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KENYA INDUSTRIAL ESTATES LIMITED

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ANNUAL REPORT AND FINANCIAL STATEMENTS
For The Year Ended 30th June 2006

KENYA INDUSTRIAL ESTATES LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006**



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COMPANY INFORMATION

Principal Place of Business

KIE Building
Likoni Road
Industrial Area
P. O. Box 78029-00507
Viwandani, Nairobi
Tel: +254 20 651348/54
Fax: +254 20 651348

Registered Office

KIE Building,
P. O. Box 78029-00507
Viwandani, Nairobi

Company Secretary

Mr. John F. Omwoyo
P. O. Box 8029-00507
Viwandani, Nairobi

Company Auditors

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

BOARD OF DIRECTORS

Maj. Gen. (Rtd) Barrack O. C. Onyango

Mr. John G. M. Mwirichia

Mr. Charles Mumanyi

Dr. Reuben Indiasti Nasibi

Mr. Kipterer Paul Lang'at

Mr. Henry W. Awori

Mr. Henry M. Mwaniki

Permanent Secretary, Treasury

Permanent Secretary, Ministry of Trade and Industry

BOARD OF DIRECTORS



Maj. Gen. (Rtd.) Barrack O. C. Onyango
Chairman



Mr. John G. M. Mwirichia
Director



Mr. Charles Mumanyi
Director



Dr. Reuben Indiatsi Nasibi
Director



Mr. Kipterer Paul Lang'at
Director



Mr. Henry W. Awori
Director



Mr. Henry M. Mwaniki
Managing Director



Mr. Moses K. Kanagi
Alternate to P. S. Treasury



Mr. Seth A. Otieno
Alternate to P. S. Ministry of Trade
and Industry

THE CHAIRMAN'S STATEMENT

It is my pleasure to report on the performance of the Kenya Industrial Estates for the financial year ended 30th June 2006.

During the year under review the company recorded an improvement in its operations towards small and medium enterprises (SMEs) in line with increased output by the SMEs in the National Economy.

GLOBAL ECONOMY

Both regional and world economies continue to show sustained growth. Factors that enable this growth included macroeconomic stability, expansion in world, easing of external burdens and improved access to industrial markets.

The East African region has also made tremendous progress following the realization of a Customs Union and encouraging peace agreements in the Great Lakes region in order to strengthen regions economy.

DOMESTIC ECONOMY

The Kenyan economy continued recovery that started in 2003 and has continued into the year under review registering a growth of 5.8%. Growth was recovered in nearly all the sectors of our economy. The Small and Medium Enterprises continued to form the backbone of the Industrial and Commercial sectors. Kenya Industrial Estates Limited is proud to have participated in this growth.

OPERATIONS

During the year under review, the main focus was on entrepreneur training and capacity building targeting mainly the rural areas in accordance with government policy. Because of limited financial resources the company conducted very limited business compared to the enormous demand.

The company lent Kshs.48,821,000 during the year from the funds which the government gave for core poverty programmes.

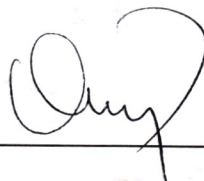
The company continues to clean up its old portfolio through debt negotiations and settlement as a first step towards Balance Sheet restructuring which is essential for its business image. The company was evaluated on the Performance Contract Scheme introduced earlier. Though there was improvement the company performed poorly. It has continued to strengthen institutional linkages and collaboration with other Stakeholders in the Micro, Small and Medium enterprises Sector. In this regard KIE has continued to work closely with the Export Promotion Council Authority, Export Processing Council, Investment Promotion Council, Kenya Industrial Research & Development Institute, Jua Kali Association, KIPRA among others.

FUTURE OUTLOOK

Kenya Industrial Estates Limited remains a strategic Institution and expects to play a key role in implementing the Government's Industrialization as well as poverty reduction programmes. The company will continue to re-organize and restructure in order to convert into a strong and effective institution in serving the SME sector and our country's Industrialization endeavour. We are exploring various ways of mobilizing financial resources for this purpose.

