Shs'000	Shs'000'	Shs'000'		
Interest Income	78,374	(12,295)	66,079	67,522	1,443	2%	
Grant from National Government	250,000	(4,716)	245,284	245,284	-	-	
Rent Income	77,714	(16,813)	60,901	56,425	(4,476)	(6)%	
Other Income	64,518	(42,069)	22,449	20,686	(1,763)	(3)%	
Provision write Backs	-	477	477	-	(477)	-	
Finance Income	-	3,509	3,509	3,988	479	-	
Total income	470,606	(71,907)	398,699	393,905	(4,794)	(1)%	
Expenses							
Electricity and Water	3,139	-	3,139	3,551	(412)	(13)%	(a)
Communication services & Supplies	12,137	(546)	12,683	12,347	336	3%	
Transport, Travelling & Subsistence	29,806	921	28,885	27,440	1,445	5%	
Advertising, Printing & Stationary & Photocopying	64,088	29,125	34,963	19,402	15,561	24%	(b)
Rent and Rates Expenses	6,727	(673)	7,400	5,973	1,427	21%	(c)
Hospitality and Supplies	500	-	500	35	465	93%	(d)
Insurance costs	11,815	(208)	12,023	12,026	(3)	-	
Bank Charges	1,990	-	1,990	1,508	482	24%	(e)
General Expenses	7,581	(1)	7,582	8,040	(458)	(6)%	
Auditors' Remuneration	700	-	700	696	4	1%	
Legal Fees	10,000	9,000	1,000	674	326	3%	
Consultancy Fees	19,720	(4,000)	23,720	6,370	17,350	88%	(f)
Repairs and Maintenance	8,650	4,500	4,150	1,781	2,369	27%	(g)
Other operating expenses	28,500	8,000	20,500	18,564	1,936	7%	
Staff Costs	318,359	6,842	311,517	280,035	31,482	10%	(h)
Directors' Emoluments	25,000	-	25,000	16,488	8,512	34%	(i)

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019**

Amortization and Depreciation	51,995	13,120	38,875	32,370	6,505	13%	(j)
Finance Cost	-	-	-	-	-	-	
Provision write off	2,000	-	2,000	40,156	(38,156)	(1,908)%	(k)
Tax charge	-	(473)	473	1,987	(1,514)	-	
Total expenditure	602,707	65,607	537,100	489,443	47,657	13%	
Net Profit / Loss for the Period	(132,101)	(6,300)	(138,401)	(95,538)	42,863	28%	

EXPLANATORY NOTES TO MAJOR VARIANCES

- (a) Electricity- This was as a result of higher cost of power than anticipated during the year
- (b) Advertising, Stationery, Printing and Photocopying – The company has been planning to rebrand and thus the anticipated increase in the Advertising, Stationery and photocopying. Additionally, the anticipated increase in Loan Disbursement is directly related to an increase in the costs.
- (c) Rent and Rates – The company was able to negotiate some waivers on the rates arrears.
- (d) Hospitality and Supplies – Some planned events that were budgeted for did not take place.
- (e) Bank Charges – An improvement on the cash-flow management.
- (f) Consultancy – Some budgeted consultancy works such as revaluation of assets and ISO Certification were not carried out in the year.
- (g) Repairs and Maintenance – Some budgeted repairs were not carried out within the year.
- (h) Staff costs – Partial Staff replacement was carried out late in the year.
- (i) Directors Emoluments –The Board of Directors was appointed mid-year.
- (j) Amortization and Depreciation – Purchase of some assets was not done within the year as had been budgeted.
- (k) Provision write offs - This was due to inadequate loan provisioning to cater for write offs of non-performing loans during the year.

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

KIE is established by and derives its authority and accountability from the Companies Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to promote and facilitate industrialization through provision of credit facilities, business development services and industrial workspace.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. 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 areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 5-(I-VI).

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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the Directors' assessment the impact of the standard is not significant and its application will be implemented in the organizations Financial statements in the annual period beginning 1st July, 2019.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018-Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

- ii) **Grants from National Government** are recognised in the year in which the Company actually receives such grants. These grants are included as part of capital under the statement of changes in equity.
- 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.

b) 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.

c) 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 on-going 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

NOTES TO FINANCIAL STATEMENTS (Continued)

Motor vehicles, including motor cycles	5 years
Computers and related equipment	5 years
Office equipment	12.5 years
Office furniture and fittings	10 years

d) 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.

e) 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.

f) Amortisation and Impairment of Intangible Assets

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

g) 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.

h) Unquoted Investments

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

NOTES TO FINANCIAL STATEMENTS (Continued)

i) Inventories

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

j) 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.

k) Taxation

Current Income tax

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 Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

NOTES TO FINANCIAL STATEMENTS (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

l) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various commercial banks at the end of the financial year.

m) 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.

n) 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.

o) Retirement Benefit Obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2011. 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 per employee per month.

p) 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

q) 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.

r) Comparative Figures

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

s) 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, 2019.

t) 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 as shown in table below:

Category	Classification	Provisioning
A	Normal class (0-30 days)	general provision of 1% of loan balance
B	Watch class (31-90 days)	general provision of 2% of loan balance
C	Sub-standard class (91-180 days)	20% of loan balance less suspended interest
D	Doubtful class (181-365 days)	100% of loan balance less suspended interest
E	Loss class (365 days)	100% of loan balance less security

5. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Critical Accounting Estimates and Judgements

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:

NOTES TO FINANCIAL STATEMENTS (Continued)

I. 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.

II. Provision for Ex-staff Imprests and Advances

The company makes estimates of doubtful receivables in relation to ex-staff imprest and advances and makes provision based on the estimates. Bad debts in relation to ex-staff and advances are written off after all efforts at recovery have been exhausted.

III. Impairment Losses on Loans and Advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements. Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer and realizable value of security.

