

REPUBLIC OF KENYA



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By Hon. Aden Duale, MP
(LOM) on 12.10.2017 (pm)
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OFFICE OF THE AUDITOR-GENERAL



REPORT

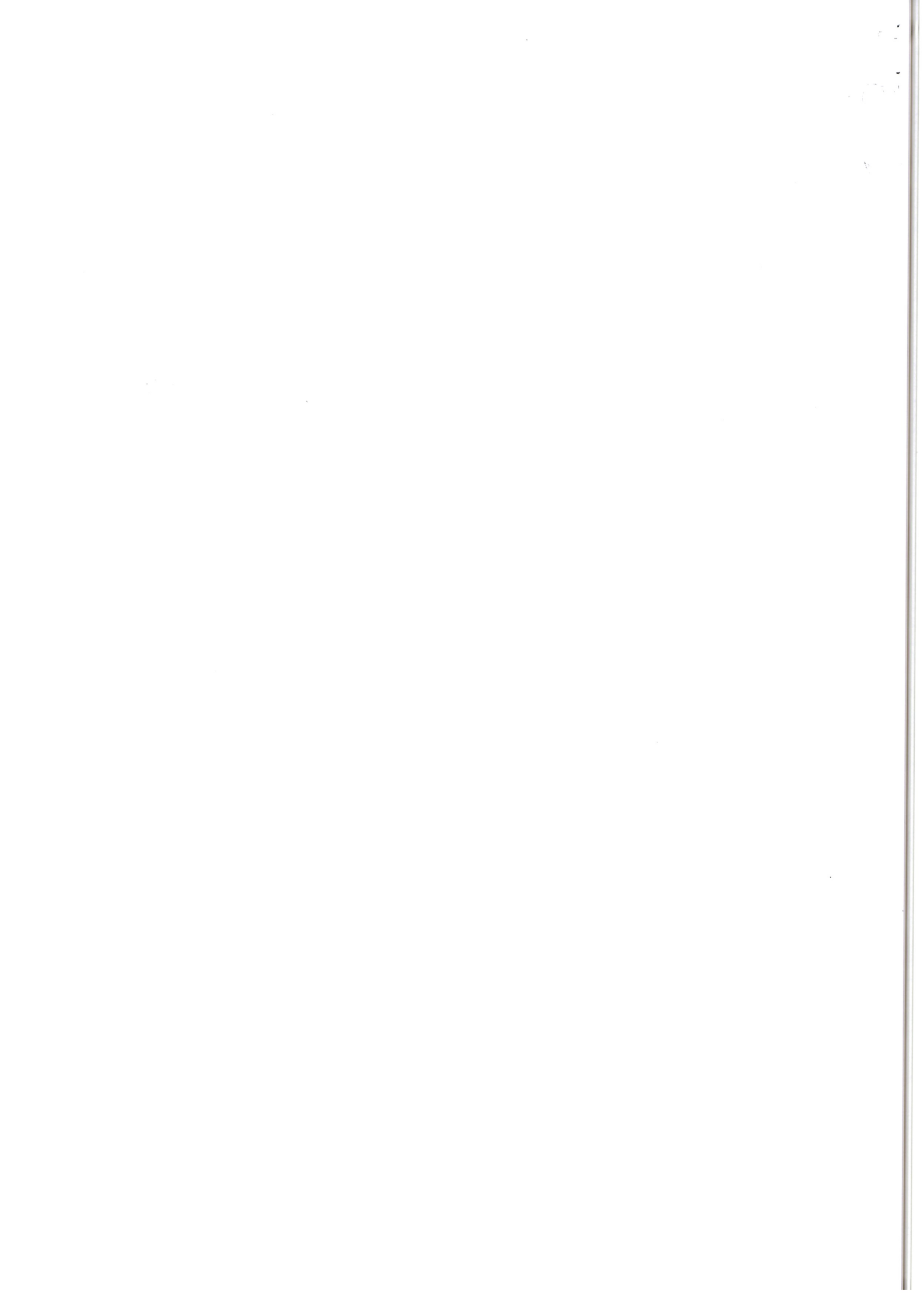
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA INDUSTRIAL ESTATES**

**FOR THE YEAR ENDED
30 JUNE 2016**





KENYA INDUSTRIAL ESTATES LTD

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

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

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2016**

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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.

Principal Activities

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

Directors

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

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

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

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

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

- | | | |
|--|-------------------|--|
| 1. Rehema D. Jaldesa | - Chairperson | - Appointed on the 18/03/2016 |
| 2. Wachira Mahihu | - Chairman | - Appointed on the 31/1/2013
-Term expiry date 31/1/2016 |
| 3. Julius Mokogi | - Chief Executive | - Re-appointed on 23/12/2012
-Term expiry date 23/06/2016 |
| 4. Geoffrey Mwitari
Alternate to the PS, National Treasury | | -Appointed on 14/10/2015 |
| 5. Geoffrey Mulama
Alternate to the PS, Ministry of Industrialisation
& Enterprise Development | | -Appointed on 10/01/2014 |
| 6. Bob Karina | | - Appointed on the 02/10/2015 |
| 7. Chebet Alaro Evelyne | | - Appointed on the 02/10/2015 |
| 8. Opiyo Elsie Achieng | | - Appointed on the 02/10/2015 |
| 9. Lucas Kirui | | - Appointed on the 02/10/2015 |
| 10. Charles Kigen | | - Appointed on the 02/10/2015 |

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- | | |
|--|--|
| 11. Christopher Oisebe
Alternate to the PS, National Treasury | -Appointed on 10/01/2014
-Term expiry date 14/10/2015 |
| 12. Priscilla Onacha | -Re-appointed on 13/7/2012
-Term expiry date 13/07/2015 |
| 13. Nimo Ibrahim Mude | -Appointed on 13/7/2012
-Term expiry date 13/07/2015 |
| 14. Abdirizak Hussein | -Appointed on 22/10/2012
- Term expiry date 22/10/2015 |

Corporate Secretary

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

Registered Officer

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

Corporate Headquarters

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

Corporate Contacts

Telephone :(254) 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
P.O Box 48400-00100
Nairobi, Kenya

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3. Standard Chartered Bank Kenya Ltd
P.O Box 30001-00100
Nairobi, Kenya

4. Cooperative Bank of Kenya Ltd
P.O Box 48231-00100
Nairobi, Kenya

Independent Auditors

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





Principal Legal Advisers

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

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THE BOARD OF DIRECTORS

 <p>1. Rehema Dida Jaldesa Chairman, Board of Directors</p>	<p>Rehema Dida Jaldesa has served in various organisations in the capacity of a Board member and chairperson to the Board. She therefore has vast experience in management and governance of institutions.</p> <p>Her interest to serve people was demonstrated in 2013 when she vied for the position of woman representative for the Isiolo County where she came second. She also has a background of banking having worked with the KCB and CBA banks. She is currently pursuing Master's Degree in Governance and Leadership program at the Jomo Kenyatta University of Science and Technology.</p> <p>Date of Birth: 1969</p>
 <p>2. Dr. Kamau Thugge Principal Secretary, National Treasury Alternate: Christopher Oisebe</p>	<p>Dr. Kamau Thugge is a distinguished economist with a PhD in Economics from Johns Hopkins University. Dr. Thugge has worked for mainly two organizations. Before his appointment to The National Treasury as the Principal Secretary. Dr. Thugge started his employment in the International Monetary Fund (IMF); he came back to the Ministry of Finance and again went to IMF.</p>
 <p>3. Julius Korir Alternate: Geoffrey Mulama</p>	<p>Mr. Julius K. Korir is the Principal Secretary, State Department of Industry and Enterprise Development in the Ministry of Industry, Trade and Co-operatives having been appointed on 18th December 2015. Prior to his latest appointment, he served as the Industrialization Secretary, Ministry of Industrialization and Enterprise Development from May 2014.</p> <p>He is a holder of an MBA in International Business and a BSc. in Agricultural Economics. Mr. Korir is currently pursuing a PHD Degree in Development Studies at Nairobi University.</p>
 <p>4. Julius Mokogi, OGW Managing Director</p>	<p>Mr. Julius Obare Mokogi, Managing Director of Kenya Industrial Estates holds a Bachelor of Science and MBA, Finance, degrees.</p> <p>He is a Certified Public Accountant CPA (K) as well as a Certified Public Secretary CPS (K).</p> <p>Mr. Mokogi has a wealth of experience in banking and microfinance operations having worked with Kenya Commercial Bank, Cooperative Bank and K-Rep Bank.</p> <p>Date of Birth: 04/10/1964</p>