APPRECIATION

Finally on my behalf and that of the Board, Management and Staff of KIE, I take this opportunity to sincerely thank the government, KIE entrepreneurs and other stakeholders for their continued support. We value your support and good will in our endeavour to meet our mandate to people of this country.



MAJOR GEN. (Rtd) BARRACK O. C. ONYANGO, CBS

REPORT *of the* DIRECTORS

The Directors submit their report and the audited financial statements for the year ended 30th June 2006, which show the state of the affairs of the company.

1. Principal Activities

The company continues to facilitate development and incubation of Small & Medium Enterprises (SME's) countrywide by establishing and offering industrial parks, sustainable credit, business development services and sub-contracting exchange/linkages.

2. Company Results

The company results are set out on page 9.

3. Dividend

The Directors do not recommend payment of dividends.

4. Reserves

The reserves of the company are set out on page 22 note 14.

5. Auditors

The Board retains Kenya National Audit Office as KIE Auditors.

By Order of the Board



Mr. John F. Omwoyo
Company Secretary

CORPORATE GOVERNANCE STATEMENT

Kenya Industrial Estates is committed to the new standards of Corporate Governance introduced by the Government of Kenya. The Board of Directors is responsible for the long-term growth and the profitability of the company, whilst being accountable to shareholders for compliance with the law and maintaining the highest standards of corporate governance and business ethics.

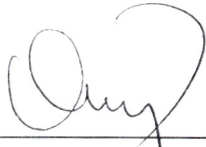
STATEMENT OF DIRECTORS RESPONSIBILITY

The Kenya Companies Act requires the directors to prepare the financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss. It also requires the Directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company.

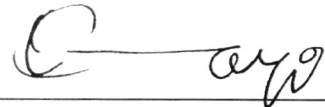
The Directors accept responsibility for the annual financial statements that have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Reporting Standards and the requirements of the Companies Act. The Directors are of the opinion that the accounts give a true and fair view of the state of affairs of the company and its performance.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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



Maj. Gen. (Rtd) Barrack O. C. Onyango
(Chairman)



Charles Mumanyi
(Director)

BRANCH NETWORK

There are twenty-one (21) branches including head office and these are:-

Head Office:	Nairobi
Regional Offices:	Nakuru, Kisumu, Mombasa, Eldoret, Machakos, Nyeri, Kakamega, Embu
Branches:	Kabarnet, Malindi, Voi, Kericho, Kitui, Sultan Hamud, Murang'a, Thika, Bungoma, Garissa, Kisii & Meru.

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA INDUSTRIAL ESTATES LIMITED FOR THE YEAR ENDED 30TH JUNE 2006

I have audited the financial statements of Kenya Industrial Estates Limited for the year ended 30th June 2006 in accordance with the provisions of section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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

Basis of Opinion

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

1. Going Concern

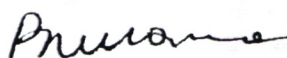
The Company registered a loss of Kshs.84,379,000 during the year (2005 Kshs.37, 090,000) which brought its cumulative reserves to a negative balance of Kshs.1,135,338,000 as at 30 June 2006. The accumulated loss has reduced the company's equity to negative balance of Kshs.1,055,061,000. The unfavorable result is mainly attributed to suspension of interest due from non performing loans amounting to Kshs.750,209,000 as disclosed in Note 2 to the financial statements. In addition, the Company's balance sheet, whose item classifications do not indicate current and non-current categories in accordance with International Accounting Standard No. 1, shows total liabilities of Kshs.1,247,730,000. These include interest on long term loans of Kshs.363,069,000 and GOK loans and external loans of Kshs.332,688,000 and Kshs.421,729,000 respectively, most of which have remained unsettled for long, with no prospects for future repayment. Under the circumstances, the company is technically insolvent and its continued operation as a going concern is fully dependent on financial support from the Government.

