

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The Honourable Minister for Finance
Ministry of Finance
The Treasury
NAIROBI

Dear Honourable Minister

I have the honour to submit the Annual Report of Capital Markets Authority for the fiscal year ended June 30, 2005. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Respectfully yours



Edward H Ntalami
CHIEF EXECUTIVE

VISION

To be a trusted and professional regulator and promoter of deep and vibrant capital markets in Kenya.

MISSION

To facilitate the development of orderly, fair, and efficient capital markets in Kenya through effective regulation that encourages innovation and safeguards market integrity.

Core Values

- Integrity
- Transparency
- Accountability
- Responsiveness
- Teamwork
- Innovativeness
- Efficiency
- Fairness

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AUTHORITY DETAILS AND KEY ADVISORS

The present members of the Authority are:

Prof. B Chege Waruingi	-	Chairman
Malachi Oddenyo		
Lucy Njiru		
Michael Cherwon		
Selest Kilinda		
Simeon Ndirangu		
Jimmy Kitonga		
Joseph Kinyua	-	Permanent Secretary to the Treasury
Maurice Kanga	-	Alternate to the Permanent Secretary to the Treasury
Andrew Mullei	-	Governor, Central Bank of Kenya
Jackson Kitili	-	Alternate to the Governor, Central Bank of Kenya
Hon Amos Wako	-	Attorney General
Roselyn Amadi	-	Alternate to the Attorney General
Edward H Ntalami	-	Chief Executive

CHIEF EXECUTIVE

Edward H Ntalami
P O Box 74800
Nairobi

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BANKERS

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Nairobi

Savings and Loans Kenya Limited
Mama Ngina Street
P O Box 49129, 00100 GPO
Nairobi

AUDITORS

Deloitte & Touche
"Kirungii", Ring Road, Westlands
P O Box 40092, 00100 GPO
Nairobi

ADVOCATES

Archer & Wilcock Advocates
Marakwet Close, Kilimani
P.O Box 10201-00400
Nairobi

Oraro & Company
First Ngong Avenue
P.O Box 51326- 00200
Nairobi

MEMBERS OF THE AUTHORITY



Prof Chege Waruingi



Edward H Ntalami



Lucy G Njiru



Malachi Oddenyo



Michael Cherwon



Selest Kilinda



Wanjohi Ndirangu



Andrew Mullei
*Governor,
Central Bank of Kenya*



Hon. Amos Wako
Attorney General



Joseph K Kinyua
PS Treasury



Jimmy M Kitonga



Jackson Kitili
Alt. to Governor



Roselyn Amadi
Alt. to Attorney General



Maurice Kanga
Alt. to PS Treasury

SENIOR MANAGEMENT



Edward H Ntalami
Chief Executive



Christine Mweti
*Manager Legal Affairs/
Authority Secretary*



Sammy Mulang'a
*Manager Research and
Market Development*



Stella Kilonzo
*Manager Compliance
and Market Operations*



Joachim Githinji
Manager Finance



Michael Mechumo
*Manager, Human Resource
and Administration*



Angela Kariuki
*Assistant Manager
Legal Affairs*



Edwin Kipsitet
*Assistant Manager
Research & Policy Analysis*



Samuel Njoroge
*Assistant Manager
Market Development*



Wycliffe Shamia
*Assistant Manager
Compliance*



Esther Maiyo
*Assistant Manager
Finance*

CHAIRMAN'S STATEMENT



Prof. Chege Waruingi
Chairman

I am pleased to present the Authority's Annual Report for the year ended June 30, 2005.

ECONOMIC OVERVIEW

Over the past two years, Kenya's economy has undergone a dramatic transformation and is well positioned for strong and sustainable growth. The economic and structural reforms implemented by the NARC Government have seen the real GDP recording an impressive 4.3% in 2004 compared with 2.8% in 2003 and 0.4% in 2002. The robust performance was driven mainly by steady growth in key sectors including tourism (15.1%), transport and communication (9.7%), trade (9.5%), manufacturing (4.1%) and construction (3.5%). This is a remarkable achievement against a background of unfavourable weather conditions and high oil prices that negatively impacted sectors such as the agricultural sector which recorded a rate of only 1.4%, down from 2.6% in 2003.