Subjective judgements are made in this process of cash flow determination both in value and timing and may vary from one person to another. Judgements may also change with time as new information becomes available.

The company review its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. Judgement is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors.

NOTES TO FINANCIAL STATEMENTS (Continued)

IV. Income Taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously. In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

V. Property, Plant and Equipment

Property, plant and equipment are depreciated over its useful life taking into consideration residual values. Critical estimates are made by management in determining the depreciation rates based on reasonable estimates of the useful life of the assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

VI. Going Concern

The Board of Directors and Management have evaluated the going concern status of the company and have no reason to believe the company will not be in operation in the next financial year because the company is funded by the Government through budgetary allocations. In making this judgement the directors and management have made reasonable estimates and judgement on the budgetary allocation expected from government.

VII. Related Parties

In the normal course of business, the company has entered into transactions with related parties. The related party transactions are at arm's length.

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO FINANCIAL STATEMENTS (Continued)**

	2019 Kshs'000	2018 Kshs'000
1. REVENUE		
Interest income from loans	67,522	65,474
Rent income	67,173	65,902
Less: VAT on rent	(10,748)	(10,544)
	<u>123,947</u>	<u>120,832</u>
	=====	=====

2. COST OF SALES

There are no direct costs that are associated with revenue on interest income as money is received from National Treasury through the Parent Ministry for onward issuing to loan borrowers.

3. GRANTS FROM NATIONAL GOVERNMENT

Recurrent grants received	245,284	97,700
Capital grants received	300,000	196,394
	<u>545,284</u>	<u>294,094</u>
	=====	=====

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income Ksh'000	Amount deferred under deferred income Kshs'000	Amount recognised in capital fund Kshs'000	Total grant income during the year Kshs;000	2017-2018 Kshs'000
State Department of Investment and Industry	245,284		300,000	545,284	294,094
Total	245,284		300,000	545,284	294,094

4. INTEREST INCOME

Interest from commercial banks	3,988	4,350
	<u>3,988</u>	<u>4,350</u>
	=====	=====

Kenya Industrial Estates Limited
Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO FINANCIAL STATEMENTS (Continued)

	2019 Kshs'000	2018 Kshs'000
5. OTHER INCOME		
Commissions & charges	13,031	8,902
Sale of tender documents	6	4
Business Development Services Income	2,060	3,545
Miscellaneous receipts	<u>5,589</u>	<u>5,050</u>
	<u>20,686</u>	<u>17,501</u>
	=====	=====
6. ADMINISTRATION COSTS		
Staff costs (Note 6a)	280,035	229,967
Directors' emoluments (Note 6b)	16,488	10,739
Electricity and water	3,551	2,705
Communication services and supplies	12,347	10,280
Transportation, travelling and subsistence	27,440	22,331
Advertising, printing, stationery and photocopying	19,402	15,236
Rent and Rates expenses	5,973	4,971
Hospitality supplies and services	35	85
Insurance costs	12,026	11,600
Bank charges and commissions	1,508	1,828
Office and general supplies and services	8,040	7,689
Auditors' remuneration	696	696
Legal fees	674	2,372
Consultancy fees	6,370	8,615
Repairs and maintenance	1,781	6,157
Depreciation & Amortization (Note 13-15)	32,370	33,241
Other operating expenses	18,564	18,226
Prov. for bad and doubtful debts/write backs (Note 8)	<u>40,156</u>	<u>(6,322)</u>
	<u>487,456</u>	<u>380,416</u>
	=====	=====
6(a) STAFF COSTS		
Salaries and allowances of permanent employees	216,076	183,331
Staff Training Expenses	11,223	7,817
Medical Expenses	26,811	17,670
Staff Welfare	2,054	1,699
Wages of temporary employees	2,548	1,582
Compulsory national social security schemes	545	568
Other pension contributions	19,290	15,812
Leave pay and Gratuity provisions	<u>1,488</u>	<u>1,488</u>
	<u>280,035</u>	<u>229,967</u>
	=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2019 Kshs'000	2018 Kshs'000
The average number of employees at the end of the year was:		
Permanent employees – Management	24	23
Permanent employees – Technical and Support Staff	208	211
Temporary and contract employees	2	2
	<u>234</u>	<u>236</u>
	=====	=====
6(b) DIRECTORS EMOLUMENTS		
Sitting Allowances	5,546	4,460
Honoraria	722	-
Other Allowances	10,220	6,279
	<u>16,488</u>	<u>10,739</u>
	=====	=====
7. FINANCE COSTS		
Accrued Interest expense on loans		
GOK Loan	-	9,981
KFW Loan	-	5,576
IDA I Loan	-	2,871
IDA II Loan	-	1,099
ADF Loan	-	7,541
	<u>-</u>	<u>27,068</u>
	=====	=====
Note: The loans did not accrue interest during the year, since this has been written off.		
8. PROVISION FOR BAD DEBTS WRITE BACK		
Provision for bad debts Write off/ write backs	(40,156)	6,322
	<u>(40,156)</u>	<u>6,322</u>
	=====	=====

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Type of provisions	Loans	Mortgages	Leave provision	Rent	Investment	write off	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
General provision	(6,623)	(16)	-	-		-	(6,639)
Specific provision	(19,991)	-	-	-	(11,200)	-	(31,191)
Write back/off	-	-	3,909	(6,479)	-	244	(2,326)
Total Provision	(26,614)	(16)	3,909	(6,479)	(11,200)	244	(40,156)

9. OPERATING PROFIT / (LOSS)

The operating profit / (loss) is arrived at, after charging/ (crediting):