2. Property & Equipment

The property and equipment balance of Kshs.220,907,000 as at 30 June 2000 includes the value of some of 481 parcels of land irregularly allocated to other parties without the approval of the Company. Although the company has explained that the process of repossession is on and that 50 parcels have been recovered in Narok and Voi, no such evidence has been made available for audit verification. In the circumstances, it is not possible to confirm the ownership status of the parcels of land not repossessed and to confirm whether the carrying value as stated in the financial statements reflect the fair values of the properties as at the balance sheet date.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2006 and of its loss and cash flows for the year ended and comply with the Companies Act (Cap 486 of the Laws of Kenya).



P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi
19 March 2007

BALANCE SHEET AS AT 30TH JUNE 2006

ASSETS	Notes	Year 2006 Kshs.'000	Year 2005 Kshs.'000
Cash and Bank Balance		1,567	7,304
Time deposits	12	21,507	-
Debtors	11	4,064	23,420
Stock		1,054	850
Staff Loans	8	33,166	34,180
Mortgages	10	22,457	29,779
Industrial Sheds		36,152	35,574
Loans	9(a)	88,108	70,387
Other Investments	9(b)	11,200	11,200
Property and Equipment	7	220,907	228,979
Total Assets		440,182	441,673
Liabilities			
Interest on Long Terms Loans	17(1)	363,069	337,209
Creditors	15	130,244	97,483
Kenya Government Loans	17	332,688	280,688
External Loans	17	421,729	421,729
Total Liabilities		1,247,730	1,137,109
Capital Resources			
Share Capital	13	80,277	80,277
Reserves	14	-1,135,338	-1,023,226
Shareholders Funds		-1,055,061	-942,949
Grants	16	247,513	247,513
Total Liabilities, Grants and Shareholders Funds		440,182	441,673

The Financial statements for the year 2005/2006 were signed for the board on

02 | 03 | 2007

by

Maj. Gen. (Rtd) Barrack O. C. Onyango (Chairman)

Mr. WILLIAM SHIMANYULA (Managing Director)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 30TH JUNE 2006

	Notes	Year 2006 Kshs.'000	Year 2005 Kshs.'000
INTEREST INCOME	2	67,876	87,312
INTEREST EXPENSES	3	25,860	24,660
NET INTEREST INCOME		42,016	62,652
Rent Income		13,247	11,002
Profit on asset disposal		-	807
Other income		5,983	11,025
OPERATING INCOME		61,248	85,486
Operating Expenses	4	137,032	141,877
Provision for pending cases	18(d)	-	-36,385
Operating Profit before provisions		-75,786	-20,006
Provision for bad debts	5	8,593	17,084
Profit/ (Loss) before Tax		-84,379	-37,090
Corporation Tax		-	-
RETAINED PROFIT/ (LOSS) FOR THE YEAR		-84,379	-37,070
EARNINGS/ (LOSS) PER SHARE	6	-21.02	-9.24

CASH FLOW STATEMENT FOR THE YEAR 2005/2006

	30/6/2006 Kshs.'000	30/6/2005 Kshs.'000
Net Profit before Taxation and Extra-ordinary items	-84,379	-37,090
Adjustments for items not involving cash		
Depreciation	8,499	8,620
Profit on disposal of Fixed Assets		-807
Provision for long term loan interest	25,860	24,660
Provision for Bad and doubtful debts	8,593	17,084
Interest Suspended	750,209	971,315
Prior year adjustments	-18,218	924
Adjustments on Profit and Loss Accounts	-	-71,936
Audit fees	400	400
Rent accrued	-13,247	-11,002
Rent received	13,190	13,825
Other income Accrued	-5,983	-11,025
Other income received	4,897	11,541
Loan Repayments	75,517	60,474
Mortgage Repayments	13,446	16,382
Loan Disbursements	-48,821	-25,590
Interest Income added to Loans	-791,190	-947,980
Interest Income added to staff Loans	-2,146	-4,236
Interest Income added to mortgages	-24,749	-34,475
	-3,744	18,174
Operating Profit/Loss before working capital charges	-88,123	-18,916
Increased/Decrease in operating Assets:		
Stock	203	-89
Debtors	19,356	23,305
	19,559	23,216
Increased/Decrease in operating Liabilities:		
Sundry Creditors	32,761	-34,516
Cash Generated from operating activities	52,320	-11,300
Less tax paid	-	-