The period January to June in 2004 was characterized by low interest rate regime, with the 91-day Treasury bill rate ranging between 1.6% and 2.01%, this occasioned a significant expansion in private sector credit that partly contributed to economic growth. However, the interest rates increased from a low of 1.71% in July to a high of 8.04% in December 2004, before stabilising over the next six months of 2005 at between 8.25% in January and 8.50% in June. The low and stable interest rate regime is key to both achieving and sustaining meaningful economic growth.

The improved macroeconomic environment is a fundamental pre-requisite in the development of the

capital markets. Looking ahead, economic recovery is expected to remain on track and GDP growth in 2005 is forecast to accelerate to 5%. Regional cooperation initiatives such as the conclusion of the East African Community Common External Tariff (CET), the signing of the peace agreement in southern Sudan and the election of a new government in Somalia are expected to further enhance business growth in the region.

ROLE OF CAPITAL MARKETS IN THE ECONOMY

The development of a vibrant capital market remains a fundamental component of the country's socio-economic development goals. The key role of the capital markets is to provide long-term resources for productive investment to accelerate growth and alleviate poverty.

The capital markets enhance mobilization of substantial capital resources over a long time horizon, with emphasis on capital formation over consumerism. If their full potential is realized, the capital markets would be a source of equity capital for infrastructure development such as roads, water and sewer systems, housing, energy, telecommunications and public transport. Such infrastructure development creates great socio-economic benefit thereby assisting the Government in its efforts to close the resource gap and in financing essential socio-economic development.

The capital markets also serve as an important gateway to Kenya for global investors and foreign direct investments (FDI).

Further, the capital markets provide avenues for investment opportunities thereby encouraging a thrift culture and increasing domestic savings and investment ratios essential for rapid industrialization. They encourage broader ownership of productive assets by small savers to enable them benefit from Kenya's economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction.

CO-OPERATION

Bearing the primary responsibility for the development of the market, the Authority is cognizant on the expectations on it by Kenyans and is doing all within its power to rise to the challenge. We are also very much awake to the fact that we cannot achieve the full potential of the market alone. Consequently, we remain committed to working closely with all stakeholders.

CHAIRMAN'S STATEMENT (Cont'd)

More so, in the wake of increased globalization of markets and the concomitant challenges associated with cross-border activity, we are equally committed to improving co-operation both at the regional and global level to ensure effective regulation. At the international level, the Authority remains an active member of International Organization of Securities Commissions (IOSCO), whilst on the regional front we remain focused and committed to pursuing initiatives geared towards the integration of the capital markets in the East African region through the East Africa Securities and Regulatory Association (EASRA).

INTERNATIONAL PERSPECTIVE

A lot needs to be done by the industry players to develop the Kenyan capital markets. A simple comparison of the Kenyan markets to the markets of other jurisdictions will reveal that the development of the Kenyan capital markets lags behind that of other emerging markets.

For instance, the market capitalization for the Kenyan market stood at US\$5.6 billion as at the end of June 2005. The market capitalization for the South African market stood at US\$152.85 billion, the Egyptian market at US\$25.62 and the Nigerian market at US\$15.91 billion.

This disparity can be reduced by more companies taking advantage of the opportunities presented by the capital markets by foremost, listing at the stock exchange. For purpose of comparison, there are 750 listed companies in Egypt, 414 in South Africa, 278 in Nigeria, while the Kenyan market has only 50 listed companies.

I continue to encourage Kenyan entrepreneurs to take advantage of the opportunities presented by the capital markets.

STRATEGIC DIRECTION

During the year, significant effort was expended in providing a new strategic direction for the Authority and strengthening its operational efficiency. Particular emphasis was placed on human resource capacity and organization structures. This internal focus to strengthen our institutional capacity is imperative for the Authority to achieve its objectives over the next period. As the Authority is a knowledge driven institution, we will build on our institutional capacity to ensure that our human resource, which is our key resource, is sufficiently enhanced and exploited to its full potential.

Following a review of the Authority's corporate strategy during the year, a strategic plan for the period 2005 – 2010 was developed. As a result, a number of strategic objectives were identified as critical to move the capital markets to the next level of development. These objectives form the pillar of our capital markets to contribute meaningfully not only to economic growth but also to sustain the ongoing economic recovery momentum.

- i) Facilitating the development of capital market products and services;
- ii) Establishing a robust, facilitative legal and regulatory framework that conforms to international best practice;
- iii) Strengthening the institutional capacity of the Authority;
- iv) Enhancing capital market infrastructure and institutional arrangement;
- v) Strengthening professional and operational capacity of capital market institutions and intermediaries;
- vi) Promoting sound corporate governance to enhance market integrity;
- vii) Enhancing the policy environment; and
- viii) Promoting investor education and public awareness

The Authority continues to pay particular attention to its governance to raise its governance standards to international best practice.