	2019 Kshs'000	2018 Kshs'000
Staff costs (note 6b)	280,035	229,967
Amortization and Depreciation	32,370	33,241
Directors' emoluments	16,488	10,739
Provision for bad and doubtful debts	40,156	(6,322)
Auditors' remuneration - current year fees	696	696
Interest payable	-	27,068
Interest receivable	(67,522)	(65,474)
Rent receivable	(56,425)	(55,358)
	<u>245,798</u>	<u>174,557</u>
	=====	=====

10. TAXATION

Current Tax	566	653
Deferred Tax Credit/ Charge	1421	(1,649)
	<u>1,987</u>	<u>(996)</u>
	=====	=====

The tax on the company's (loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:

Loss before Tax	<u>(93,551)</u>	<u>(167,101)</u>
Tax calculated at rate of 30% (2019: 30%)	(28,065)	(50,130)
Tax effect of:		
- Income not subject to tax	(-)	(-)
Tax losses carried forward	29,486	49,135
Tax Credit/Tax charge	<u>1,421</u>	<u>(996)</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax of Kshs. (95,538,000) (2018: Kshs. (166,105,000) by the average number of ordinary shares in issue during the year of 4,013,865 (2018: 4,013,865). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

12. 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 2019, no dividend in respect of the year ended June 30, 2019 shall be proposed just like year 2018 when no dividend was proposed.

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2019**

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

2019	Buildings & civil works	Office equipment	Motor vehicles, including, motor cycles	Computers & related equipment	furniture & fittings	Capital work in progress	TOTAL
COST OR VALUATION							
At July 1, 2018	470,829	52,606	61,750	41,417	51,224	293,709	971,535
Additions	-	65	38,425	-	950	52,264	91,704
Disposals	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	(3,814)	(3,814)
At June 30, 2019	470,829	52,671	100,175	41,417	52,174	342,159	1,059,425
DEPRECIATION							
At July 1, 2018	71,876	21,857	61,750	30,930	20,611	-	207,024
Charge for the year	14,526	4,990	-	102	3,513	-	23,131
Elimination on disposal	-	-	-	-	-	-	-
At June 30, 2019	86,402	26,847	61,750	31,032	24,124	-	230,155
NET BOOK VALUES							
At June 30, 2019	384,427	25,824	38,425	10,385	28,050	342,159	829,270

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	61,750	20%
Computers and related equipment	39,633	20%
Furniture and fittings	-	10%
	<u>101,383</u>	<u>-</u>

Depreciation on Motor Vehicles
The company acquired six motor vehicles which were delivered after the 2018/2019 Financial year end. No depreciation charge was recognized in the Financial Statements for year 2018/2019 on the motor vehicles.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. PROPERTY, PLANT AND EQUIPMENT Kshs'000

2018	Buildings & civil works	Office equipment	Motor vehicles, including, motor cycles	Computers & related equipment	furniture & fittings	Capital work in progress	TOTAL
COST OR VALUATION							
At July 1, 2017	464,862	51,392	61,750	41,019	51,224	703,613	1,373,860
Additions	-	1,399	-	398	-	23,881	25,678
Disposals	-	(185)	-	-	-	-	(185)
Adjustments	5,967	-	-	-	-	(433,785)	(427,818)
At June 30, 2018	470,829	52,606	61,750	41,417	51,224	293,709	971,535
DEPRECIATION							
At July 1, 2017	57,386	17,102	61,075	30,526	17,083	-	183,172
Charge for the year	14,490	4,866	675	408	3,528	-	23,967
Elimination on disposal	-	(111)	-	(4)	-	-	(115)
At June 30, 2018	71,876	21,857	61,750	30,930	20,611	-	207,024
NET BOOK VALUES							
At June 30, 2018	398,953	30,749	-	10,487	30,613	293,709	764,511

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	61,750	20%
Computers and related equipment	39,633	20%
Furniture and fittings	-	10%
	<u>101,383</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Kshs'000	2018 Kshs'000
14. LEASEHOLD LAND		
COST		
At July 1	537,335	537,335
Elimination	-	-
Revaluation	-	-
Additions	-	-
Adjustments	-	-
At June 30	537,335	537,335
AMORTISATION		
At July 1	29,158	23,991
Elimination	-	-
Charge for the year	5,189	5,167
Disposals	-	-
Impairment loss	-	-
At June 30	34,347	29,158
NET BOOK VALUE		
At June 30	502,988	508,177
15. INTANGIBLE ASSETS		
COST		
At July 1	48,126	48,126
Additions	-	-
Disposals	-	-
At June 30	48,126	48,126
AMORTISATION		
At July 1	29,092	24,985
Charge for the year	4,050	4,107
Disposals	-	-
Impairment loss	-	-
At June 30	33,142	29,092
NET BOOK VALUE		
At June 30	14,984	19,034

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Kshs'000	2018 Kshs'000
16. INVESTMENT PROPERTY		
Opening valuation	1,004,865	577,360
Movements during the year		
Transfer from WIP	-	412,510
Additions	-	-
Adjustments	(8,147)	14,995
Disposal	-	-
Fair value gains/ (Losses)	-	-
Closing valuation	<u>996,718</u>	<u>1,004,865</u>
AMORTISATION		
At July 1	-	-
Charge for the year	-	-
Disposals	-	-
Impairment loss	-	-
At June 30	<u>996,718</u>	<u>1,004,865</u>
NET BOOK VALUE		
At June 30	<u>996,718</u>	<u>1,004,865</u>

17. UNQUOTED INVESTMENTS

	Level 1 Kshs '000	Level 2 Kshs '000	Level 3 Kshs '000	Total Kshs '000
At 30 June 2019:				
Investment in shares – Available-for-sale	-	11,200	-	11,200
Provisions during the year	-	(11,200)	-	(11,200)
Investment at the End of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 30 June 2018:				
Investment in shares – Available-for-sale	-	11,200	-	11,200

The unquoted investment relates 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.