	52,320	-11,300
Net cash from operating activities:	-35,803	-30,216
Cashflow from Investing Activities:		
Proceeds on disposal of Fixed Assets	-	-
Purchase of Fixed Assets	427	671
Net cash From Investing Activities:	-427	-671
Cashflow from Financing Activities:		
GOK loans received	52,000	40,000
GOK principal loan repaid	-	-
Net cash from Financing activities	52,000	40,000
Net Increase/Decrease in cash and cash Equivalents	15,770	9,113
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalent at beginning of period	7,304	-3,218
Cash and cash equivalent at end of period	23,074	5,895
MOVEMENT	15,770	9,113

STATEMENT OF CHANGE IN EQUITY

	At 1 st July 2005 Kshs'000	Net Profit/ (Loss) Kshs'000	Prior Year Adjustments Kshs'000	At 30 th June 2006 Kshs'000
Share Capital	80,277			80,277
Capital Reserves	22,523			22,523
Revaluation Reserves	207,595			207,595
Retained Profits	-1,510,938	-84,379	-27,733	-1,623,050
GOK Irredeemable Loans	190,257			190,257
Profit on sale of sheds	67,337			67,337
	-942,949	-84,379	-27,733	-1,055,061

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2006

1. ACCOUNTING POLICIES

a) The Financial Statements are prepared under the historical cost convention and as per the requirements of the IAS.

b) Provisioning and Interest Suspension

The Central Bank Prudential Regulations on provision of bad and doubtful debts have been adopted. Under these regulations, Interest income for accounts in arrears over three months is suspended and specific loss is provided for all accounts over six months.

The interpretation of it is shown on note 5.

c) Fixed Assets

Leasehold land allocated by Kenya Government is stated at cost or professional valuation when such land value is capitalized. Other Fixed Assets are stated at cost with the exception of donated assets, which are stated at invoice value. The value of donated assets is credited to capital value.

d) Depreciation

Leasehold land is written off in equal annual installments over the period of the lease. Other Fixed Assets are depreciated on the reducing balance basis to write off the cost of the assets over their expected useful life.

The annual rates of depreciation applied are as follows:

Building and improvements	2.5%
Plant Machinery and Tools	2.5%
Furniture Fittings and Office Equip	10.00%
Computers	33.00%
Motor Vehicles	20.00%

e) Stock

Stock is stated at the lower of cost or net realization value.

2. INTEREST INCOME

	YEAR 2006 Kshs'000	YEAR 2005 Kshs'000
Loans	791,190	947,980
Mortgage	24,749	34,475
Staff home and car loans	2,146	4,236
Total Interest Income	818,085	986,691
Add: Prior years interest adjustments	-	71,936
	818,085	1,058,627
Less interest suspended	750,209	971,315
Total Interest Income	67,876	87,312

3. INTEREST EXPENSES

	YEAR 2006 Kshs'000	YEAR 2005 Kshs'000
GOK Loans	8,421	8,421
KFW Loans	5,576	5,575
IDA I Loans	2,871	2,872
IDA II Loans	1,099	1,100
ADF Loans	7,557	7,556
Belgium Loans	336	336
Total Interest Expenses	25,860	25,860

4. OPERATING EXPENSES

Type of expenses	Year 2006 Kshs.'000	Year 2005 Kshs.'000
Directors' fees & expenses	3,398	2,066
Audit fees	400	400
Staff Costs	90,882	89,459
Staff retrenchment	-	-
Rent & Rates	3,881	5,560
Repairs & Maintenance	920	1,123
Light, Water & Conservancy	1,895	1,142
Communications	4,297	3,871
Bank Charges	2,952	4,204
Depreciation	8,499	8,620
Insurance	1,710	2,371
Printing & Stationery	3,052	1,911
Professional & legal fees	1,258	3,886
Security expenses	2,025	1,617
Advertisement and Public Relations	1,056	1,539
Motor vehicle expense	7,889	9,832
General expenses	2,918	3,841
BAS expenses	-	435
Total Operating Expenses	137,032	141,877

5. PROVISIONS FOR BAD & DOUBTFUL DEBTS

In the year 2002/2003 the organization decided to adopt the banking regulations issued by the Central Bank on risk classification for loans and provisioning for bad and doubtful loans, using prudential guidelines ref. CBK/RG/10, NOV. 1990. These regulations have been applied consistently in subsequent years.