It is the Chinese who say that a journey of a thousand miles begins with a single step. We have begun a long journey whose ultimate destination is a vibrant capital market in Kenya. With faith in ourselves and sustained effort, we will get to our destination sooner than we think. I thank all stakeholders for their cooperation, my fellow members for their passion and commitment and particularly the staff for their extraordinary efforts. I look forward to another challenging and productive year.



Professor Chege Waruungi
CHAIRMAN

CHIEF EXECUTIVE'S REPORT



Edward H Ntalami
Chief Executive

EVENTS & HIGHLIGHTS

This was a busy and exciting year for the capital markets in Kenya. In the primary market, the year saw three bonus issues, three corporate bond issues and eighteen Treasury bond issues. There was increased turnover in the secondary equity market. The turnover for the year ended 30th June 2005 stood at Kshs 22.03 billion compared to Kshs 20.35 billion for a similar period in the previous financial year, an increase of 8%. There was an overall rise in the price of most shares, with markets capitalization closing at Kshs 421 billion at the end of June 2005, compared to Kshs 274 billion as at the end of June 2004, an increase of 53%. However, there was a decline in the secondary bond market with a Kshs 14.03 billion turnover compared to Kshs 48.13 billion in the previous year. This may be attributed to the low interest rates prevailing in the market.

Investor education and awareness remains a key priority for the Authority. Programmes have been developed that are tailored to both increasing supply and demand for securities. As part of this initiative, the Authority launched its quarterly publication CMA Forum in March 2005. Through this publication, stakeholders continue to share their views on a number of reforms to be considered

for implementation to boost the securities market. The Authority remains committed to working together with other stakeholders to develop the capital markets and to improve the lives of Kenyans.

COMPLIANCE AND ENFORCEMENT

The Authority's compliance and enforcement programme is aimed at reducing systemic risk and protecting investors by ensuring that the market is fair, efficient and transparent.

During the year 2004/2005, the Authority, through its market oversight mechanism for monitoring compliance with specific requirements by both licenced market intermediaries and listed companies, ensured that they operated within the legal framework governing their operations.

1. Market Surveillance

The Authority undertakes market surveillance as a continuous oversight monitoring exercise aimed at ensuring safety and integrity of the market. Market surveillance enhances the level of intelligence information on market operations, which acts as an early warning system.

Automation of trading and settlement will further strengthen the Authority's risk management mechanism.

2. Investigations

Summary of investigated cases

Nature of the case	To June 30 2005		To June 30 2004	
	Number Received	Number Resolved	Number Received	Number Resolved
1 Financial impropriety	1	1	3	2
2 Complaints on secondary market trading	65	49	33	28
3 Complaints on mismanagement of listed companies	1	1	1	1
4 Market operators without a license	-	-	2	2
5 Violation of Regulations	2	1	1	1
6 Fraudulent activities	3	2	5	5
Total	72	54	45	39

CHIEF EXECUTIVE'S REPORT (Cont'd)

The 12 months to June 2005 experienced high turnover levels in the stock market, putting a lot of pressure on market intermediaries. This scenario was further compounded by the fact that only a small portion of the listed securities had been immobilized. Similarly, there were complaints from investors reported to the Authority, prompting investigations.

3. Inspections

Market confidence goes with market perception of the existence of fairness, integrity and transparency of transactions, a sound and credible clearing and settlement system, qualified market intermediaries and strict law enforcement.

To ensure that there is strong institutional framework geared towards reducing risk exposure in the market, the Authority carried out ninety two (92) inspections involving fifty (50) licensees, which inspections were conducted in line with the requirements of the Capital markets (Licensing Requirements)(General) Regulations, 2002, together with the provisions of the Capital Markets Act. Regulatory concerns arising from this exercise included failure to meet working capital requirements, capital adequacy tests, failure to timely submit financial statements and submission of incomplete records. The licensees subsequently addressed these anomalies in response to regulatory oversight by the CMA.

The Authority revoked the licence of Professional Investment Consultants Limited following violation of the licensing regulations.

In addition, two listed companies were inspected following various complaints from shareholders regarding the companies' operations. The issues raised have since been addressed.