	2019 Kshs'000	2018 Kshs'000
18. LOANS		
Loan gross	778,918	1,031,968
Interest suspended	(160,836)	(268,163)
Specific provision	(16,953)	(27,430)
General provision	(5,058)	1,212
Net loan balance	<u>596,071</u>	<u>737,587</u>

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Kshs'000	2018 Kshs'000
19. INVENTORIES		
Stationery and general stores	15,298	6,294
Less obsolete stock	(164)	(164)
	<u>15,134</u>	<u>6,130</u>
	=====	=====
21 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables	156,410	247,279
Deposits and prepayments	-	-
Staff receivable (note 21 (c (i)))	4,649	3,920
Other receivables	-	-
	<u>161,059</u>	<u>251,199</u>
Gross trade and other receivables	161,059	251,199
Provision for bad and doubtful receivables	(134,647)	(128,212)
	<u>26,412</u>	<u>122,987</u>
	=====	=====
Net trade and other receivables	26,412	122,987
	<u>26,412</u>	<u>122,987</u>
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	2,014	99,297
Between 31 and 60 days	1,339	927
Between 61 and 90 days	2,127	871
Between 91 and 120 days	756	543
Over 120 days	154,823	149,561
	<u>161,059</u>	<u>251,199</u>
	=====	=====
21 (b) STAFF RECEIVABLES		
Staff loans	16,492	14,816
Interest suspended	(399)	(4,219)
Specific provision	(1,166)	(136)
General provision	(160)	165
	<u>14,767</u>	<u>10,626</u>
	=====	=====
21 (c) (i) STAFF RECEIVABLES		
Staff advances and imprest	4,649	3,920
Provision for staff advances and imprest	(2,171)	(2,171)
	<u>2,478</u>	<u>1,749</u>
	=====	=====
Amounts due within a year	2,478	1,749
	<u>2,478</u>	<u>1,749</u>
	=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2019	2018
	Kshs'000	Kshs'000
22 BANK AND CASH BALANCES		
Cash at bank:		
Standard Chartered Bank	160,805	121,652
Kenya Commercial Bank Ltd	106,606	14,397
National Bank of Kenya	23,144	59
Co-operative Bank of Kenya	199	219
M-Pesa	493	613
Cash in hand	538	288
	<u>291,785</u>	<u>137,228</u>
Bank overdraft	-	(1,885)
	<u>291,785</u>	<u>135,343</u>

The bulk of the cash at bank was held at Standard Chartered Bank Kenya Limited and Kenya Commercial Bank. These are the main company's bankers including National Bank of Kenya Limited. The bank overdraft refers to overdrawn ledger balances but not bank account balances.

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>=====</u>	<u>=====</u>
Issued and fully paid:		
4,013,865 ordinary shares of Kshs.20 par value each	80,277	80,277
	<u>=====</u>	<u>=====</u>

24 RESERVES	Kshs'000	Kshs'000
Capital Reserves	22,523	22,523
Disposal of sheds	68,637	68,637
GOK Irredeemable Loans	190,257	190,257
Revaluation Reserves	838,405	838,405
Grants	3,931,659	3,631,659
GOK Loan write-off	1,210,000	-
Retained Earnings	(3,432,517)	(3,111,014)
	<u>2,828,964</u>	<u>1,640,467</u>

CAPITAL RESERVES

This relates to assets donated to the company by development partners

DISPOSAL OF SHEDS

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

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)****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 30th June, 1985 from Government of Kenya loans and Kshs.52, 266,000.00 accrued interests on Government of Kenya loans up to 30th 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.

GRANTS

This refers to grants from the Government and other donor partners. These are included in the reserves under statement of changes in equity.

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	BORROWINGS	Kshs'000	Kshs' 000
	Balance at beginning of the year	1,438,518	1,422,450
	Interest Accrued	-	27,068
	Repayments of domestic borrowings during the year	(10,000)	(11,000)
	GOK Loan write off	(1,210,000)	(-)
	Balance at end of the year	218,518	1,438,518
	Less: Amounts due within one year (current portion)	(-)	(1,438,518)
	Amounts due after one year (non-current portion)	-	-
		=====	=====
	The analyses of both external and domestic borrowings are as follows:		
	External Borrowings		
	Dollar denominated loan from 'A'	892,502	892,502
		892,502	892,502
	Domestic Borrowings		
	Kenya Shilling loan from Youth Enterprise Fund	1,709	11,709
	Kenya Shilling loan from Women Enterprise Fund	-	-
	Kenya Shilling loan from GOK	534,307	534,307
		536,016	546,016
		1,428,518	1,438,518
	GOK Loan write-off	(1,210,000)	-
	Total balance at end of year	218,518	1,438,518
		=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2019	2018
	Kshs'000	Kshs'000
a) Analysis of changes in Borrowings		
Balance at beginning of the year	1,438,518	1,422,450
Receipts during the year	-	-
Repayments during the year	(10,000)	(11,000)
Adjustment of previous year accrued interest	(-)	(-)
Foreign exchange (gains)/losses	-	-
Accrued interest	-	27,068
GOK Loan write off	(1,210,000)	(-)
Balance at end of the year	<u>218,518</u>	<u>1,438,518</u>
b) Analysis of Interest Paid		
Interest on loans (note 9)	-	27,068
	<u>-</u>	<u>27,068</u>
Interest on loans capitalised	-	27,068
Balance at beginning of the year	685,301	658,233
Balance at end of the year	<u>(685,301)</u>	<u>(685,301)</u>
Interest paid	<u>-</u>	<u>-</u>

The Cabinet directed write-off of non-performing loans owed to the Government by Kenya Industrial Estates Ltd amounting to 1,210,000,000.0. This was communicated by The National Treasury through letter REF: DGIPE/LOANS/40 dated 15th January, 2019.

