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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
 FINANCIAL STATEMENTS OF KENYA INDUSTRIAL ESTATES FOR THE
 YEAR ENDED 30 JUNE, 2004

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KENYA INDUSTRIAL ESTATES LIMITED

AUDITED ACCOUNTS

YEAR 2003/2004

ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2004

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KENYA INDUSTRIAL ESTATES LTD
ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2004

COMPANY INFORMATION

Principal Place of Business

KIE Building
Likoni Road
Industrial Area
P. O. Box 78029
00507 Viwandani, Nairobi

Registered Office

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

Company Secretary

Mrs. R. A. Ochanda
P. O. Box 78029
00507 Viwandani, Nairobi

Company Auditors

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

ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2004

Board of Directors

Maj. Gen. (Rtd) Barrack O. C. Onyango	- Chairman from 18 th June 2003
Mr. John G. M. Mwirichia	- Director from 15 th July 2003
Mr. Charles Mumanyi	- Director from 18 th July 2003
Dr. Reuben Indiatsi Nasibi	- Director from 15 th July 2003
Mr. Kipterer Paul Lang'at	- Director from 15 th July 2003
Mr. Henry W. Awori	- Director from 15 th July 2003
Mr. Henry M. Mwaniki	- Managing Director from 18 th June 2003
Permanent Secretary, Treasury	- Director
Permanent Secretary, Ministry of Trade and Industry	- Director

Senior Management

Mr. Henry M. Mwaniki	- Managing Director
Mr. David. K. O. Opiyo	- General Manager
Mr. Charles. O. Kamidi	- Human Resource & Administration Manager
Mr. Joseph. K. Tele	- Finance Manager
Ms. Naomi. K. Mwitiki	- Corporate Planning Manager
Mr. Chapman N. Kisiero	- Lending Manager
Mr. Joshua. O. Obiero	- Special Projects Manager
Mr. S.amuel K. Tanui	- Chief Internal Auditor
Mr. Tom. D. Odeny	- Debt Recovery Manager
Mrs. Rose A. Ochanda	- Chief Legal Officer

Branch Network

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

Head office -Nairobi

Branches -Nakuru, Kisumu, Mombasa, Eldoret, Machakos, Nyeri, Kakamega, Embu, Kabarnet, Malindi, Voi, Kericho, Kitui, Sultan Hamud, Murang'a, Thika, Bungoma, Garissa, Kisii & Meru

Report of the Directors

The Directors submit their report and the unaudited financial statements for the year ended 30th June 2004 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 and business development services.

2. Company Results.

The company results are set out on page 8

3. Dividend

The Directors do not recommend payment of dividends

4. Reserves

The reserves of the company are set out on page 19 note 14

5. Auditors

The Board retains Kenya National Audit Office as KIE Auditors

By Order of the Board

R. A. Ochanda

Secretary

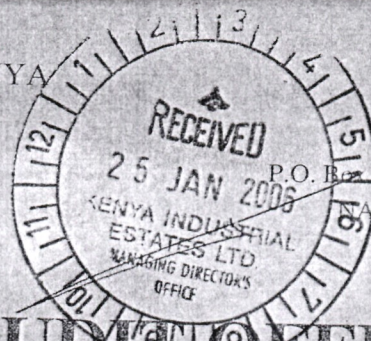
Finance and Audit Committee

With effect from 29th September 2003

John G. M. Mwirichia	- Chairman
Permanent Secretary- Finance	- Director
Permanent Secretary – Min. Trade & Industry	- Director
Inspector of State Corporations	
Maj. Gen. (Rtd) Barrack O. C. Onyango	- Chairman to the Board.
Mr. Reuben Indiatsi Nasibi	- Director
Mr. Kipterer Paul Lang'at	- Director
Mr. Henry M. Mwaniki	- Managing Director
Mr. David O. Opiyo	- General Manager - In attendance
Mr. Joseph K. Tele	- Finance Manager - In attendance
Mr. Samuel K. Tanui	- Chief Internal Auditor - In attendance
Mrs. Rose A. ochanda	- The Company Secretary - 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.



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA INDUSTRIAL ESTATES FOR THE YEAR ENDED 30 JUNE, 2004

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

Respective Responsibilities of the Directors and the Controller and Auditor General

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

Basis of Opinion

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

1. Financial Position

The company recorded an operational loss of Kshs.32,586,000 during the year which increased its cumulative losses to Kshs.1,034,710,000 as at 30 June 2004. The cumulative loss is mainly attributed to the suspension of interest due during the year which amounted to Kshs.1,111,038,000 as disclosed in note 2 to the accounts. The interest suspended has not been analyzed for audit

verification. Further, the company's liabilities amounts to KShs1,106,905,000 while total assets amounts to Kshs.400,450,000 resulting to an excess of liabilities over assets of Kshs.706,920,000. As pointed out in previous years report, the company is still unable to fulfill its mandate of providing loans and its continued operation as a going concern depends on Government support.

2. Debtors

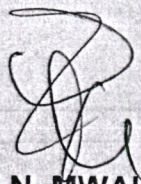
As disclosed in Note 11(b) to the accounts, debtors balance of KShs.46,725,000 includes an amount of KShs.31,517,000 described as cash and bank adjustments. This amount is not a debt, but is a difference between the cash balance in the general ledger and the cash balance in the bank which has not been reconciled or explained. Under the circumstances, it is not possible to confirm the validity of an adjustment of Kshs.31,517,000 in the absence of adequate supporting records and documentation.