4. Listed Companies

It is encouraging to note that reporting standards of most listed companies have improved significantly.

A good number of companies have adopted quarterly reporting. On secondary market activities, sensitive price information was released to the public promptly.

Corporate Governance

Good corporate governance remains crucial to sustainable economic development and wealth creation and is an important pillar underpinning efficient capital markets. Good corporate governance is fundamental to the way we run corporations and essential to the continued success of capital markets. It is therefore a matter of great interest to regulators particularly of emerging markets.

- a) Compliance by listed companies with key good governance practices as at June 30 2005.

	Corporate governance guideline	Listed companies in compliance	Number of Listed companies
1	Establishment of board committees	50	52
2	Sufficient board composition	44	52
3	Disclosure of a statement on directors' remuneration in annual report	26	52
4	Ownership details of the top ten shareholders in annual report	45	52
5	Timely release and submission of 2004 audited accounts	49	52
6	Timely submission of interim reports 2004/2005	50	52
7	Chief finance officers being in good standing with ICPA (K)	39	52
8	Company secretary being in good standing with ICPS (K)	52	52

Note. 52 companies are listed on the equities and fixed income securities markets.
 ICPA (K) – Institute of Certified Public Accountants (Kenya)
 ICPS (K) – Institute of Certified Public Secretaries (Kenya)

- b) Besides having a balanced Board and appropriate composition, overburdened directors and chairmen of listed companies can impact negatively on performance. The table below shows representation of individual directors/ chairmen on the Boards of listed companies;

CHIEF EXECUTIVE'S REPORT (Cont'd)

Aggregate chairmanship in listed companies' boards by December 31 2004

	Aggregate chairmanship		
	in one company	in two companies	in three companies
Chairmen	47	5	Nil

Aggregate directorship in listed companies' boards by December 31 2004

	Aggregate directorship				
	in one company	in two company	in three company	in four company	in five company
Chairmen	235	21	14	2	1

The Authority continues to actively encourage directors to serve in not more than three (3) listed companies to ensure that they are able to devote sufficient time and resources to those companies.

Promotion of excellence in Financial Reporting

The Authority, jointly with ICPAK and the Nairobi Stock Exchange, co-sponsors the Financial Reporting Excellence (FiRE) awards aimed at recognizing and encouraging both private and public companies to prepare financial statements in full compliance with International Financial Reporting Standards, the Companies Act, good corporate governance practices and social responsibility accounting. Through effective reporting and disclosures, the Authority seeks to encourage good governance practices in private companies as a step towards preparing them to go public.

LICENCES AND APPROVALS

Licences

The Authority reviewed 65 licences for eleven (11) Investment Banks; ten (10) Stockbrokers; fourteen (14) Fund Managers; fourteen (14) Investment Advisers and six (6) Authorized Depositories.

Francis Drummond and Company Limited and First Africa East Africa Limited upgraded their licenses from stockbroker and investment adviser respectively, to investment banks. Cooperative bank of Kenya was licensed as an authorized depository.

Suspended licensees

During the year, the Authority reviewed the suspension of Sterling Securities Limited and reinstated its licence. It is now operating. Similarly, the suspension of Town and Country Securities Limited was lifted and it is now in the process of complying with the licensing requirements. The licences of Bob Matthews Stockbrokers Limited and Shah Munge and Partners remained suspended during the year.

Collective Investment Schemes

Collective investment schemes (CIS) are now emerging as critical vehicles for mobilizing pools of funds to be invested in financial markets. As they provide an opportunity to the general public for expert investment at relatively low cost and the opportunity to maximize on economies of scale. During the year the Authority approved three umbrella CISs, bringing the total number to five institutions. These are Old Mutual Stanbic Unit Trust Funds, Old Mutual CBA Unit Trust Funds and British-American Unit Trust Funds.

Takeover exceptions and private transfers

During the year the Authority exempted one takeover from the Takeover regulations. Numerous applications for transfers of securities outside the securities exchange mostly in the settlement of estates of deceased persons were processed.

MARKET DEVELOPMENT

Fiscal incentives

As part of the measures aimed at boosting the growth of the capital market and encouraging companies to list on the stock exchange, the Authority submits policy proposals every year to the government for consideration. We are happy that the Minister for Finance in the budget speech for the fiscal year 2005/06 accepted our proposal to lower corporation tax rate to 20%, from the standard rate of 30%. This incentive is to be enjoyed by newly listed companies for a period of five years on condition that they issue at least 40% of their share capital to the public.