26 TRADE AND OTHER PAYABLES

Trade payables	11,428	22,103
Other payables	111,307	98,972
	<u>122,735</u>	<u>121,075</u>

27 RETIREMENT BENEFIT OBLIGATIONS

The company operates a defined contribution scheme for all full-time employees. 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.

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2019	2018
	Kshs'000	Kshs'000
28 PROVISION FOR LEAVE PAY		
Balance at beginning of the year	5,909	13,442
Additional provision at end of year	(3,909)	(7,533)
Leave paid out or utilised during the year	-	-
Balance at end of the year	<u>2,000</u>	<u>5,909</u>

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

29 NOTES TO THE STATEMENT OF CASH FLOWS**a) Reconciliation of operating Profit / (Loss) to Cash generated from / (used in) operations**

	Kshs'000	Kshs'000
Operating Profit / (Loss)	(93,551)	(167,101)
Depreciation and Amortization	32,370	33,241
Rent Income	(56,425)	(55,358)
Other Income	(20,686)	(17,501)
Interest Income	(67,522)	(65,474)
Provisions	40,156	(6,322)
Interest Received	(3,988)	(4,350)
Accrued Interest Payable	-	27,068
Operating Profit/ (Loss) Before Working Capital Changes	<u>(169,646)</u>	<u>(255,797)</u>
Increase in Inventories	(9,004)	(761)
Increase in trade and other Receivables	96,575	(86,889)
Decrease in trade and other Payables	1,660	(7,267)
Decrease in Provision for Staff Leave Pay	(3,909)	(7,533)
Accrued Interest Payables	-	27,068
Advances to Customers	(326,860)	(210,251)
Collection from Loans, Rent, Mortgage & Other Income	353,381	297,701
Cash Generated from/ (used in) Operations	<u>(57,803)</u>	<u>(243,729)</u>

b) Analysis of Cash and Cash Equivalents

Cash at bank	291,247	135,055
Cash in hand	538	288
Balance at end of the year	<u>291,785</u>	<u>135,343</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) Disclosure on changes in Financing Cash flow: -

- i. GOK Grant- This is grant from National Government given to support the company's development activities. The grant is not refundable.
- ii. Repayment of Borrowing- This relates to repayment of loan to Youth Enterprise Development Fund.

30 RELATED PARTY DISCLOSURES

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The company is related to:

- Government of Kenya
- Board of Directors

(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. Government of Kenya provides both development and recurrent grants to the organization.

	2019	2018
	Kshs'000	Kshs'000
GOK Transfers	<u>545,284</u>	<u>294,094</u>

(b) Directors Remuneration

	2019	2018
	Kshs'000	Kshs'000
Directors	<u>16,488</u>	<u>10,739</u>

(c) Management Compensation

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

	2019	2018
	Kshs'000	Kshs'000
Compensation to the Directors	16,488	10,739
Compensation to the CEO	5,400	5,400
Compensation to key management	<u>29,640</u>	<u>28,422</u>
	<u>51,528</u>	<u>44,561</u>

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(d) Loans to Key Management**

Car Loans	<u>1,642</u>	<u>1,982</u>
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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>

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 company went to court and obtained a favourable judgement. The parties however, appealed against the judgement but the company also obtained a favourable judgement. The property is valued at Ksh.191M and the company is in the process of taking possession. There are also other parcels of land whose ownership is in dispute. These have been forwarded to National Land Commission.

c) Corporation Tax

This exists for the Financial Years 1997 and 1998 where the company has filed for relief in respect of error under section 90 of the Income Tax Act. The liability came as result of the company erroneously making a general provision for loans instead of specific provision which is an allowable deduction in tax computation. The errors in the two years caused the company to incur tax liability amounting to Kshs.34.8 Million. This amount has accumulated interest and penalties making the total contingent liability to be Kshs.140.17 Million as at 30th June, 2018.

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (Continued)****32 Deferred Taxation**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2019 Kshs'000	2018 Kshs'000
At start of year	34,214	35,863
Charge to profit or loss (Note 10)	<u>1,421</u>	<u>(1,649)</u>
At end of year	<u>35,635</u>	<u>34,214</u>

Deferred tax liabilities and (assets), deferred tax (credit)/charge to profit or loss are attributable to the following items:

	At start of year Ksh'000	Charge/ (credit) Ksh'000	At end of year Ksh'000
Deferred Tax Liabilities			
Property, Plant & Equipment	26,681	6,954	33,635
Provisions-Leave & Bad debts	<u>7,533</u>	<u>(5,533)</u>	<u>2,000</u>
Net Deferred Tax Liability	<u>34,214</u>	<u>1,421</u>	<u>35,635</u>
Deferred Tax (Assets)			
Tax losses carried forward	<u>(-)</u>	<u>0</u>	<u>0</u>
Net Deferred Tax Liability	<u>34,214</u>	<u>1,421</u>	<u>35,635</u>

Deferred tax liability had not previously been incorporated in the financial statements and has now been restated.

33 GRANTS

	2019 Kshs'000	2018 Kshs'000
Norwegian grant	146,039	146,039
EEC grant	1,857	1,857
GTZ grant for ISL	17,594	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	3,667,170	3,367,170
GOK Loan write-off	1,210,000	-
UNDP grant	6,766	6,766
EEC grant	11,200	11,200
	<u>5,141,659</u>	<u>3,631,659</u>

34 FINANCIAL PERFORMANCE

Kenya Industrial Estates (KIE) Board of Directors and Management and have been working in collaboration with the Parent Ministry of Industry, Trade and Enterprise Development and The National Treasury to address the financial performance of Kenya Industrial Estates Ltd. The following steps have been taken by the Board to address the Financial Performance of the institution:-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Developing a turnaround strategy

The Board developed and implemented a solid turnaround strategy focusing on financial sustainability, broadening of product offering and market positioning. With the support of Parent Ministry and National treasury this strategy has turned around KIE.

b) Restructuring of KIE Balance Sheet

The Board prepared a Cabinet Memorandum for consideration by the Cabinet to restructure KIE's Balance sheet. The Cabinet considered KIE's request and approved write-off of loans owed to Government amounting to Kshs. 1,210,000,000.0.

c) Improved Financial Performance

The Financial performance of the company has been on an upward trajectory from year 2015 to date. The organization improved from a loss of Kshs. 174,030,000 in 2015/2016, a loss of Kshs.125, 109,000 in 2016/2017, a loss of Kshs. 167, 101,000 in 2017/2018 to a loss of Kshs. 95,538,000 in 2018/2019 indicating that the company is on a recovery path. The company is expected to make a profit in 2019/2020 Financial year.