3. Bank Reconciliations

Included in the Balance Sheet Cash and Bank balance of negative Kshs. (3,218.00) is an adjustment of KShs.31,517,000 which as indicated above has been transferred to debtors without supporting documentation. The Company did not prepare bank reconciliations for the year which are in arrears. It was therefore not possible to ascertain whether all bank transactions and bank balances during the year under audit are fairly stated.

Opinion

In my opinion, except for the matters referred to in the preceding paragraphs, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2004 and of its loss and cash flows for the year then ended and comply with the Companies Act (Cap 486 of the laws of Kenya).



E.N. MWAI
CONTROLLER AND AUDITOR GENERAL

Nairobi

02 December 2005

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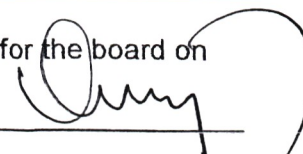

KENYA INDUSTRIAL ESTATES LIMITED

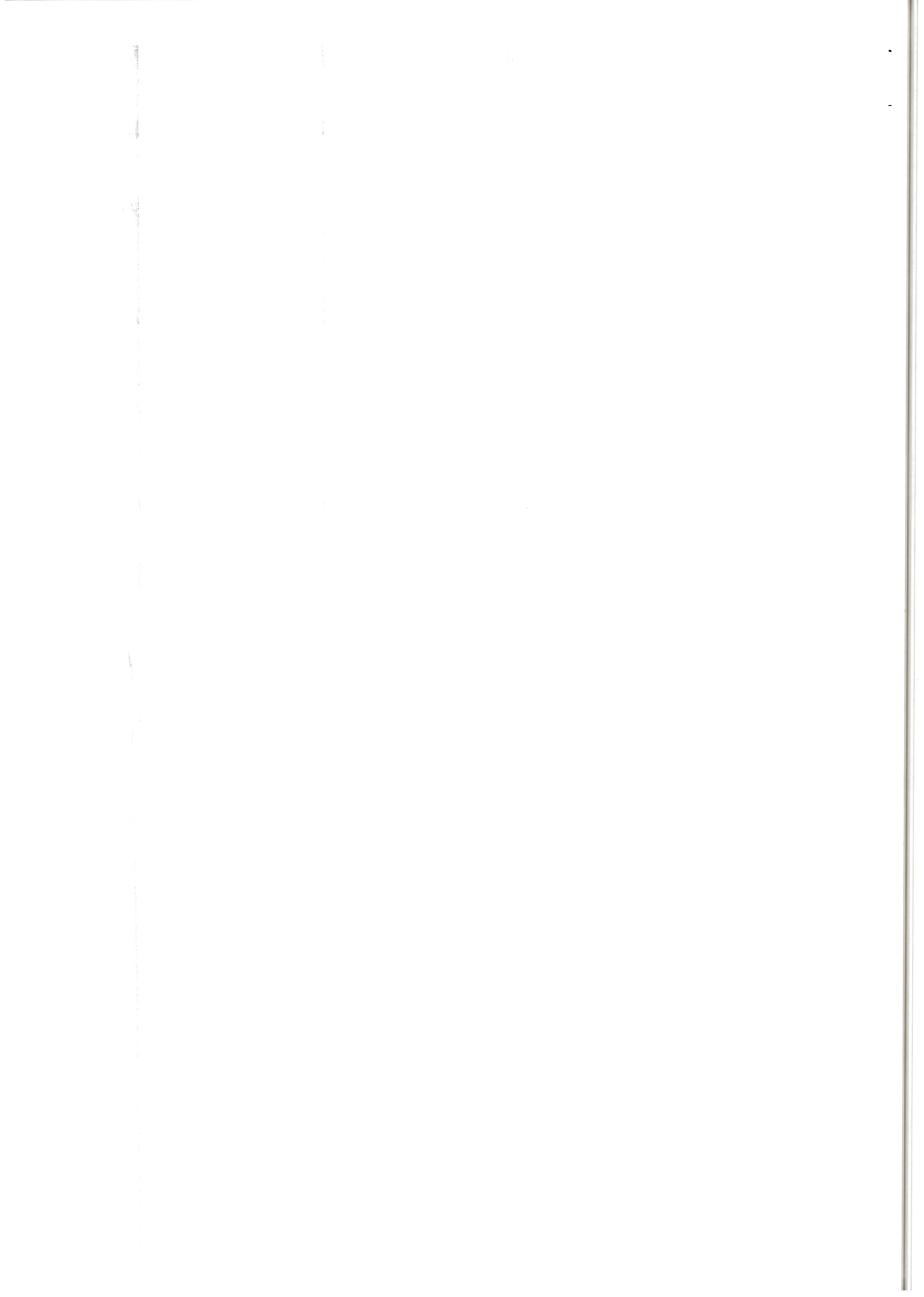
BALANCE SHEET FOR THE YEAR ENDED 30TH JUNE 2004

ASSETS	Notes	Year 2004	Year 2003
		Kshs'000	Kshs'000
Cash and Bank Balance	11(a)	-3,218	19,084
Debtors	11(b)	46,725	115,227
Stock		762	1,188
Staff Loans	8	32,341	32,866
Mortgages	10 (a)	43,933	62,783
Industrial Sheds- Repossessed	10 (b)	19,576	-
Loans	9(a)	65,220	57,665
Other Investments	9(b)	11,200	11,200
Property and Equipment	7	183,506	187,721
Total Assets		400,045	487,734
LIABILITIES			
Interest on Long Term Loans	17(l)	312,549	288,695
Tax Payable		-	-
Creditors	15	131,999	239,916
Kenya Government Loans	17	240,688	223,535
External Loans	17	421,729	421,729
Total Liabilities		1,106,965	1,173,875
Capital Resources			
Share capital	13	80,277	80,277
Reserves	14	-1,034,710	-1,012,941
Shareholders Funds		-954,433	-932,664
Grants	16	247,513	246,523
Total Liabilities, Grants and Shareholders Funds		400,045	487,734