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 <p>5. Monica C. Kotut AG. Managing Director</p>	<p>Mrs. Monica C Kotut is the acting Managing Director. Before appointment to this position she served as Manager, Corporate Strategy and Planning/Operations. She holds an MBA (HR Option) from Kenyatta University; Bachelor of Arts from Moi University and Higher National Diploma in Human Resource Management from the Institute of Human Resource management (IHRM). She is member of the Institute of Human Resource management. She joined KIE in 1994 as a Projects Officer and rose through the ranks to the current position</p> <p>Date of Birth: 17/07/1968</p>
 <p>6. Charles Kigen Director</p>	<p>Charles Kigen holds a Bachelor of Commerce degree in Management, an MBA in Strategic Management and an Advanced Diploma in Business Management all from CUEA. He has experience in formulating investment policies and identifying investment opportunities.</p> <p>He joined the Company on the 2nd October, 2015.</p> <p>Date of Birth: 1969</p>
 <p>7. Bob Karina Director</p>	<p>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</p> <p>He joined the Company on the 2nd October, 2015.</p> <p>Date of Birth: 26/06/1952</p>
 <p>8. Lucas Kirui Director</p>	<p>Lucas Kirui holds a Diploma in sales and Marketing and has experience in procurement management. He also has experience in Marketing and administration.</p> <p>He joined the Company on the 2nd October, 2015.</p> <p>Date of Birth: 25/06/1973</p>

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 <p>9. Opiyo Elsie Achieng Director</p>	<p>Opiyo Elsie holds a Bachelor of Laws degree from Leeds Metropolitan University (UK) and an MA in international studies from the University of Sheffield (UK). She has experience in working in political institutions and environment and managing and implementing democracy and governance programs.</p> <p>She joined the Company on the 2nd October, 2015.</p> <p>Date of Birth: 05/10/1984</p>
 <p>10. Chebet Alaro Evelyne Director</p>	<p>Chebet Alaro holds a Bachelor of Commerce degree in Marketing. She is a Marketing Specialist with over 9 years' experience in Brand Management, Marketing Strategy, Sales Management, Below the Line Consumer Engagement, Client Service and event Management.</p> <p>She joined the Company on the 2nd October, 2015.</p> <p>Date of Birth: 30/03/1983</p>
 <p>11. Edna Adala Company Secretary</p>	<p>Edna Adala holds a Bachelor of Laws (LL.B) Degree from the University of Nairobi together with a Post Graduate Diploma from the Kenya School of Law. She also holds an MBA in International Business Management. She is an Advocate of the High Court of Kenya, a Commissioner for Oaths and a registered Certified Public Secretary CPS (K). She has experience in corporate and commercial legal matters and corporate secretarial services.</p> <p>Date of Birth: 03/07/1981</p>

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MANAGEMENT TEAM

 <p>1. Monica C. Kotut AG. Managing Director</p>	<p>Mrs. Monica Kotut is the acting Managing Director. Before appointment to this position she served as Manager, Corporate Strategy and Planning/Operations. She holds an MBA (HR Option) from Kenyatta University; Bachelor of Arts from Moi University and Higher National Diploma in Human Resource Management from the Institute of Human Resource management (IHRM). She is member of the Institute of Human Resource management. She joined KIE in 1994 as a Projects Officer and rose through the ranks to the current position</p> <p>Date of Birth: 17/07/1968</p>
 <p>2. Samuel Chogo: Manager, Business Development Services</p>	<p>Samuel Chogo joined KIE in October 1988, after working with the Ministry of Co-operative Development. He holds a Bachelor of Commerce (Finance) degree from the University of Nairobi and a Master's degree in Business Management (Finance) from Moi University. He has served in the organization in various capacities and is currently the Business Development Manager.</p> <p>Date of Birth: 28/09/1958</p>
 <p>3. Edna Adala Manager, Legal & Company Secretary</p>	<p>Edna Adala holds a Bachelor of Laws (LL.B) Degree from the University of Nairobi together with a Post Graduate Diploma from the Kenya School of Law. She also holds an MBA in International Business Management. She is an Advocate of the High Court of Kenya, a Commissioner for Oaths and a registered Certified Public Secretary CPS (K). She has experience in corporate and commercial law and corporate secretarial services</p> <p>Date of Birth: 03/07/1981</p>
 <p>4. Charles M. Mativo Finance Manager</p>	<p>Mr. 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 is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has experience in Accounting and Finance. He joined the company in 1985.</p> <p>Date of Birth: 11/10/1965</p>
 <p>5. J.K. Tele: Manager, Industrial Estates Development & Incubations services</p>	<p>Mr J. 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 also currently serves as Chairman, Board of Governors, Nairobi Technical Training Institute.</p> <p>Date of Birth: 13/10/1959</p>

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 <p>6. Matilda Mwachia Manager, Human Resources & Administration</p>	<p>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.</p> <p>Date of Birth: 28/02/1970</p>
 <p>7. MS. Magdalene Kaluli Manager, Risk Management</p>	<p>Ms. Magdalene Kaluli holds an MBA (strategic management) from Moi University and Certified Public Secretary (K). She joined KIE LTD in 1994 as project officer and has risen through the ranks to the current position of Ag. Manager Risk Management.</p> <p>Date of Birth: 30/09/1966.</p>
 <p>8. Ms. Rosemary Kalui Head, Special Projects</p>	<p>Ms. Rosemary Kalui holds a Bachelors Degree of 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)</p> <p>She also has a Higher Diploma in Counselling from Kenya Association of Professional Counsellors.</p> <p>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.</p> <p>She has served in various Management and Counselling positions in the organization prior to her appointment as Manager, Special Projects.</p> <p>Date of Birth: 28/09/1959</p>
 <p>9. Vivian Wawasi Assistant Manager - ICT</p>	<p>Ms. Vivian Wawasi holds a Bachelor's Degree in ICT from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and currently pursuing MSc in Project Management from the same University. She has vast experience in Project Management and Database Administration.</p> <p>She has been instrumental in the implementation of ICT projects in the organization.</p> <p>She joined the organization in 2010 as an ICT project Manager and rose to her current position.</p> <p>Date of Birth: 13/03/1979</p>

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10. Teobard Mugo
Manager- Internal Audit

Mr. 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.

Date of Birth: 11/10/1969

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CHAIRPERSON'S STATEMENT



It is my pleasure to present to you the Financial Year 2015/2016 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 3.1 per cent in 2015 compared to 3.4 per cent in 2014. The decline in economic growth was reflected in sub-Saharan Africa growth prospects, registering 3.8 per cent in 2015 compared to 5.1 per cent in 2014. Kenya's Economy prospects remained strong with sound macro-economic management resulting in stability. The economy grew by 5.6 per cent in 2015 compared to 5.3 percent in 2014. The growth was mainly supported by stable macroeconomic environment, improvement in output of agriculture, construction, finance, insurance and real estate. The MSMEs sector continued to register high growth contributing significantly to economic development, job and wealth creation.