(a) Classification and Provisioning

<u>Category</u>	<u>Classification</u>	<u>Provisioning</u>
A	normal risk	general provision of 1% of loan balance
B	watch	general provision of 1% of loan balance
C	sub-standard	all interest not received is suspended
D & E	doubtful & Loss	provision on total amount in full, net of Interest suspended and realizable value of security.

Type of provisions	Loans	Mortgages	Staff	Fixed Deposits	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
General Provision	549	54	-	-	603
Specific provision	453,885	7,095	45,659	115,915	622,554
Total Provision	454,434	7,149	45,659	115,915	623,157
Suspended interest	5,122,472	139,825	37,259	-	6,163,467
Total	5,576,906	146,974	82,918	115,915	6,786,624

(b) Provision for Bad Debts – Year 2005 – 2006 Movement

Type of Provisions	Opening Balance 1.07.2005	Increase in the Year	Decrease in the Year	Closing Balance 30.06.2006
Specific loss to Loans	557,889	7,506	111,410	453,985
General Provisions on loans	316	232	-	548
Specific loss on Mortgages	11,195	873	4,974	7,094
General Provision on Mortgages	72	-19	-	53
Total	569,472	8,592	116,384	461,680

6. EARNINGS PER SHARE

Earnings per share are calculated on the loss attributed to shareholders of Kshs.87,379 million and the issued shares outstanding during the period.

EARNINGS PER SHARE	YEAR 2006 Kshs'000	YEAR 2005 Kshs'000
Net profit/(loss) for the year	-84,379	-37,090
No. of Shares 4,013,865 @ Kshs.20 each	80,277	80,277
Earning per share	-21.02	-9.24

7. FIXED ASSETS 2005/2006

KSHS. '000

	Leasehold Land & Buildings	Plant & Machinery	Office Equipment	Furniture & Fittings	Motor Vehicles	Motor Bikes	Computers	Totals
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As at 1/07/2005	253,825	584	31,917	6,143	17,056	-	2,752	312,277
Additions	-	-	178	10	-	-	239	427
Revaluations	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
As at 30/6/2006	253,825	584	32,095	6,153	17,056	-	2,991	312,704
DEPRECIATION As at 1/07/2005	41,913	584	22,583	2,299	14,640	-	1,279	83,298
Charge per Year	5,760	-	455	483	1,230	-	571	8,499
Eliminated on Disposal	-	-	-	-	-	-	-	-
As at 30/6/2006	47,673	584	23,038	2,782	15,870	-	1,850	91,797
Net Book Value As at 30/6/2006	206,152	-	9,057	3,371	1,186	-	1,141	220,907
As at 30/6/2005	211,912	-	9,334	3,844	2,416	-	1,473	228,979

8. STAFF LOANS

Staff loans are arrived at after netting off those loans that are likely to be collected, which relate to Former staff.

These loans are secured and bear rates of 6% with exception of the former Managing Director's house whose loan interest rate of 15% per annum is charged. Car loans are payable within two (2) to seven (7) years.

These loans have been provided for. The former managing director's house loan is provided net of the Security's realizable value.

STAFF LOANS	2006	2005
	Kshs'000	Kshs'000
Land		
House Loans	112,315	98,944
Car Loans	3,769	2,526
Total	116,084	101,470
Less Interest Suspended	37,258	21,631
Less: Provision for bad debts	45,659	45,659
Net balance	33,167	34,180

9. (a) Loans

The table below shows the net loan balance after suspension of interest for all accounts categorized as sub-standard, doubtful and loss accounts. These accounts are in arrears over six months. An addition specific provision is made for all accounts in arrears for period exceeding nine months. General provision is 1% of loan balance for accounts in arrears for three months or less.