The Financial statements for the year 2003/2004 were signed for the board on
16/01/06 by
Maj. Gen. (Rtd) Barrack O. C. Onyango (Chairman)

Mr. Henry M. Mwaniki (Managing Director)



KENYA INDUSTRIAL ESTATES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 30TH JUNE 2004

	<u>Notes</u>	<u>Year 2004</u> <u>Kshs'000</u>	<u>Year 2003</u> <u>Kshs'000</u>
INTEREST INCOME	2	141,491	-979,835
INTEREST EXPENSES	3	24,396	23,610
NET INTEREST INCOME		117,095	-1,003,445
Rent Income		9,667	8,206
Profit on asset disposal		19,876	-22
Other income		17,670	4,134
OPERATING INCOME		164,308	-991,127
Operating Expenses	4	147,466	136,093
Provision for pending cases	18(d)	5,385	28,000
Operating Profit before provisions		11,457	-1,155,220
Provisions for bad debts	5	44,043	792,726
Profit/(Loss) before Tax		-32,586	-1,947,946
Corporation Tax		-	-
RETAINED PROFIT/(LOSS) FOR THE YEAR		-32,586	-1,947,946
EARNINGS/(LOSS) PER SHARE	6	-8.12	-485.29

KENYA INDUSTRIAL ESTATES LIMITED
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30/6/2004

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 reserve.

d) Depreciation

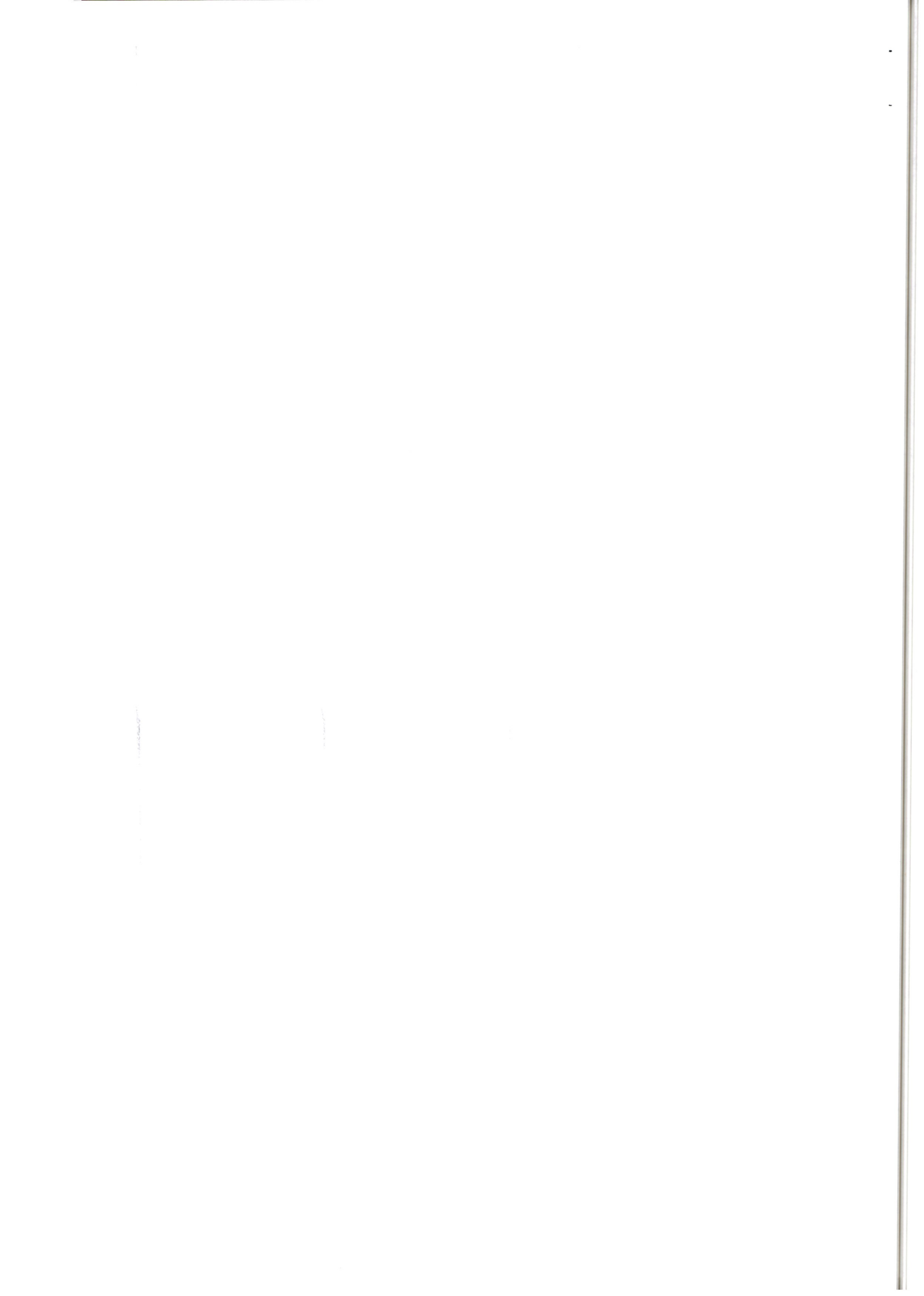
Leasehold land is written off in equal annual installments over the period of the lease. Other Fixed Assets are depreciated on the reducing balance basis to write off the cost of the assets over their expected useful life.