The overall annual inflation eased slightly to 6.6 percent in 2015 from 6.9 per cent in 2014. Lending interest rates for loans and advances from commercial bank rose from 15.99 per cent in December 2014 to 17.45 per cent in December 2015. The uptake of commercial banks credit to manufacturing sectors was 10.4 per cent of total bills, loans and advances in 2015 compared to 10.1 per cent in 2014. In addition, building and construction sector took 3.8 percent in 2015 compared to 3.4 per cent in 2014. Both sectors grew by margins of 0.3 per cent and 0.4 per cent respectively.

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

The Kenya Vision 2030 recognizes the central role played by the manufacturing sector in the realization of the goal of making Kenya a newly industrialized middle income country by the year 2030. The sector registered a favorable performance within the period although the cost of borrowing curtailed the availability of cheap credit to finance the sector. The sector registered a growth of 3.5 per cent in 2016 compared to a revised 3.6 per cent in 2015 attributed to reduced cost of production and increased volume output. There was a decline on loans advanced to the sector from KSh 290.9 billion in 2015 to KSh 277.4 billion in 2016. In addition, there was a decline in financing of projects approved by industrial financial institutions by 4.6 per cent from KSh 1.14 billion in 2015 to KSh 1.08 billion in 2016.

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

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Business Performance

In year 2015/2016 Financial Year, the company incubated MSMEs by providing affordable credit/loan facilities to the tune of KShs 183.1 million benefiting 377 enterprises, provided industrial workspace/incubators to 204 enterprises, built the capacity of 31,453 MSMEs through training on entrepreneurship skills SMEs. The organization also facilitated linkages between 222 SMEs and large enterprises within and across sectors. Through this multipronged approach, the company supported MSMEs in textile and garments, furniture and wood, food processing and construction creating 9,023 direct and indirect 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 2013-2018 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.

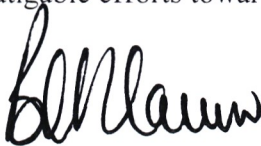
Appreciation

I highly appreciate the Government of Kenya, through the Ministry of Industry, Trade and Cooperatives 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 endeavors.

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



CHAIRPERSON, BOARD OF DIRECTORS

Kenya Industrial Estates Limited

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REPORT OF THE ACTING CHIEF EXECUTIVE OFFICER



It is my great delight to present to you the company Annual Report of the company for the year ended 30th June 2016. This was a great year as the company got new leadership both at the Board and office of the Managing Director.

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 development services.

Business Performance

The company recorded an improved performance in operations in the year 2015/2016. Disbursement of loans to MSMEs was Kshs 183.1 million in 2015/16. Debt collection was Kshs 301.7 million in 2015/2016. The number of entrepreneurs trained on business and entrepreneurship skills increased by 12% from 28,071 in 2014/2015 to 31,453 entrepreneurs trained in the period under review.

The institution facilitates 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 222 linkages compared to 204 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 9,023 direct and indirect jobs compared to 3,721 in the previous year.

On financials, the company recorded a loss of KSh. 173.5 Million in 2015/2016 compared to a loss of Ksh. 95.8 Million in the previous year. The decline was attributed to low level of investment in loans and reduction in Government grant for recurrent expenditure. On the balance sheet, the company's property and equipment stood at Kshs 1,184.3 Million compared to Kshs 1,206.3 Million in the previous year. Investment property stood at 575.8 Million compared to KSh. 580.1 Million in the last financial year. Advances and loans stood at 677.1 Million compared to KSh. 837.8 Million for same period in the last financial year. Overall, the total assets of the company amounted to KSh. 3,121.0 Million compared to KSh 3,255.9 Million in the last financial year.

A handwritten signature in black ink, appearing to read 'MONICA C. KOTUT'.

MONICA C. KOTUT
ACTING MANAGING DIRECTOR

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CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the mechanisms, relations and processes by which a corporation is controlled and directed. It involves balancing the many interests of the stakeholders of a corporation.

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 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; and
5. Ensuring that the Company acts as a good corporate citizen.

The Board of Directors

The Board of Directors is the highest governing body of the Company. 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.

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 and plans that underpin the corporate strategy;
2. Discussing and approving strategic plans 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;

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6. Ensuring that the company's organisational structure and capability are appropriate for implementing the chosen strategies; and
7. Setting policies on internal control and obtaining regular assurance that the system is functioning effectively and is effective in managing risks.

The Chairman is responsible for providing leadership to the Board and timely provision of information to enable it to discharge its duties. He/she chairs the Board and General meetings, maintains order and proper conduct of meetings, ensure fair decisions are made and effective management of the Board. The Managing Director/CEO on the other hand is responsible for the day to day management of the Company.

Board Committees:

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

1. Finance and Investment Committee;
2. Audit Committee; and
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.

The objectives and membership of the respective Committees is outlined below:

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 – Chairman
2. Geoffrey Mwitari (National Treasury)
3. Geoffrey Mulama (Ministry of Industry, Trade and Cooperatives)
4. Chebet Alaro Evelyne
5. Charles Kigen

Audit Committee

The objective of the Committee is to assist 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

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accounting standards. The Committee will review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.

The membership of the Audit Committee is comprised as follows:

1. Charles Kigen- Chairman
2. Lucas Kirui
3. Geoffrey Mwitari (National Treasury)
4. Bob Karina
5. Opiyo Elsie Achieng

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 – Chairman
2. Geoffrey Mulama (Ministry of Industry, Trade and Cooperatives)
3. Chebet Alaro Evelyne
4. Opiyo Elsie Achieng

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 33 meetings during the year under review. The Board membership is disclosed on page vi.

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 27. 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. Additionally, the Chairman is paid a monthly honorarium.

Directors Shareholding

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

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) is an integral part of our business strategy. As a company we have been able to grow as a business due to good will from the communities where we do business. We see enterprise development as an important step towards alleviating poverty through wealth and employment creation. During the year, as part of corporate social responsibility, the company honored an invitation by Mater Hospital to participate in the Mater Heart Run 2016. This initiative's objective is to assist children with heart condition and has seen over 2,500 children being performed cardiac procedures and also more than 50,000 screened for heart ailments. During the year, the company donated Kshs.50,000 towards the initiative.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 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, 2016 are set out on page 1.

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 company in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

By Order of the Board

Romain de Namkai

Corporate Secretary
Nairobi

f Date 15/6/ 2017

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL ESTATES FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Industrial Estates set out on pages 1 to 38, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity, 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.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with the Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Auditing Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Financial Performance and Service Sustainability

During the year under review, the Company reported a loss before tax of Kshs.174,030,000 (2015: loss of Kshs.94,735,000) which brought the cumulative reserves to a negative balance of Kshs.2,784,989,000. In addition, the statement of financial position as at 30 June 2016 reflects total current liabilities of Kshs.1,585,341,000 against total current assets of Kshs.121,182,000 resulting in a negative working capital of Kshs.1,464,159,000. As previously reported, the company is therefore technically insolvent and its existence as a going concern is dependent on continued support by government and creditors.

2. Trade and Other Receivables

2.1 Staff Receivables

The trade and other receivables balance of Kshs.41,155,000 as at June 2016 includes an amount of Kshs.3,378,269 being staff advances and imprest out of which, an amount of Kshs.2,086,734 relates to staff advances and imprest for staff who have left the Company service.

In the circumstances, it has not been possible to determine whether Kshs.3,378,269 is recoverable.