LOANS	Year 2006 Kshs'000	Year 2005 Kshs'000
Loan balance	5,665,014	6,617,728
Specific Provision	-453,885	-557,889
Suspended interest	-5,122,472	-5,989,136
General Provision	-549	-316
Net Asset	88,108	70,387

9. (b) Investment in Consolidated Bank Limited

		2006	2005
		Kshs'000	Kshs'000
Value of shares		11,200	11,200
Share Held		Kshs'000	Kshs'000
Made up of	Proportion of Total Paid		
a) 440,000 non-cumulative preference shares of Kshs.20/= each	0.55%	8,800	8,800
b) 120,000 Ordinary Shares of Kshs.20/= each	0.60%	2,400	2,400
Total nominal value		11,200	11,200

10. (a) MORTGAGES

These are Industrial Sheds sold to entrepreneurs where 10% of the purchase price was paid as down payment and the balance is repaid over a period of 20 years.

Mortgages	Year 2006 Kshs'000	Year 2005 Kshs'000
Mortgage Balance	169,431	185,422
Specific Provision	-7,095	-11,196
Suspended interest	-139,825	-144,375
General Provision	-54	-72
Total	22,457	29,779

(b) INDUSTRIAL SHEDS

Repossessed sheds are held as fixed assets in the books at their historical value.

	2006 Kshs'000	2005 Kshs'000
Sheds	36,152	35,574
Total	36,152	35,574

11. (a) Cash and Bank

Cash and Bank	2006 Kshs'000	2005 Kshs'000
Cash book	1,567	7,304
	-	-
Balance as per Bank	1,567	7,304

(b) DEBTORS

These comprise rent, staff and sundry debtors.

Debtors	2006 Kshs'000	2005 Kshs'000
Debtors	4,064	12,948
Add Cash and bank statements	-	10,472
Balance as at 30.06.2006	4,064	23,420

12. TIME DEPOSITS

a) Pioneer Building Society	Rate	Terms	Kshs'000
Nairobi Branch	15%	Call	240
	14.5	Call	5,870
	14	Call	5,370
Total			11,480
Less Repayments			4,039
Less Repayments			340
			7,101
Less Provision			7,101
Balance as at 30.06.2006			Nil

b) Cosmopolitan building	Rate	Terms	Kshs'000
Nairobi Branch	13%	Call	2000
	13	Call	2000
	20.5	Call	12
Total			4012
			4012
			Nil

c) Thabiti Finance Co Ltd	Rate	Period	Kshs'000
Nairobi Branch	22%	Call	2,000
	20.5	Call	3,928
Total			5,928
Dividend paid capitalized 5/6/1998			-500
Dividend paid June 2000			-1,200
Dividend paid June 2003			-500
			3,728
Less Provision			-3,728
Balance as at 30.06.2006			Nil

d) Continental Credit Finance Ltd.			
Branch	Term	FDR NO	Kshs'000
Nairobi branch	14.5% Call	A.008829	5,745
	14.5% Call	A.008830	1,651
	14.5% Call	8848	2,612
	13% Call	8835	1,666
	14.5% Call	8843	2,590
	13% Call	8834	1,000
	14.75% Call	8845	2,148
	14% Call	8844	2,070
	14% Call	8837	3,109
	14.5% Call	8852	752
	14.5% Call	8849	2,000
	14.5% Call	8836	1,150
	14% Call	8846	5,000
	14.5% Call	8853	4,108
	14% Call	8839	5,716
	14.5% Call	8842	4,786
	14.5% Call	8851	3,745
	14.5% Call	8850	4,000
	14.5% Call	8839	3,877
	14% Call	8840	2,164
	14% Call	8841	2,239
	14.5% Call	8832	156
	14.5% Call	8831	339
	14.5% Call	8847	3,110
	13% Call	A.008827	472
	14.5% Call	a.008828	5,266
	14.5% Call	8833	123
Total			71,594
Repayment			-1,800
Dividend paid			-16,391
			53,403
Less Bank Overdraft			-3,422
Less Provision for bad debts			-49,981
			-

e) National Bank of Kenya Ltd Harambee Avenue			Kshs'000 21,507
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Summary	2006 Kshs'000	2005 Kshs'000
Total Fixed Deposits	89,497	67,990
Add Accrued interest	47,925	47,925
Total FTD and interest	137,422	115,915
Less Receipts	-	-
Less Bank Overdraft	-3,422	-3,422
Less Provision for Principal debt	-64,568	-64,568
Less Provision for Accrued interest	-47,925	-47,925
	21,507	-