35 CAPITAL WORK IN PROGRESS AND INVESTMENT PROPERTY ADJUSTMENT

This refers to entries related to capital work in progress and investment property which had been accrued through creditors and were reversed affecting creditors movement in the cash flow and assets as shown in note 13 and 16.

36 INCOPORATION

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

37 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. Write offs during the year amounted to Ksh.388.0 Million.

38 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.

The entity's capital structure comprises of the following funds:

	2018-2019	2017-2018
	Kshs'000	Kshs'000
Ordinary share capital	80,277	80,277
Capital reserve	22,523	22,523
Disposal of sheds	68,637	68,637
GOK Irredeemable loans	190,257	190,257
Revaluation reserves	838,405	838,405
Retained earnings	(3,432,517)	(3,111,014)

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Total funds	(2,232,418)	(1,910,915)
Total borrowings	-	1,438,518
Less: cash and bank balances	-	(137,228)
Net debt/(excess cash and cash equivalents)	-	1,301,290
Gearing	0%	(68%)

38 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

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, loans to customers as well as trade and other receivables.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors.

The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs'000	Fully performing Kshs'000	Past due Kshs'000	Impaired Kshs'000
At 30 June 2019				
Receivables from non-exchange transactions	161,059	3,353	23,059	134,647
Bank balances	291,247	-	-	-
Loans	610,838			
Total	1,063,144	-	-	-
At 30 June 2018				
Receivables from non-exchange transactions	251,199	101,095	21,892	128,212
Bank balances	136,940	-	-	-
Loans	748,213	-	-	-
Total	1,136,352	-	-	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Board of Directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

i) Credit Risk Measurement

The company assesses the probability of default of customers by applying the banking regulations issued by the Central Bank on risk classification for loans using prudential guidelines classifications. The customers of the company are segmented into five rating classes. The company's rating scale reflects the range of default probabilities defined for each rating class. This means that in principle, exposures migrate between classes as the assessment of their probability of default changes. The company regularly validates the performance of the rating and their predictive power with regard to default events.

Category	Classification
A	Normal
B	Watch
C	Sub-Standard
D	Doubtful
E	Loss

ii) Impairment and Allowance Policies

The company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The other component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment allowance recognized in the statement of financial position at year end is derived from each of the five internal rating classes. However, impairment is largely composed of sub-standard, doubtful and loss classes.

	2019 Ksh'000'	2018 Ksh'000'
Individually Impaired		
Normal	417,052	320,447
Watch	56,481	56,322
Sub -Standard	24,853	36,254
Doubtful	809	1,740
Loss	<u>296,215</u>	<u>632,021</u>
Gross Amount	795,410	1,046,784
Allowance for Impairment	<u>(184,572)</u>	<u>(298,571)</u>
Carrying Amount	<u>610,838</u>	<u>748,213</u>

iii) Past due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the company believes that impairment is not appropriate on the basis of stage collection of amounts owed by the company. As at 30 June, the classifications of past due but not impaired and past due and impaired were as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Ksh'000'	2018 Ksh'000'
Loans to Customers		
Past due but not Impaired	498,386	413,023
Past Due and Impaired	297,024	633,761
Impairment Allowance	(184,572)	(298,571)
Total	<u>610,838</u>	<u>748,213</u>

(a) 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 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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At 30 June 2019				
Trade payables	4,522	60	118,153	122,735
Total	4,522	60	118,153	122,735
At 30 June 2018				
Trade payables	14,688	76	106,311	121,075
Total	14,688	76	106,311	121,075

(b) Market Risk Management

The Board has put in place an Internal Audit and Risk management functions to assist it in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its Internal Accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Finance and Investment Committee.

The company's Risk Department is responsible for the development of detailed risk management policies (subject to review and approval by Finance and Investment Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Interest Rate Risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in the interest rate levels. The company takes on exposure to the effect of fluctuation in prevailing levels of market interest rate on both fair value and cash flow risk. The company holds interest bearing assets in form of loans to customers. The Board has assessed the interest rate risk and does not foresee any changes in the market that may adversely affect the company's cash flow. This is because the company interest rate regime is fairly stable.

The company is no longer exposed on interest rate on financial instruments as this exposure was eliminated after the government wrote off the company loan as per note 25 of the financial statement.

ii) Foreign Exchange Risk

The company has no exposure to foreign currency risk because of the nature of its business and after its loans were written-off by the government.

39 DIFFERENCES BETWEEN 2017/2018 AUDITED FINANCIAL STATEMENTS AND 2018/2019 COMPARATIVE FIGURES

The IFRS Reporting Template provided by the National Treasury for preparation of 2018/2019 Financial Statements reclassified and consolidated some line items in the Statement of Profit & Loss and Other Comprehensive Income. This had the effect of also reclassifying line items that were brought down from audited Financial Statements for 2017/2018 which were presented using different classification. The line items in 2017/2018 Financial Statements that were reclassified in 2018/2019 Financial Statements, amount involved, the differences and the new classification shown in the table below.