2.2 Non Movement of Trade receivables

The trade and other receivables balance as at 30 June 2016 includes sundry debtors amounting to Kshs.18,621,631 out of which Ksh.10,746,930 had no movement from the previous financial year. No explanation was given as to why these long outstanding balances have not been recovered and have apparently been carried forward from year to year without any appropriate action being taken.

No explanation has been given for the dormancy of these accounts or why the Company has not been recovering or recommend for write off for such irrecoverable debts.

3. Trade and Other Payables

Trade and other payables balance of Kshs.165,973,000 as at 30 June 2016 includes an amount of Kshs.14,989,280 which had no movement from the previous year, casting

doubt on the validity of these payables and the ability of the organisation to pay debts as they fall due.

Further, the company has not remitted the statutory deductions amounting to Kshs.11,564,433 with Kshs.6,962,229 relating to the current year while Kshs.4,602,204 is for prior years as detailed below.

Creditor	As at 30/6/2016 Kshs.	2014/2015 & prior years Kshs.
PAYE	4,828,316	2,478,291
Provident Fund-Employee	128,227	118,227
Provident Fund-Employer	1,738,705	1,738,705
NSSF	<u>266,981</u>	<u>266,981</u>
Totals	<u>6,962,229</u>	<u>4,602,204</u>

Failure to remit statutory deductions when due is likely to attract penalties and interest from the respective regulatory institutions.

Consequently, it has not been possible to confirm that the trade and other payables balance of Kshs.165,973,000 as at 30 June 2016 is fairly stated.

4. Management of Loaning Portfolios

The management disbursed loans amounting to Kshs.181,331,500 in the year under review against a target of Kshs.270 million as stipulated in the budget vide board paper of January 2016. Although this has been attributed to the delays in receiving the relevant funding from the National Treasury, the loans turnaround time remains a major challenge to the company. Under Note 30(b) to the financial statements, the Company managed to recover only Kshs.16,000,000 out of the outstanding loans of Kshs.1,370,621,000. This translate to a paltry approximately 1.2% of the opening loans balance implying that a colossal amount of outstanding loans are not performing as expected. This is despite the fact that the Company is struggling to break-even in its operations.

5. Poor Management of Projects: The Nairobi Incubation Centre

As reported in the previous year, a contract entered between the Company and a local contractor at a contract sum of Kshs.296,858,878 for construction of Nairobi Incubation Centre was suspended by the contractor due to non-payment.

During the year under review, no payment was done to the contractor despite the Company receiving development grants amounting to Kshs.225,000,000. The Company risks paying huge penalties and interests besides likely loss due to delay in project completion.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Kenya Industrial Estates as at 30 June 2016, 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 of the Laws of Kenya.

Emphasis of Matter

Installation of Biometric System

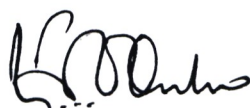
As similarly reported in the previous year, the Company on 23 November 2012 entered into a contract with a local firm at a sum of Kshs.8,918,688 for the delivery, installation and commissioning of a biometric system. Further, the contracted company was to configure the access control software and all the required reports including attendance reports. However, though the works have been paid for and the system captured as office equipment in the financial year under review, a visit to the head office and some branches revealed that the system may not be meeting its intended purpose as the entry and exit doors remain open and as such access is not restricted. Further, whereas the system was intended to give reports on staff attendance, it is not full proof since it is possible for staff to clock in and walk out without clocking out and come back in the evening to clock out. The system relies on the integrity and honesty of the staff.

My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 and Public Audit Act, 2015 I report based on my audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit; and,
- (ii) in my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



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

Nairobi

17 August 2017

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2016**

STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME


	Note	2016 Kshs'000	2015 Kshs'000
REVENUES			
Interest Income	2	58,193	89,672
Grants from National Government	3	77,866	130,600
Rent Income	4	47,512	36,420
Gains on Disposal of Non-Financial Assets	5	1	2,170
Other Income	6	26,799	41,271
TOTAL REVENUES		210,371	300,133
OPERATING EXPENSES			
Administration Costs	7(a)	115,227	107,370
Staff costs	7(b)	197,919	210,563
Directors Emoluments	7(c)	10,986	7,262
Amortization & Depreciation	15-17	44,927	49,745
TOTAL OPERATING EXPENSES		369,059	374,940
OPERATING PROFIT/(LOSS)	8	(158,688)	(74,807)
Finance Income	9	7	14
Finance Costs	10	(27,144)	(27,097)
LOSS BEFORE PROVISIONS		(185,825)	(101,890)
Add Provision for bad debts Write back	11	11,795	7,155
LOSS BEFORE TAXATION		(174,030)	(94,735)
Taxation (Tax Credit)	12	530	(1,075)
LOSS AFTER TAXATION		(173,500)	(95,810)
Earnings per share – basic and diluted	13	(43)	(24)
Dividend per share	14	-	-

Kenya Industrial Estates Limited
Reports and Financial Statements
For the year ended June 30, 2016

STATEMENT OF FINANCIAL POSITION

	Note	2016 Kshs'000	2015 Kshs'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	1,184,267	1,206,311
Leasehold Land	16	518,516	523,717
Intangible assets	17	27,248	31,373
Investment property	18	575,848	580,137
Unquoted investments	19	11,200	11,200
Staff receivables due after one year	22(b)	5,642	5,273
Loans	20	677,118	837,766
Total Non-Current Assets		2,999,839	3,195,777
Current Assets			
Inventories	21	5,402	5,862
Trade and other receivables	22(a)	41,155	35,973
Bank and cash balances	23	74,625	18,255
Total Current Assets		121,182	60,090
Total Assets		<u>3,121,021</u>	<u>3,255,867</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	24	80,277	80,277
Capital Reserves	25	1,420,098	1,547,135
Capital and Reserves		1,500,375	1,627,412
Non-Current Liabilities			
Borrowings	26	-	5,138
Deferred Tax Liability	34	35,305	35,835
Total Non-Current Liabilities		35,305	40,973
Current Liabilities			
Borrowings	26	1,403,417	1,387,580
Trade and other payables	27	165,973	186,943
Provision for leave pay	29	8,271	12,542
Bank overdraft	23	7,680	417
Total Current Liabilities		1,585,341	1,587,482
TOTAL EQUITY AND LIABILITIES		<u>3,121,021</u>	<u>3,255,867</u>

The financial statements were approved by the Board on 15/6/ 2017 and signed on its behalf by:


 Director


 Director


 Director

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2016**

		Kshs'000								
STATEMENT OF CHANGES IN EQUITY		Ordinary share capital	Capital Reserve	Disposal of Sheds	Irredeemable Loans	GOK	Revaluation reserve	Grants	Retained earnings	Total
At July 1, 2014		80,277	22,523	68,637	190,257	190,257	838,405	2,560,265	(2,252,921)	1,507,443
Government grant								300,000		300,000
Transfer to Retained Profit									(84,221)	(84,221)
Total comprehensive Loss									(95,810)	(95,810)
At June 30, 2015		80,277	22,523	68,637	190,257	190,257	838,405	2,860,265	(2,432,952)	1,627,412
At July 1, 2015		80,277	22,523	68,637	190,257	190,257	838,405	2,860,265	(2,432,952)	1,627,412
Government grant								225,000		225,000
Prior Year Adjustments:										
Loan Provisions									(178,517)	(178,517)
Other Adjustments									(20)	(20)
Transfer to Retained profit (Loss)									(173,500)	(173,500)
At June 30, 2016		80,277	22,523	68,637	190,257	190,257	838,405	3,085,265	(2,784,989)	1,500,375