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.

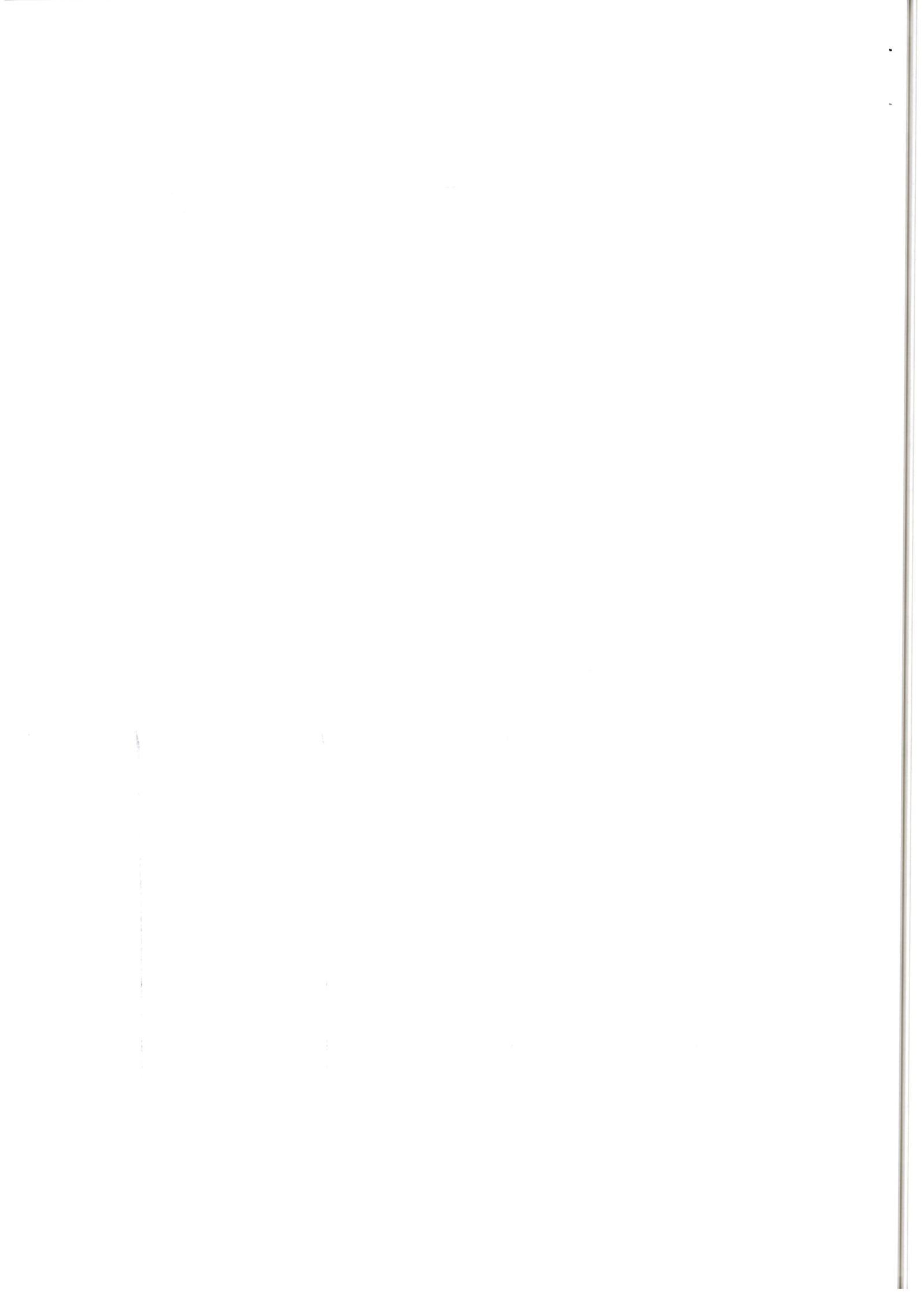


2. INTEREST INCOME

	<u>YEAR 2004</u>	<u>YEAR 2003</u>
	<u>Kshs'000</u>	<u>Kshs'000</u>
Loans	1,069,281	273,270
Mortgage	71,893	30,570
Staff home and car loans	822	16139
Current Account	-	24
Fixed deposits	-	467
Total Interest Income	1,142,001	320,470
Add: Prior years interest adjustments	110,528	4,358,162
	1,252,529	4,678,632
Less interest suspended	1,111,038	5,658,467
	141,491	-979,835

3. INTEREST EXPENSES

	<u>YEAR 2004</u>	<u>YEAR 2003</u>
	<u>Kshs'000</u>	<u>Kshs'000</u>
GOK Loans	6,966	6,185
KFW Loans	5,578	5,576
IDA 1	2,869	2,871
IDA II	1,102	1,099
ADF Loan	7,545	7,543
Belgium	336	336
Total Interest Expenses	24,396	23,610



4. OPERATING EXPENSES

	Year 2004 Kshs'000	Year 2003 Kshs'000
Directors fees & expenses	3,200	798
Audit fees	400	400
Staff Costs	84,757	82,869
Staff retrenchment	3,364	1,376
Rent & Rates	5,946	1,879
Repairs & Maintenance	1,739	1,297
Light, Water & Conservancy	1,127	1,111
Communications	3,393	4,248
Bank charges	3,463	4,267
Depreciation	6,568	6,455
Insurance	3,245	4,094
Printing & Stationary	3,013	1,506
Professional & legal fees	3,487	9,511
Security expenses	2,077	1,848
Advertisement and Public Relations	3,067	1,572
Motor vehicle expense	15,034	10,769
General expenses	3,317	2,093
BAS expenses	266	-
Total	147,466	136,093

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 in the current year.