No.	Line items in 2017/2018 Audited Financial Statement reclassified in 2018/2019 comparative column	Statement or Note in 2017/2018 Financial Statements	Amount Kshs.'000'	New Line item classified in 2018/2019 Financial Statements	Amount in the comparative column as per new classification Kshs.'000'	Difference Kshs.'000'	Explanation
1.	Interest Income	P&L	65,474	Revenue	120,832	55,358	Consolidated as part of Revenue
2.	Rent Income	P&L	55,358	Revenue	120,832	65,474	Consolidated as part of Revenue
3.	Commission s & charges	P&L	8,902	Other Income	17,501	8,599	Consolidated as part of Other Income
4.	Other Income	P&L	8,599	Other Income	17,501	8,902	Consolidated as part of Other Income
5.	Administrati on costs	P&L	112,791	Administratio n cost	380,416	267,625	Consolidated as part of Administration costs

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

6.	Staff costs	P&L	229,967	Administratio n cost	380,416	150,449	Consolidated as part of Administration costs
7.	Directors Emoluments	P&L	10,739	Administratio n cost	380,416	369,677	Consolidated as part of Administration costs
8.	Amortization & depreciation	P&L	33,241	Administratio n cost	380,416	347,175	Consolidated as part of Administration costs
9.	Provision for bad debts write back	P&L	(6,322)	Administratio n cost	380,416	386,738	Consolidated as part of Administration costs
10.	Interest income on mortgage	Note 1	30	Interest Income from Loans	65,474	65,444	Consolidated under Interest income from loans
11.	Interest income on staff loans	Note 1	433	Interest Income from Loans	65,474	65,041	Consolidated under Interest income from loans
12.	Interest Income Loans	Note 1	65,011	Interest Income from Loans	65,474	463	Consolidated under Interest income from loans
13.	Rent income	Note 3	55,358	Revenue	120,832	65,474	Consolidated under Revenue
14.	Staff costs	Note 6(b)	229,967	Administratio n cost	380,416	150,449	Consolidated under Administration costs
15.	Directors Emoluments	Note 6(c)	10,739	Administratio n cost	380,416	369,677	Consolidated under Administration costs

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref No. on external Audit report	Issue/Observations from Auditor (2017/18 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
1	Financial Performance During the year under review, the Company reported a loss before tax of Kshs. 167,101,000 (2016/2017: loss of Kshs. 125,109,000) and 2015/2016-loss of Kshs.174,030,000) which brought the cumulative reserves to a negative balance of Kshs. 3,111,014,000. In addition, the statement of financial position as at 30th June, 2018 reflects total current liabilities of Kshs. 1,567,387,000 against total current assets of Kshs. 266,345,000 resulting in a negative working capital of Kshs. 1,301,042,000. As reported in the previous years, the company is technically insolvent and its existence as a going concern is dependent upon continued support by the National Government and creditors.	The Kenya Industrial Estates (KIE) Board of Directors and management have been working in collaboration with the Parent Ministry of Industry, Trade and Enterprise Development and The National Treasury to address this matter. The Board is satisfied that the steps it has taken have completely turned-around the financial position of the Kenya Industrial Estates Ltd, thus assuring sustainability of the organization into the future. The steps taken to address this matter are; (i). Developing a Turnaround Strategy The Board developed and implemented a solid turnaround Strategy. The strategy focuses on financial sustainability, broadening of product offering and market positioning. With the support of the Parent Ministry and The National Treasury, the implementation of this strategy has turned-around the fortunes of KIE. (ii). Restructuring of KIE balance sheet The Board prepared a Cabinet Memorandum for consideration by Cabinet to restructure KIE's Balance sheet. The request was based on the strategic role KIE has played over the years and continues to play in promoting and developing Micro, Small and Medium Enterprises in the country and the historical challenges KIE has faced, and the current financial status and the need to improve, strengthen and make the institution vibrant.	KIE Board	Resolved	

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2019**

Ref No. on external Audit report	Issue/Observations from Auditor (2017/18 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resol ved / Not Resolv ed)	Time frame :
		The Cabinet considered KIE's request and approved the write off of loans owed to Government amounting to Kshs 1,210,000,000. The changes were effected in 2018/2019 financial statements and significantly changed the KIE's balance sheet. KIE assets now exceed its liabilities (total assets as at 30th June, 2019 Kshs. 3,288,129,000 against total liabilities Kshs. 378,888,000) thus addressing the issues of technical insolvency (iii). Government Budget Support As part of the turnaround strategy, the Government has provided funding for KIE's programmes of providing credit to MSMEs in the manufacturing sector. At the same time KIE was identified as a lead agency in the implementation of the Government's BIG Four agenda under the manufacturing pillar. KIE's role of providing credit to MSMEs supports a critical effort by the Government to create jobs through SMEs. The Government has committed to finance KIE programmes and the organization has noted significant enhancement of its development and recurrent budgets. In 2018/2019 the organization received Kshs. 545,284,000 from Government (development Kshs. 300,000,000 and recurrent Kshs. 245,284,000) while in 2019/2020 KIE will receive Kshs. 1,478,936,000 (development kshs. 1,200,000,000 and recurrent Kshs. 278,936,000) indicating Government commitment to fully support KIE.			
2.	Long Outstanding Trade Payables Included in trade and other payables balances of Kshs. 121,075,000 as reflected under note 26 in the financial statements is Kshs.16,296,975 and Kshs.1,565,726 for trade	The reason for not settling the payables was due to incomplete and missing documentation. The management is making all efforts to settle all the outstanding accounts.	FM		30/06/2020