Kenya Industrial Estates Limited

**Reports and Financial Statements
For the year ended June 30, 2016**

STATEMENT OF CASH FLOWS

	Note	2016 Kshs'000	2015 Kshs'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	30(a)	(130,588)	(26,495)
Interest received	9	7	14
Interest paid	30(d)	-	-
Net cash generated from/(used in) operating activities		(130,581)	(26,481)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15	(28,846)	(234,160)
Proceeds from disposal of property, plant and equipment		1	2,170
Levies on Leasehold Land	16	(-)	(-)
Purchase of intangible assets	17	(-)	(173)
Purchase of investment property	18	(467)	(31,326)
Net cash generated from/(used in) investing activities		(29,312)	(263,489)
FINANCING ACTIVITIES			
GOK Development Grant		225,000	300,000
Repayment of borrowings	30(b)	(15,000)	(5,000)
Net cash generated from/(used in) financing activities		209,000	295,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		49,107	5,030
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	30(c)	17,838	12,808
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	30(c)	66,945	17,838

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Budget	Actual	Variance	Percentage (%)	Explanation of material variances
	Cumulative to date	Cumulative to date		Variance	
Revenue	Shs'000'	Shs'000'	Shs'000'		
Interest Income	91,534	58,193	(33,341)	(57)%	(a)
Grant from National Govt	80,900	77,866	(3,034)	(4)%	
Rent Income	48,276	47,512	(764)	(2)%	
Profit on asset disposal	-	1	1	100%	
Other Income	37,710	26,799	(10,911)	(41)%	(b)
Provision write Backs	4,000	11,795	7,795	66%	
Finance Income	-	7	7	100%	
Tax Credit	-	530	530	100%	
Total income	262,420	222,703	(39,717)	(18)%	
Expenses					
Electricity and Water	2,949	3,349	(400)	(12)%	(c)
Communication services & Supplies	13,735	10,008	3,727	37%	
Transport, Travelling & Subsistence	25,782	16,754	9,028	54%	
Advertising, Printing & Stationary & Photocopying	13,418	11,587	1,831	16%	
Rent and Rates Expenses	8,000	8,242	(242)	(3)%	
Staff Training Expenses	8,000	3,376	4,624	137%	(e)
Hospitality and Supplies	300	34	266	782%	(f)
Insurance costs	10,000	10,492	(492)	(5)%	
Bank Charges	1,602	1,864	(262)	(14)%	(d)
General Expenses	6,748	6,622	126	2%	
Auditors' Remuneration	700	696	4	1%	
Legal Fees	12,000	1,529	10,471	685%	(g)
Consultancy Fees	8,720	7,238	1,482	20%	
Repairs and Maintenance	7,498	2,989	4,509	151%	(h)
Other operating expenses	34,000	33,823	177	1%	
Staff Costs	209,184	194,543	14,641	8%	
Directors' Emoluments	12,000	10,986	1,014	9%	
Amortization and Depreciation	50,103	44,927	5,176	12%	
Finance Cost	27,592	27,144	448	2%	
Total expenditure	452,331	396,203	56,128	14%	
Net Profit / Loss for the Period	(189,911)	(173,500)	16,411	9%	

Kenya Industrial Estates Limited

Reports and Financial Statements For the year ended June 30, 2016

Explanatory Notes to Major Variances

- (a) Interest Income- This was majorly as a result of low disbursements during the year due to late disbursement from GOK i.e. on development grant
- (b) Other Incomes-This was majorly as a result of low disbursements during the year due to late disbursement from GOK i.e. on development grant and also, low business development activities during the year.
- (c) Light, Water and Conservancy- This was due to high cost of power during the year than anticipated
- (d) Bank charges- Due to high cost of bank commissions and charges than anticipated
- (e) Staff Training Expenses- The positive variance was due to less staff training activities during the year.
- (f) Hospitality and supplies-The positive variance was as a result of reduced entertainment activities during the year.
- (g) Legal Fee- The positive variance was due to savings arising from alternative dispute resolution mechanisms such as negotiated settlements.
- (h) Repairs and Maintenance- The positive variance was as a result of less repair and maintenance activities during the year as provided for.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of Compliance and Basis of Preparation

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

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

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

b) Adoption of new and revised International Financial Reporting Standards (IFRSs)

- i) Standards and interpretations affecting amounts reported in the current period (and/or prior periods)

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of these new standards and interpretations and none of them had a significant impact on the organisation's financial statements.

- ii) Standards and interpretations issued but not yet effective

At the date of authorization of these financial statements, several other new and revised standards and interpretations were in issue but not yet effective. The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the organization.

- iii) Early adoption

The organization did not early adopt any new standards and/or interpretation that are in issue but not yet effective.

Kenya Industrial Estates Limited

Reports and Financial Statements For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Revenue Recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collect ability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the Company actually receives such grants. 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.

d) 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.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Depreciation and Impairment of Property, Plant and Equipment

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

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

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

f) 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.

g) 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.

h) 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.

i) 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.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

j) Unquoted Investments

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

k) Inventories

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

l) 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.

m) Taxation

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

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

n) Cash and Cash Equivalents

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

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) 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.

p) 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.

q) Retirement Benefit Obligations

The company operates a defined contribution scheme of trustees and externally sourced administrators and issuers 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.200.00 per employee per month.

r) 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.

s) 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.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Comparative Figures

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

u) 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, 2016.

v) Provision for Bad and Doubtful Debts

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

Classification and Provisioning.

Category	Classification	Provisioning
A	Normal class (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

w) Critical Accounting Estimates and Judgement

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

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.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Imprest 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.

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.

v) Deferred Tax

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference. 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.

vi) Property, plant and equipment

Property, plant and equipment is 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.

x) 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.

y) 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, 2016****NOTES TO THE FINANCIAL STATEMENTS**

	2016 Kshs'000	2015 Kshs'000
2 INTEREST INCOME		
Loans	57,001	85,796
Mortgage	23	1,261
Staff Loans	1,169	2,615
	<u>58,193</u>	<u>89,672</u>
	=====	=====
3 GRANTS FROM NATIONAL GOVERNMENT		
Amounts received per quarter		
1 st quarter	20,225	16,900
2 nd quarter	20,225	16,900
3 rd quarter	20,225	79,900
4 th quarter	17,191	16,900
	<u>77,866</u>	<u>130,600</u>
	=====	=====
4 RENT INCOME		
Rent Income per quarter		
1 st quarter	10,578	8,216
2 nd quarter	11,362	8,003
3 rd quarter	12,326	9,507
4 th quarter	13,246	10,694
	<u>47,512</u>	<u>36,420</u>
	=====	=====
Rent income is net of Value Added Tax (VAT)		
5 GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS		
4 th quarter	1	2,170
	<u>1</u>	<u>2,170</u>
	=====	=====
6 OTHER INCOME		
Sale of tender documents	37	37
Business Development Services Income	8,357	22,624
Loan processing charges	9,076	11,262
Fines and penalties	894	1,450
Miscellaneous receipts	8,435	5,898
	<u>26,799</u>	<u>41,271</u>
	=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2016****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs'000	2015 Kshs'000
7(a) ADMINISTRATION COSTS		
Electricity and water	3,349	2,974
Communication services and supplies	10,008	10,073
Transportation, travelling and subsistence	16,754	20,984
Advertising, printing, stationery and photocopying	11,587	10,728
Rent and Rates expenses	8,242	7,961
Hospitality supplies and services	34	91
Insurance costs	10,492	5,194
Bank charges and commissions	1,864	1,934
Office and general supplies and services	6,622	6,619
Auditors' remuneration	696	696
Legal fees	1,529	5,317
Consultancy fees	7,238	7,738
Repairs and maintenance	2,989	1,725
Other operating expenses	33,823	25,336
	<u>115,227</u>	<u>107,370</u>
	=====	=====
7 (b) STAFF COSTS		
Salaries and allowances of permanent employees	175,137	181,409
Staff Training Expenses	3,376	2,337
Medical Expenses	2,050	4,067
Staff Welfare	181	1,002
Wages of temporary employees	914	1,451
Compulsory national social security schemes	646	610
Other pension contributions	14,127	15,622
Leave pay and gratuity provisions	1,488	4,065
	<u>197,919</u>	<u>210,563</u>
	=====	=====
The average number of employees at the end of the year was:		
Permanent employees – Management	44	52
Permanent employees – Technical and Support Staff	102	179
Temporary and contract employees	84	31
	<u>230</u>	<u>262</u>
	=====	=====