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	doubtful	provision on total amount in full, net of interest suspended and realizable value of security
E	loss	Provision on total amount in full, net of interest suspended and realizable value of security

Type of provision	Loans	Mortgages	Staff	Fixed Deposits	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
General Provision	250	41	-		291
Specific Provision	643,513	33,974	45,659	116,167	839,313
Total Provision	643,763	34,015	45,659	116,167	839,604
Suspended interest	6,414,374	355,131	12143	-	6,781,648
Total	7,058,137	389,146	57,802	116,167	7,621,252

EARNINGS PER SHARE

Earnings per share are calculated on the loss attributed to shareholders of Kshs. **32.586** million and the issued shares outstanding during the period.

Earnings per share

	<u>YEAR 2004</u>	<u>YEAR 2003</u>
	<u>Kshs'000</u>	<u>Kshs'000</u>
Net profit/(loss) for they year	(32,586)	(1,947,946)
No. of shares 4,014 @ 20/=	80,277	80,277
Earning per share	(8.12)	(485.29)

7. FIXED ASSETS 2003/2004

Kshs'000

	Leasehold Land & Buildings	Plant & Machinery	Office Equipment	Furniture & Fitting	Motor Vehicles	Motor Bikes	Computers	Totals
	Kshs	Kshs	Kshs.	Kshs	Kshs.	Kshs.	Kshs.	Kshs.
As at 1/07/2003	203,195	583	28,451	9,916	18,820	2,505	3,161	266,632
Additions	55		256	95	-	-	2,169	2,575
Disposals	220		-	-	-	-	-	220
As at 30/6/2004	203,030	583	28,707	10,011	18,820	2,505	5,330	268,987
DEPRECIATION								
As at 1/07/2003	33,600	583	17,704	8,261	14,533	2,265	1,967	78,911
Charge for Year	3,386		1,365	219	858	48	694	6,569
As at 30/6/2004	36,986	583	19,069	8,480	15,391	2,313	2,661	85,480
Net Book Value								
As at 30/6/2004	166,044		9,638	1,531	3,429	192	2,669	183,507
As at 30/6/2003	169,595		10,747	1,655	4,287	240	1,194	187,721

8. STAFF LOANS

Staff loans are arrived at after netting off those loans that are unlikely to be collected, which relate to former staff. Former MD's house is shown after adjusting for the value of the security given.

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. House loans are repayable within 10 and 20 years and car loans within two (2) and Seven (7) years.

STAFF LOANS

	<u>2004</u>	<u>2003</u>
	<u>Kshs'000</u>	<u>Kshs'000</u>
House Loans	86,957	75,615
Car Loans	3,186	2,910
Total	90,143	78,525
Less Interest Suspended	12,143	-
Less: Provision for bad debts	45,659	45,659
Net balance	<u>32,341</u>	<u>32,866</u>

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 additional 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.

	Year 2004	Year 2003
	Kshs'000	Kshs'000
Loan balance	7,123,357	6,182,373
Specific Provision	-643,513	-655,971
Suspended interest	-6,414,374	-5,468,564
General provision	-250	-173
Net Asset	65,220	57,665

9. (b) Investment in Consolidated Bank Limited

			2004	2003
			Kshs.'000	Kshs'000
Value of Shares			11,200	11,200
Made up of	Shares Held	Proportion of Total Paid	Kshs'000	Kshs'000
	a) 440,000 non-cumulative preference shares of Kshs 20/= each	0.44 %	8,800	8,800
	b) 120,000 Ordinary Shares of Kshs. 20/= each	0.12%	2,400	2,400
	Total nominal value		11,200	11,200

10. (a) MORTGAGE

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 2004	Year 2003
	Kshs'000	Kshs'000
Mortgage loan	433,079	278,199
Specific Provision	-33,974	-25,455
Suspended interest	-355,131	-189,902
General provision	-41	-59
Net Asset	43,933	62,783