13. SHARE CAPITAL

	2006 Kshs'000	2005 Kshs'000
Authorized share capital		
No. of shares 10,000,000@ Kshs.20.00	200,000	200,000
Issued and fully paid		
No. of shares 4,013,865 @ Kshs.20.00	80,277	80,277

14.(a) RESERVES

Type of Reserve	Year 2006 Kshs'000	Year 2005 Kshs'000
Capital Reserves	22,523	22,523
Revaluation Reserves	207,595	207,595
Retained Profit	-1,623,050	-1,510,938
GOK Irredeemable Loans	190,257	190,257
Profit on sale of sheds	67,337	67,337
Total	-1,135,338	-1,023,226

14. (b) RETAINED PROFIT

	Year 2006 Kshs'000	Year 2005 Kshs'000
Net profit/Loss	-84,379	-37,090
Retained Profit	-1,510,938	-1,464,398
Prior period Adjustment	-27,733	-9,450
	-1,623,05	-1,510,938

15. CREDITORS

This figure is made up of the following:

	Year 2006 Kshs'000	Year 2005 Kshs'000
Trade and sundry creditors	130,244	97,483
Total	130,244	97,483

16. GRANTS**a. Norwegian Government**

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	146,039	146,039

Under the terms of this grant interest earned on the deposit and part of the interest earned on disbursed funds is credited to the revolving fund. None was accrued this year.

b. E.E.C. Grant

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	1,857	1,857

Under the terms of this grant 3% of the interest earned on disbursed funds is credited to the revolving fund. None was accrued this year.

c. G.T.Z. Grant for ISL

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	17,594	17,594

Under the terms of this grant, the excess of administration expenses over income earned out of financing from grant is withdrawn from the revolving fund and credited to the Income Account and subsidy.

d. GTZ Financing Grant

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	4,385	4,385

Under the terms of this grant the amount utilized for development of prototypes for Renewable Energy is treated as subsidy and withdrawn from the grant. There were no developments of the Prototypes for Renewal Energy in the current year.

e. KFW Grant for informal Sector Loans

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	72,943	72,943

f. GTZ Co-operation Fund

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	3,705	3,705

g. GOK – IT

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	990	990

h. Summary of Grants

	Year 2006 Kshs'000	Year 2005 Kshs'000
Norwegian Government	146,039	146,039
EEC Grant	1,857	1,857
GTZ Grant for ISL	17,594	17,594
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-IT	990	990
Total	247,513	247,513

17. GOVERNMENT OF KENYA AND EXTERNAL LOANS**a) GOK Irredeemable Loans**

The amount of kshs.190,257,000/= includes the book value of Kshs.137,900,000/= of Industrial Sheds constructed as at 30th June 1985 from Government of Kenya Loans up to 30th June 1985. These loans are irredeemable subordinate to equity and bear no interest. These are included as part of the reserves. They were part of the restructuring done on that date.

b) Kenya Government Loans

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	280,688	540,688
Received during the year	52,000	40,000
Repayment	-	-
Balance 30 th June 2006	332,688	280,688

The loans carry interest of 3% per annum payable to the Treasury on 31st December and 30th June each year commencing from July 1984 and are included as part of accrued interest on long Terms Loans.

c) IDA Loans

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	47,849	47,849
Received during the year	-	-
Repayment	-	-
Balance 30 th June 2006	47,849	47,849

d) IDA II (1738-KE)

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	18,321	18,321
Received during the year	-	-
Repayment due-current liabilities	12,091	12,091
Balance 30 th June 2006	6,230	6,230