Kenya Industrial Estates Limited**Reports and Financial Statements****For the year ended June 30, 2016****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs'000	2015 Kshs'000
7 (c) DIRECTORS EMOLUMENTS		
Sitting Allowances	4,976	3,712
Honoraria	957	1,044
Other Allowances	5,053	2,506
	<u>10,986</u>	<u>7,262</u>
	=====	=====
8 OPERATING PROFIT / (LOSS)		
The operating profit / (loss) is arrived at after charging/(crediting):		
Staff costs (note 7b)	197,919	210,563
Amortization and Depreciation	44,927	49,745
Directors' emoluments - fees	10,986	7,262
Auditors' remuneration - current year fees	696	696
Interest receivable	58,193	89,672
Interest payable	27,144	27,097
Rent receivable	47,512	36,420
	<u>387,377</u>	<u>421,455</u>
	=====	=====
9 FINANCE INCOME		
Interest income on short-term bank deposits	7	14
	<u>7</u>	<u>14</u>
	=====	=====
This refers to interest earned on Fixed Deposit on call account during the year.		
10 FINANCE COSTS		
Accrued Interest expense on loans		
GOK Loan	10,008	10,008
KFW Loan	5,591	5,576
IDA I Loan	2,879	2,871
IDA II Loan	1,102	1,099
ADF Loan	7,564	7,543
	<u>27,144</u>	<u>27,097</u>
	=====	=====
11 PROVISION FOR BAD DEBTS WRITE BACK		
	2016	2015
	Kshs'000	Kshs'000
Provision for bad debts Write Back	11,795	7,155
	<u>11,795</u>	<u>7,155</u>
	=====	=====

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Type of provisions	Loans	Mortgages	Staff	Rent	Trade debtors	Leave Provision	write off	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000		Kshs'000	Kshs'000
General provision	(32)	-	1,229	286	-	4,271	-	5,754
Specific provision	21,012	3,757	-	-	-	-	-	24,769
Write off	-	-	-	-	-	-	(18,728)	(18,728)
Total Provision	20,980	3,757	1,229	286	-	4,271	(18,728)	11,795

	2016	2015
	Kshs'000	
12 TAXATION		
Current Tax	-	-
Tax Arrears	-	-
Deferred Tax Credit/ Charge	(530)	1,075
	<u>(530)</u>	<u>1,075</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>(174,030)</u>	<u>(94,735)</u>
Tax calculated at rate of 30% (2014: 30%)	(52,209)	(28,421)
Tax effect of:		
- Income not subject to tax	(-)	(651)
Tax losses carried forward	51,679	30,147
Tax Arrears	-	-
Tax Credit/Tax charge	<u>(530)</u>	<u>1,075</u>

The tax arrears relates to tax liability owed to Tax Authority as from 1995 to 2002. This has been settled. Deferred tax charge had not previously been incorporated in the financial statements and has now been restated.

13 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax of Kshs. (173,500,000) (2015: Kshs. (95,810,000) by the average number of ordinary shares in issue during the year of 4,013,865 (2015: 4,013,865). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 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 2017, no dividend in respect of the year ended June 30, 2016 shall be proposed just like year 2015 when no dividend was proposed.

**Reports and Financial Statements
For the year ended June 30, 2016**

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

2016	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, 2014	428,880	32,172	63,723	43,317	56,357	702,515	1,326,964
Additions	35,023	20,668	151	-	-	178,318	234,160
Transfers	-	-	-	-	-	(213,971)	(213,971)
Disposals	-	(551)	(2,124)	(1,200)	(1,360)	-	(5,235)
Adjustments	(13,382)	-	-	-	-	(3,645)	(17,027)
At June 30, 2015	450,521	52,289	61,750	42,117	54,997	663,217	1,324,891
Additions	17,861	81	-	301	498	10,105	28,846
Disposals	-	(1,029)	-	(2,141)	(4,401)	-	(7,571)
Adjustments	(4,039)	-	-	-	-	(7,068)	(11,107)
At June 30, 2016	464,343	51,341	61,750	40,277	51,094	666,254	1,335,059
DEPRECIATION							
At July 1, 2014	14,043	4,584	41,299	14,321	7,137	-	81,384
Charge for the year	14,455	3,279	10,873	7,446	4,377	-	40,430
Eliminated on disposal	-	(163)	(2,124)	(615)	(332)	-	(3,234)
At June 30, 2015	28,498	7,700	50,048	21,152	11,182	-	118,580
Charge for the year	14,454	4,921	5,925	6,407	3,895	-	35,602
Elimination on disposal	-	(365)	-	(1,521)	(1,504)	-	(3,390)
At June 30, 2016	42,952	12,256	55,973	26,038	13,573	-	150,792
NET BOOK VALUES							
At June 30, 2016	421,391	39,085	5,777	14,239	37,521	666,254	1,184,267
At June 30, 2015	422,023	44,589	11,702	20,965	43,815	663,217	1,206,311

Kenya Industrial Estates Limited
Reports and Financial Statements
For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Kenya Industrial Estates Limited**Reports and Financial Statements
For the year ended June 30, 2016****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs'000	2015 Kshs'000
16 LEASEHOLD LAND		
COST		
At July 1	537,335	532,882
Elimination	-	-
Revaluation	-	-
Additions	-	-
Adjustments	-	4,453
At June 30	<u>537,335</u>	<u>537,335</u>
AMORTISATION		
At July 1	13,618	8,418
Elimination	-	-
Charge for the year	5,201	5,200
Disposals	-	-
Impairment loss	-	-
At June 30	<u>18,819</u>	<u>13,618</u>
NET BOOK VALUE		
At June 30	<u>518,516</u>	<u>523,717</u>
17 INTANGIBLE ASSETS		
COST		
At July 1	48,126	47,953
Additions	-	173
Disposals	-	-
At June 30	<u>48,126</u>	<u>48,126</u>
AMORTISATION		
At July 1	16,754	12,638
Charge for the year	4,124	4,115
Disposals	-	-
Impairment loss	-	-
At June 30	<u>20,878</u>	<u>16,753</u>
NET BOOK VALUE		
At June 30	<u>27,248</u>	<u>31,373</u>

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kshs'000	2015 Kshs'000
18 INVESTMENT PROPERTY		
Opening valuation	580,137	333,790
Movements during the year		
Transfer from WIP	-	213,971
Additions	467	31,326
Adjustments	(4,756)	1,050
Disposal	-	-
Fair value gains/ (Losses)	-	-
Closing valuation	<u>575,848</u>	<u>580,137</u>
AMORTISATION		
At July 1	-	-
Charge for the year	-	-
Disposals	-	-
Impairment loss	-	-
At June 30	<u>575,848</u>	<u>580,137</u>
NET BOOK VALUE		
At June 30	<u>575,848</u>	<u>580,137</u>