10.(b) INDUSTRIAL SHEDS

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

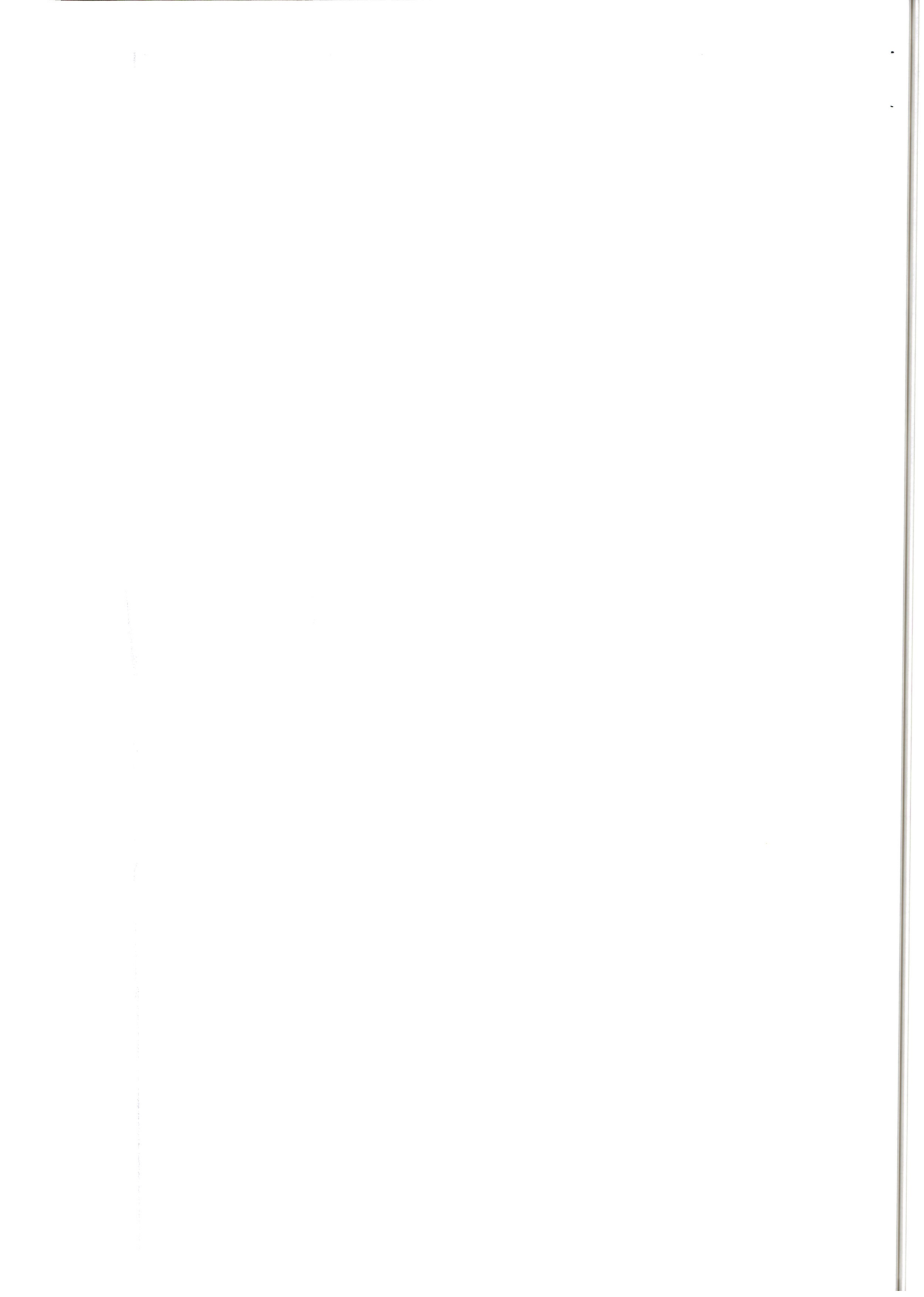
11. (a) Cash and Bank

Cash and Bank	2004	2003
	Kshs'000	Kshs'000
Balance	-3,218	19,084
Balance as per Bank	-3,218	19,084

(b) DEBTORS

	2004	2003
	Kshs'000	Kshs'000
Sundry Debtors	46,725	136,525
Less: Provision	-	48,918
Balance as at 30.06.2004	46,725	87,607

These comprise Rent, Staff, Deposits and Sundry debtors.



2 TIME DEPOSITS

	Rate	Period	<u>Kshs'000</u>
a) Pioneer Building Society			
Nairobi Branch	15%	Call	240
	14.5	Call	5,870
	14	Call	<u>5,370</u>
Total			11,480
Less Repayments			4,039
Less Repayments			<u>340</u>
			7,101
Less Provision			<u>7,101</u>
			<u>-</u>

			<u>Kshs'000</u>
b) Cosmopolitan Buiding Society			
Nairobi Branch	13%	Call	2000
	13	Call	2000
	20.5	Call	<u>12</u>
Total			4012
Less Provision			<u>4012</u>
			<u>-</u>

			<u>Kshs'000</u>
c) Thabiti Finance Co Ltd			
Nairobi Branch	22%	Call	2,000
	20.5	Call	<u>3,928</u>
Total			5,928
Dividend paid capitalized 5/6/1998			-500
Dividend paid June 2000			-1,200
Dividend paid June 2003			<u>-500</u>
			3,728
Less Provision			<u>-3,728</u>
			<u>-</u>

d) Continental Credit Finance Ltd.