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Ref No. on external Audit report	Issue/Observations from Auditor (2017/18 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
	payables and other payables respectively, which has been outstanding for more than a year. In view of the foregoing, the company's inability to pay its creditors in due time may lead to unsustainable pending bills position.			Not resolved	
3.1	Long Outstanding Staff Receivables Note 21(a) reflects a balance of Kshs.3,920,396 as staff receivable which includes Kshs.2,869,509 relating to advances and imprest for staff members who have since left the company's service. As previously reported, recoverability of the same remains doubtful.	This relates to imprest and advances for staff who have since left the organization. Some of these ex-staff imprest are as old as 15 years and some of the ex-staff are deceased. The management has made effort to follow the ex-staff to clear the outstanding balances and has written letters demanding settlement, listing with CRB and use of debt collectors with minimal success. To ensure this does not recur, the company has developed a policy on staff imprests, advances and ex-staff debts. This requires imprests for current staff to be accounted immediately and advances recovered within the given duration. Staff leaving the organization have to go through an elaborate clearance procedure where a member of staff has to fill a clearance certificate which must be signed-off in all departments. As a result of this policy measure, there is no new cases of ex-staff debts. The management shall recommend to the Board on the most appropriate action to take to avoid retaining these debts in the company books for a long time. In the meantime, the company has made a provision for these debts.	FM	Not resolved	30/06/2020
3.2					

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2019**

Ref No. on external Audit report	Issue/Observations from Auditor (2017/18 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame :
	Non Movement of Trade Receivables The trade and other receivables balance as at 30th June 2018 includes sundry debtors totalling Kshs.13,255,378 out of which debts amounting to Kshs.13,246,729 did not record any decrease from the respective balances from the previous financial years. No explanation has been provided by management why these long outstanding balances are carried forward from year to year without being recovered or appropriate action taken against the debtors. Consequently, it has not been possible to confirm that trade and other receivables balance of Kshs.122,987,000 as at 30th June 2018 is fairly stated.	The trade receivables relate to consultancy work done for County Governments where the work was completed but payment was not effected for the services rendered. The Company is pursuing them to ensure full settlement of the debt.	FM/Ag BAS Manager	Not resolved	30/06/2020
4.	Investment in Consolidated Bank of Kenya Shares The company's statement of financial position as at 30th June 2018 reflects unquoted investments of shares in Consolidated Bank of Kenya valued at Kshs.11,200,000. The value of the share has remained the same for many years with no evidence of dividends received from the bank and hence the company has not obtained value from the investment.	The disclosure in the Financial Statements was at cost as per share certificate. We wrote to the bank to confirm the shares existence which they did as per their letter dated 30th May, 2019. The Bank did not declare dividends thus no dividends were recognized in the Financial Statements. However, to ensure KIE is cushioned in regard to this investment, a full provision was made in the Financial Statements for 2018/2019 even as we continue to monitor the performance of the the bank.	FM	Not resolved	20/06/2020
5.	Non- Performing Loans The statement of financial position reflects a figure of Kshs.737,587,000 loans	The company is cognizant of the status of the loan portfolio and has taken steps to redress the situation. The portfolio	Manager	On-going	20/06/2020

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Ref No. on external Audit report	Issue/Observations from Auditor (2017/18 audit certificate issues)	Management comments	Focal Point perso n to resolv e the issue	Statu s: (Reso lved / Not Resol ved)	Time frame
	Kshs.630,934,265 which have been outstanding for more than one year. The recoverability of the loans and interest remains doubtful with a likelihood of affecting the company performance.	security. The non-performing loans are largely composed of the legacy loans. The current Risk framework has robust measures for ensuring loans are fully secured. The Management has put in place measures to ensure the KIE loan portfolio is performing and fall within the industry benchmarks. The steps in place are detailed below: (i) The company has a robust appraisal system and a well-entrenched Risk Management Framework which ensures loans applicants have to meet a minimum criterion to be selected for funding. Only applicants whose proposals demonstrate a business case with a high chance of success are selected for funding. (ii) The Company has put in place a very strong monitoring and evaluation mechanism to ensure that all its loans are performing and early warning signals are picked up and addressed. (iii) The company has a framework for engaging clients whose enterprises are facing challenges. This includes offering Business Advisory Services and restructuring to ensure that the loans perform. (iv) The company has reviewed all the historical and legacy accounts which have continued to affect the performance of the KIE loan portfolio to determine whether they are recoverable. Loans amounting to Kshs. 159,418,375.40 have been written-off and measures have been put in place to recover from the other accounts. This has been remarkable progress.			

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

Ref No. on external Audit report	Issue/Observations from Auditor (2017/18 audit certificate issues)	Management comments	Focal Point perso n to resolv e the issue	Statu s: (Reso lved/ Not Resol ved)	Time frame:
		(v) All the accounts in the current loan portfolio are fully secured with land security. The value of land taken as security is discounted at pre-determined rates to cushion the company against loss at the time of disposal, for example rural properties are discounted at 50% while urban properties are taken at 60%. This addresses risk and exposure.			

Pamain de Nantika

MANAGING DIRECTOR

Date.....

Samuel

CHAIRMAN OF THE BOARD

Date.....

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2019

APPENDIX II: PROJECTS IMPLEMENTED BY KIE

The company is currently implementing one project which is Credit to Small and Medium Enterprises. This project is funded by GOK. The project implementation status is shown in the table below:

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources
1	Credit to SMES	3.35 Billion	1,095.0 Million-	32.7%	300.0 Million	300.0 Million	GOK and Internally Generated resources

APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:	KENYA INDUSTRIAL ESTATES LTD		
Break down of Transfers from the State Department of Investment and Industry FY 2018/2019				
a.	Recurrent Grants			
		Bank Statement Date	(KShs'000)	2018-2019
		14.09.2018	62,572	
		24.12.2018	58,818	
		19.02.2019	62,573	
		13.05.2019	61,321	
			<u>245,284</u>	
b.	Development Grants			
		Bank Statement Date	(KShs'000)	2018-2019
		19.02.2019	150,000	
		14.06.2019	150,000	
			<u>300,000</u>	