19 UNQUOTED INVESTMENTS

	Level 1 Kshs '000	Level 2 Kshs '000	Level 3 Kshs '000	Total Kshs '000
At 30 June 2016:				
Investment in shares – Available-for-sale	-	11,200	-	11,200
As at 30 June 2015:				
Investment in shares – Available-for-sale	-	11,200	-	11,200

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

	2016 Kshs'000	2015 Kshs'000
20 LOANS		
Loan gross	970,933	1,061,537
Interest suspended	(278,789)	(162,526)
Specific provision	(15,399)	(60,315)
General provision	373	(930)
Net loan balance	<u>677,118</u>	<u>837,766</u>

Kenya Industrial Estates Limited**Reports and Financial Statements
For the year ended June 30, 2016****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs'000	2015 Kshs'000
21 INVENTORIES		
Stationery and general stores	5,402	5,862
	<u>5,402</u>	<u>5,862</u>
	=====	=====
22 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables (note 22 (b))	160,972	157,640
Deposits and prepayments	-	-
Staff receivable (note 22 (c(i)))	1,311	155
Other receivables	-	-
	<u>162,283</u>	<u>157,795</u>
Gross trade and other receivables		
Provision for bad and doubtful receivables	(121,128)	(121,822)
	<u>41,155</u>	<u>35,973</u>
	=====	=====
Net trade and other receivables		
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	18,637	15,171
Between 30 and 60 days	707	712
Between 61 and 90 days	1,030	3,437
Between 91 and 120 days	138	427
Over 120 days	140,460	137,893
	<u>160,972</u>	<u>157,640</u>
	=====	=====
22 (b) STAFF RECEIVABLES		
Staff loans	9,682	11,084
Interest suspended	(4,119)	(5,560)
Specific provision	(139)	(172)
General provision	218	(78)
	<u>5,642</u>	<u>5,273</u>
	=====	=====
22 (c)(i) STAFF RECEIVABLES		
Staff advances and imprest	3,378	3,450
Provision for staff advances and imprest	(2,067)	(3,296)
	<u>1,311</u>	<u>155</u>
	=====	=====
Amounts due after one year		

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 BANK AND CASH BALANCES	Kshs'000	Kshs'000
Cash at bank:		
Standard Chartered Bank	61,385	5,240
Kenya Commercial Bank Ltd	8,100	6,487
National Bank of Kenya	3,981	5,009
Co-operative Bank of Kenya	326	182
M-Pesa	558	990
Cash in hand	275	347
	<u>74,625</u>	<u>18,255</u>
Bank overdraft	(7,680)	(417)
	<u>66,945</u>	<u>17,838</u>

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

24 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>

25 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	3,085,265	2,860,265
Retained Earnings	(2,784,989)	(2,432,952)
	<u>1,420,098</u>	<u>1,547,135</u>
	<u>=====</u>	<u>=====</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, 2016

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 interest 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.

26	BORROWINGS	Kshs'000	Kshs' 000
	Balance at beginning of the year	1,392,718	1,370,621
	Interest Accrued	27,144	27,097
	Repayments of domestics borrowings during the year	(16,000)	(5,000)
	Adjustment of domestics borrowings (WEDF) during the year	(445)	-
	Balance at end of the year	<u>1,403,417</u>	<u>1,392,718</u>
	Less: Amounts due within one year (current portion)	(1,403,417)	(1,387,580)
	Amounts due after one year (non-current portion)	<u>-</u>	<u>5,138</u>
		=====	=====
	The analyses of both external and domestic borrowings are as follows:		
	External Borrowings		
	Dollar denominated loan from 'A'	858,349	841,214
		<u>858,349</u>	<u>841,214</u>
	Domestic Borrowings		
	Kenya Shilling loan from Youth Enterprise Fund	30,709	46,709
	Kenya Shilling loan from Women Enterprise Fund	-	445
	Kenya Shilling loan from GOK	514,359	504,350
		<u>545,068</u>	<u>551,504</u>
	Total balance at end of year	<u>1,403,417</u>	<u>1,392,718</u>
		=====	=====

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27	TRADE AND OTHER PAYABLES	Kshs'000	Kshs'000
	Trade payables	57,483	86,847
	Other payables	108,490	100,096
		<u>165,973</u>	<u>186,943</u>
		=====	=====

28 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.

29	PROVISION FOR LEAVE PAY	Kshs'000	Kshs'000
	Balance at beginning of the year	12,542	9,965
	Additional provision at end of year	-	2,577
	Leave paid out or utilised during the year	(4,271)	(-)
	Balance at end of the year	<u>8,271</u>	<u>12,542</u>
		=====	=====

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

Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kshs'000	2015 Kshs'000
30 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of operating profit/(loss) to Cash generated from/(used in) operations		
Operating Profit/(Loss)	(158,688)	(74,807)
Depreciation	35,602	40,430
Amortization of Leasehold Land	5,201	5,200
Amortisation of Intangible Assets	4,124	4,115
(Gain)/Loss on Disposal of Property, Plant and Equipment	1	2,170
Tax Provision	(-)	(-)
Rent Income	(47,512)	(36,420)
Other Income	(26,799)	(41,271)
Interest Income	(58,193)	(89,672)
Operating Profit/ (Loss) Before Working Capital Changes	<u>(246,264)</u>	<u>(190,255)</u>
Increase in Inventories	460	505
Increase in trade and other Receivables	(5,182)	24,655
Decrease in trade and other Payables	(20,970)	57,108
Decrease in Provision for Staff Leave Pay	(4,271)	2,577
Accrued Interest Payables	27,144	-
Advances to Customers	(183,182)	(252,316)
Collection from Loans, Rent, Mortgage & Other Income	301,676	331,231
Cash Generated from/(used in) Operations	<u><u>(130,588)</u></u>	<u><u>(26,495)</u></u>

Kenya Industrial Estates Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kshs'000	2015 Kshs'000
NOTES TO THE STATEMENT OF CASH FLOWS (Continued)		
(b) Analysis of changes in loans		
Balance at beginning of the year	1,392,718	1,370,621
Receipts during the year	-	-
Repayments during the year	(16,000)	(5,000)
Adjustment of previous year accrued interest	(445)	(-)
Foreign exchange (gains)/losses	-	-
Accrued interest	27,144	27,097
Balance at end of the year	<u>1,403,417</u>	<u>1,392,718</u>
(c) Analysis of Cash and Cash Equivalents		
Cash at bank	66,670	17,491
Cash in hand	275	347
Balance at end of the year	<u>66,945</u>	<u>17,838</u>
(d) Analysis of Interest Paid		
Interest on loans (note 9)	27,144	27,097
	<u>27,144</u>	<u>27,097</u>
Interest on loans capitalised	27,144	27,097
Balance at beginning of the year	604,501	577,404
Balance at end of the year	(631,645)	(604,501)
Interest paid	<u>-</u>	<u>-</u>

Kenya Industrial Estates Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 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 Group 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.

	2016	2015
	Kshs'000	Kshs'000
GOK Transfer	<u>302,866</u>	<u>430,600</u>

(b) Directors

	2016	2015
	Kshs'000	Kshs'000
Directors	<u>10,986</u>	<u>7,262</u>

(c) Management Compensation

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

	2016	2015
	Kshs'000	Kshs'000
Management	<u>25,808</u>	<u>20,972</u>

(d) Loans to Key Management

Car Loans	<u>2,304</u>	<u>2,477</u>
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

32	CAPITAL COMMITMENTS	Kshs'000	Kshs'000
	Amounts authorised and contracted for	739,121	785,377
	Less: Amounts incurred and included in work-in-progress	(558,963)	(583,576)
		<u>180,158</u>	<u>201,801</u>

33 **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, have appealed against the favourable judgement. The property is valued at Ksh.191M. 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.109.8 Million as at 30th June, 2016.