	Rate	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
				-

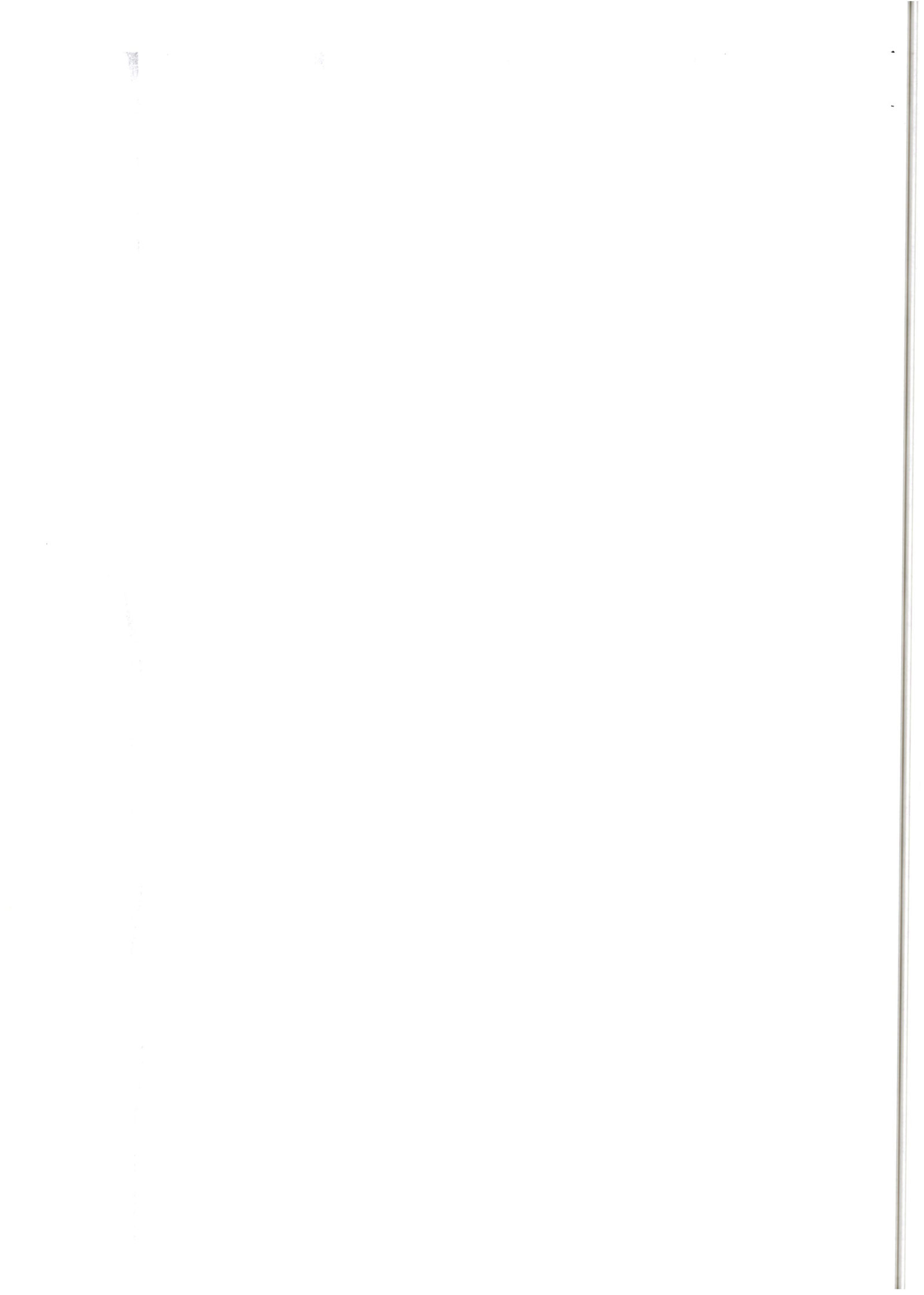
Summary

	<u>2004</u>	<u>2003</u>
	Kshs'000	Kshs'000
Total Fixed Deposits	68,831	68,831
Add Accrued interest	47,925	-
Total FTD and interest	116,756	68,831
Less Receipts	-841	-
Less Bank Overdraft	-3,422	-3,422
Less Provision for Principal debt	-64,568	-65,409
Less Provision for Accrued interest	-47,925	-
	<u>-</u>	<u>-</u>

- b) Bank overdraft of Kshs. 3,421,918.20 is from Continental Bank Ltd, which is under receivership. A set off against the fixed deposits is expected. Provision on FDR with Continental Credit Finance Company Ltd has been made. There is a commitment from the Management of the Continental Credit Company that they will be responsible for the interest on the overdraft over and above the interest they were offering on the deposit. The two were related companies.

13. SHARE CAPITAL

	<u>2004</u>	<u>2003</u>
	Kshs.'000	Kshs.'000
Authorized share capital		
No of shares 10,000 @	200,000	200,000
Kshs.20.00		
Issued and fully paid		
No. of shares 4,014 @	80,277	80,277
Kshs.20.00		



16. GRANTS

a. Norwegian Government

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	146,040	146,040

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

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	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

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	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

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	4,385	4,385

Under the terms of this grant the amount utilized for development of prototypes for Renewal 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

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	72,943	72,943

f. GTZ Co-operation Fund

	2004	2003
	Kshs.'000	Kshs.'000
Opening balance 1 st July 2003	3,705	3,705

g. GOK -IT

	2004	2003
	Kshs.'000	Kshs.'000
Opening balance 1 st July 2003	990	-

h. Summary of Grants

	2004	2003
	Kshs.'000	Kshs.'000
Norwegian Government	146,040	146,040
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	-
Total	247,513	246,523

17. EXTERNAL LOANS

a) GOK Irredeemable Loans

The amount of Kshs. 190,257,000/= includes the book value of Kshs. 137,900,000/= Industrial Sheds constructed as at 30th June, 1985 from Government of Kenya Loans to 30th June 1985. These loans are irredeemable subordinate to equity and bear interest. These are included as part of reserves. They were part of the restructuring done on that date.

b) Kenya Government Loans

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003		
Received during the year	223,535	206,151
Repayment	18,400	18,400
Balance 30 th June 2004	1,247	1,016
	240,688	223,535

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

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003		
Received during the year	47,849	47,849
Repayment	-	-
Balance 30 th June 2004	-	-
	47,849	47,849

d) IDA II (1738-KE)

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003		
Received during the year	18,321	18,321
Repayment due- current liabilities	0	0
Balance 30 th June 2004	10,870	9,649
	7,451	8,672

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 or West Germany)

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	92,935	92,935
Received during the year	0	0
Repayment due- current liabilities	92,935	92,935
Balance 30 th June 2004	<u>0</u>	<u>0</u>

They relates 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 half yearly. This loan was repayable 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)

	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	251,424	251,424
Received during the year	0	0
Repayment due- current liabilities	134,929	99,733
Balance 30 th June 2003	<u>116,495</u>	<u>157,691</u>