Interest on these loans is computed at 6% per annum and payable half yearly. IDA I Loan is payable through the Government of Kenya over 15 years with effect from 1st July 1985. Repayment of IDA II Loan Commenced from 15th August 1995.

e) Development Loan Co-operation KFW of West Germany

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	92,935	92,935
Received during the year	-	-
Repayment due-current liabilities	92,935	92,935
Balance 30 th June 2006	-	-

They relate to amount disbursed by KFW up to 10th June 1989 in respect of the approved and finance projects in accordance with the terms of the agreement dated 26th March 1974 between Kenya Government and KFW. Interest on this loan is computed at the rate of 6% per annum and payable through the government of Kenya over 15 years with effect from 1st July 1985.

The exchange risk in respect of borrowings in US Dollars and SDRs from IDA and Deutsche Marks from KFW is borne by the Government of Kenya.

f) African Development Bank (ADF)

	Year 2006 Kshs'000	Year 2005 Kshs'000
Opening balance 1 st July 2005	251,424	251,424
Received during the year	0	0
Repayment due-currents liabilities	133,257	116,495
Balance 30 th June 2006	118,167	134,929

This loan carries an interest rate of 3% per annum and repayable through the Government of Kenya over 15 years period with effect from 1/7/97.

g) Belgium Loan

	Year 2006 Kshs'000	Year 2005 Kshs'000
Balance	11,200	11,200
Received during the year	-	-
Repayment due-current liabilities	-	-
Balance 30 th June 2006	11,200	11,200

The loan carries an interest rate of 3% per annum payable to the Government of Kenya.

h) Summary of External and GOK loans

Institution	Loans due	Principal	Total 2006	Cumulative Interest to 30.06.2005	Principal balance as at 30.06.2005	Cumulative interest to 30.06.2005
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
IDA I Loan	47,849	-	47,849	52,289	47,849	49,418
IDA II Loan	12,091	6,230	18,321	23,883	18,321	22,784
KFW Loan	92,935	-	92,935	106,076	92,935	100,500
ADF Loan	133,257	118,167	251,424	94,945	251,424	87,388
Belgium Loan	-	11,200	11,200	4,046	11,200	3,710
Subtotal	286,132	135,597	421,729	281,239	421,729	263,800
GOK Loans	210,181	122,508	332,689	81,830	280,688	73,409
Total	496,313	258,105	754,418	363,069	702,417	337,209

i) Interest on loans comprises interest on Government of Kenya loans of Kshs.81,830,000 and other financiers Kshs.281,239,000 as at 30th June 2006.

18. CONTINGENT LIABILITIES

These comprise:

A. Bank overdraft

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

B. Corporation Tax

This exists for the Financial Years 1997 and 1998 where the company has filed a section 90 appeal against self-assessment. There is also a likelihood of tax charges against self-assessment tax due of Kshs.7,816,201.00. The matter is being pursued with Kenya Revenue Authority.

C. Receiverships

There are projects which has been placed under receivership by the company in the past, claims against the receiver managers may arise in future, it is however not possible to quantify the amount.

D. Pending legal cases

The company had in past hired a panel of lawyers to handle specific cases and not all have forwarded their bills. It is not possible to quantify the amounts at the moment; however, some of the bills will be borne by the clients depending on the outcome of the cases.

E. Mortgages

There are cases of disputed ownership of industrial sheds in certain stations, where titles were obtained fraudulently. The financial implications arising from these disputes are unknown.

F. Civil Suit No.994 of 1998

The above high court case was decided against the company to pay damages and interest since 1998. The company

has appealed against this decision in the Court of Appeal. The claim as of 30/06/2005 is approximately Kshs.20 million. The treasury released Kshs.19.6 million through the parent Ministry to cushion the company against the outcome. The same is placed as a Fixed Deposit Account with National Bank of Kenya, Harambee Avenue, at 8% interest rate. Signatories to this account include the advocates of the claimant and ourselves.

PICTORIAL



KIE Chairman and Minister for Trade and Industry



Buttons Manufacturing Plant



Gas Cylinder Manufacturing Plant



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KENYA INDUSTRIAL ESTATES LTD.



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