34 **Deferred Taxation**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2014: 30%). The movement on the deferred tax account is as follows:

	2016	2015
	Kshs'000	Kshs'000
At start of year	35,835	34,760
Charge to profit or loss (Note 11)	<u>(530)</u>	<u>1,075</u>
At end of year	<u>35,305</u>	<u>35,835</u>

Kenya Industrial Estates Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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	Total Ksh'000
Deferred Tax Liabilities			
Property, Plant & Equipment	31,866	1,383	33,249
Provisions-Leave & Bad debts	<u>5,459</u>	<u>(1,252)</u>	<u>4,207</u>
Net Deferred Tax Liability	<u>37,325</u>	<u>131</u>	<u>37,456</u>
Deferred Tax (Assets)			
Tax losses carried forward	<u>(1,490)</u>	<u>(661)</u>	<u>(2,151)</u>
Net Deferred Tax Liability	<u>35,835</u>	<u>(530)</u>	<u>35,305</u>

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

35 GRANTS

	2016 Kshs'000	2015 Kshs'000
Norwegian grant	146,039	146,039
EEC grant	1,857	1,857
GTZ grant for ISL	17,593	17,593
GTZ Rep. Financing grant	4,385	4,385
KFW grant for ISL loans	72,943	72,943
GTZ co-operation fund	3,705	3,705
GOK grant	2,820,777	2,595,777
UNDP grant	6,766	6,766
EEC grant	11,200	11,200
	<u>3,085,265</u>	<u>2,860,265</u>

36 INCORPORATION

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.96M.

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.

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

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For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	2016 Kshs'000	2015 Kshs'000
Share Capital	80,277	80,277
Retained Earnings	(1,665,314)	(1,313,130)
Equity	(1,585,037)	(1,232,853)
Total Borrowings		
Local and external Loans	1,403,417	1,392,718
Bank Borrowings (Overdraft)	7,680	417
	<u>1,411,097</u>	<u>1,393,135</u>
Local and external Loans		
Less Cash & Bank Balance	(74,625)	(18,255)
	<u>1,336,472</u>	<u>1,374,880</u>
Net Debt		
	<u>=====</u>	<u>=====</u>
Gearing	-84%	-112%
	<u>=====</u>	<u>=====</u>

39 FINANCIAL RISK MANAGEMENT

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

(a) Credit Risk Management

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

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

	2016 KShs'000	2015 KShs'000
Bank balance	74,350	17,908
Loans	677,118	837,766
Trade and other receivables	41,155	35,973
	<u>792,623</u>	<u>891,647</u>
	<u>=====</u>	<u>=====</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

The carrying amount of financial assets (bank balances and trade receivables) recorded in the financial statements representing the company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Fully performing Shs'000'	Past due Shs'000'	Impaired Shs'000'
At 30 June 2016			
Trade receivables	18,675	1,875	140,460
Bank balances	74,350	-	-
	=====	=====	=====
At 30 June 2015			
Trade receivables	15,171	4,576	137,893
Bank balances	17,908	-	-
	=====	=====	=====

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.

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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

	2016 Ksh'000'	2015 Ksh'000'
Individually Impaired		
Normal	272,658	289,154
Watch	25,900	33,286
Sub -Standard	34,432	26,832
Doubtful	446,512	500,170
Loss	<u>199,974</u>	<u>223,179</u>
Gross Amount	979,476	1,072,621
Allowance for Impairment	<u>(297,855)</u>	<u>(229,581)</u>
Carrying Amount	<u>681,621</u>	<u>843,040</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:

	2016 Ksh'000'	2015 Ksh'000'
Loans to Customers		
Past due but not Impaired	332,990	349,272
Past Due and Impaired	646,486	723,349
Impairment Allowance	<u>(297,855)</u>	<u>(229,581)</u>
Total	<u>681,621</u>	<u>843,040</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Liquidity Risk Management

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from financial liabilities. The ultimate responsibility for liquidity risk management rests with the Board of Directors. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecasts and actual cash flows. The analysis below shows the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting date. The amounts disclosed in the table below are undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Within 12 Months Kshs'000	Over 12 Months Kshs'000		
At 30th June 2016				
Borrowings	1,403,417	-		
Bank Overdraft	7,680			
	<u>1,411,097</u>	<u>-</u>		
	=====	=====		
	Kshs'000	Kshs'000		
At 30th June 2015				
Borrowings	1,387,580	5,138		
Bank Overdraft	417	-		
	<u>1,387,997</u>	<u>5,138</u>		
	=====	=====		
Trade and Other payables				
	Less than 1 month Sh '000'	Between 1-3 months Sh '000'	Over 5 months Sh '000'	Total Sh '000'
At 30 June 2016				
Trade payables	365	1,118	164,490	165,973
	=====	=====	=====	=====
At 30 June 2015				
Trade payables	6,990	38,081	141,872	186,943
	=====	=====	=====	=====



Kenya Industrial Estates Limited

Reports and Financial Statements

For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(c) Market Risk Management

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

i) Interest Rate Risk

The company is exposed to both cash flow and fair value interest rate risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. The company holds interest bearing assets inform of loans to customers.

A law has been passed to cap interest rates in the country which might affect interest rates on loans. However, this may not have a higher impact on company interest income because the rate the company has been charging is lower and its impact shall be felt in 2016/2017 financial year.

The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings.

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

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

	2016 Kshs'000	2015 Kshs'000
±10%point decrease/increase in borrowing rate	140,342	139,272

Kenya Industrial Estates Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii) Foreign Exchange Risk

The company has exposure to foreign currency risk. This arises from borrowings from International and multilateral disclosed under note 26.

External Borrowings	Kshs'000	Kshs' 000
Dollar denominated loan from 'A'		
IDA I Loan	128,842	125,963
IDA II Loan	53,628	52,620
KFW Loan	254,532	248,941
ADF Loan	421,347	413,690
	<u>858,349</u>	<u>841,214</u>

40 PROGRESS REPORT ON PRIOR YEAR AUDIT MATTERS

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

Reference No. on external Audit report	Issue/Observations from Auditor (2014/15 audit certificate issues)	Management comments	Focal person to resolve the issue	Status: (Resolved / Not Resolved)	Time frame:
1	Property, Plant and Equipment It was not possible to confirm whether property, plant and equipment balance of Kshs.1,206,311,000 as at 30 th June 2015 was fairly stated because balance included five (5) staff houses in Eldoret valued at Kshs.5,300,000 whose ownership documents were not provided for audit verification. Further, 13 plots had no ownership documents and ownership of 4 plots were in dispute.	The Eldoret staff houses were illegally acquired by third parties. The company went to court and a determination was made in its favour. The third parties appealed against the judgement and file a stay of execution. The matter is in court. The company is following up with the National Land Commission for issuance of ownership documents for the 13 plots and resolution of plots with disputes.	Industrial Estates Development and Incubation Services Manager (IEDISM)	Not Resolved	30/06 /2018
2.0 2.1	Trade and Other Receivables Trade Receivables Included in gross trade and other receivables balance of Kshs. 157,640,000 is rent debtors amounting to Kshs.1,955,323 and sundry debtors amounting to Kshs.789,483 which had no movement from previous year. The management had also not also	Management has set up a recovery mechanism and is aggressively pursuing the debtors to ensure full payment. The receivables relate to the year 2013/2014 and 2014/2015. The Board has developed a policy to guide on making provisions for receivables.	FM & IEDISM	Not Resolved	30/06 /2018