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

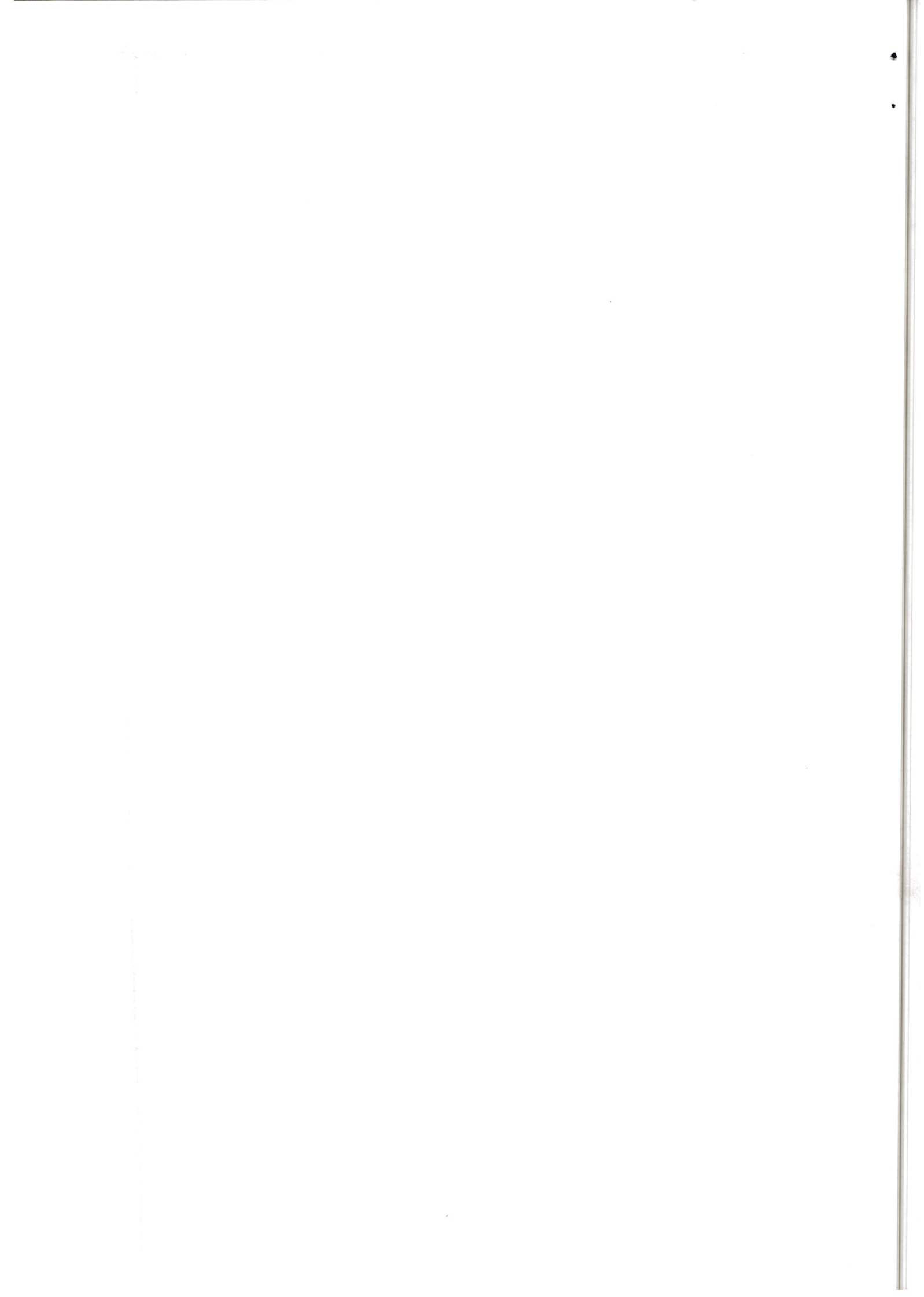
	2004 Kshs.'000	2003 Kshs.'000
Opening balance 1 st July 2003	11,200	11,200
Received during the year	0	0
Repayment due- current liabilities	0	0
Balance 30 th June 2003	<u>11,200</u>	<u>11,200</u>

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

i. Summary of External and GOK loans

Institution	Loans due Kshs'000	Principal Kshs'000	Total 2004 Kshs'000	Cumulative Interest to 30.06.2004 Kshs'000	Principal balance as at 30.06.2003 Kshs'000	Cumulative Interest to 30.06.2003 Kshs'000
IDA 1 Loan	47,849	-	47,849	46,548	47,849	43,678
IDA 11 Loan	10,870	7,451	18,321	21,685	18,321	20,583
KFW Loan	92,935	-	92,935	94,924	92,935	89,346
ADF loan	116,495	134,929	251,424	79,830	251,424	72,284
Belgium Loan	-	11,200	11,200	3,374	11,200	3,038
GoK Loans	139,515	101,174	240,689	66,188	223,535	59,766
Total	407,664	254,754	662,418	312,549	645,264	288,695

I. Interest on external loans comprises interest on Government of Kenya loans of Kshs.66,188,422.69 and other financiers Kshs.240,688,242.35 as at 30th June 2004.



B. CONTINGENT LIABILITIES AND PROVISIONS

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, we had been assured in writing at the time of receiving the overdraft that any interest accrued in excess of the interest we were receiving on our deposit would be borne by the Continental Credit Finance, with whom we had placed the deposit. Both were related 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.

C. Receiverships

There are projects under receiverships whose outcome appear doubtful, claims against the receiver managers may arise in future, it is however not possible to quantify the amount.

D. Pending legal cases.

There are pending legal cases whose outcome is unknown. Some of the advocates have not forwarded their bills but some of the legal costs will be borne by the clients through debiting their accounts, an amount of kshs.36,385,000. has been provided for cases lodged against us, however there is a likelihood some of them being decided against the company.

E. Mortgages

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