CHIEF EXECUTIVE'S REPORT (Cont'd)

During the year the Authority also proposed to the government to provide additional incentives to issuers of asset-backed securities. As a result, the Minister for Finance proposed to exempt investment income earned by a special purpose vehicle (SPV) from tax. The purpose of the SPV is to enable institutions providing infrastructure services to raise long-term capital by way of securitization. This tax incentive is to go along way in encouraging institutions to establish SPVs to enable them access long-term funds for their development activities at competitive and cost effective rates.

Asset-backed securities

In the period under review, progress was made on the legal framework to govern the issue and listing of Asset Backed Securities. The need for a legal framework to facilitate licensing and regulation of venture capital funds was also considered. Work on this is expected to commence in the next financial year. The Authority has considered the need for a comprehensive review of the legal and regulatory framework to ensure that it is adequate and consistent with the developments in the global financial markets and this has been factored in the 5-year strategic plan.

Venture capital funds

Venture capital companies are emerging as critical players in addressing the funding and technical assistance needs of entrepreneurs who do not have the size, assets, and operating histories necessary to obtain capital from more traditional sources, such as the capital markets and banks.

Over The Counter (OTC) market

As part of capital markets infrastructure development, the Authority is considering the introduction of an OTC market. The OTC market is meant to provide closely held companies an opportunity to benefit from liquidity and price discovery.

Regional integration

During the year under review, two of Kenya's listed companies, Kenya Airways and East African Breweries listed on the Dar es Salaam Securities Exchange (Tanzania). This marked the completion of the two companies' listing on the exchanges of the three East African countries. This initiative now allows the citizens of the three-partner states (Kenya, Uganda and Tanzania) easier access to the shares of the companies. This process has also positioned the two companies as truly East African corporations. The Authority encourages companies listed in Tanzania and Uganda to list on Kenya's stock exchange.

HUMAN RESOURCE DEVELOPMENT

The rationalization exercise that the Authority initiated in November 2003 to boost its professional capacity complement was completed during the year. The staff approved is 46. The Authority organized for professional counseling for all staff. The 15 members of staff out of 32 who were retrenched were offered a safety net payout together with their pension benefits.

Following this restructuring the Authority engaged a human resources consultant to recruit officers for vacant positions, an exercise that was also concluded during the year.

Approved number and positions

DEPARTMENTS/ POSITIONS	CEO's Office	Legal Affairs	Compliance & Market Operations	Research & Market Development	Finance & Administration	Total
Chief Executive	1	-	-	-	-	1
Managers	-	1	1	1	1	4
Assistant Managers	2	2	2	2	2	10
Senior Officers	1	1	3	3	-	8
Officers	-	2	3	4	4	13
Auxiliary Staff	2	1	-	-	7	10
Total	6	7	9	10	14	46

CHIEF EXECUTIVE'S REPORT (Cont'd)

The Authority continued to expose its staff to both short and medium courses to enhance their skills. Professional staff were facilitated to pursue post-graduate courses and short-term courses at the local, regional and international levels.

FINANCIAL PERFORMANCE

The Authority's financial statements are presented in detail in the audited accounts for the financial year ended 30 June 2005.

Overall, the Authority's financial position continued to strengthen. A surplus of income over expenditure by Kshs.29.0 million was realised for the year. The balance sheet shows a strong liquid asset base, (80% of total assets), due to the fact that surplus funds are invested short-term in government securities.

Total income for the year was Kshs.139 million, a decrease of 3% over the previous year, (Kshs.143.7 million). The decrease is mostly on account of lower issuance of government bonds over the year. The Government's subvention was wholly removed beginning this year (2004: Kshs.10m).

Total expenditure at Kshs.109.6 million is just a little higher than previous year by 1.7%. Staff costs accounted for 60% of total expenditure up from 51.8% recorded the previous year; this was occasioned by the restructuring exercise.

MAJOR INCOME AND EXPENDITURE CAPTIONS

INCOME	30.06.2005		30.06.2004	
	Kshs' 000	%	Kshs' 000	%
Government Bonds and Capitalization fees	55,447	40	62,612	44
NSE Transaction fees	56,277	40	62,259	43
Others	27,273	20	18,827	13
TOTAL OPERATING INCOME	138,997	100	143,698	100
Government Grants	0		10,000	
EXPENDITURE				
Salaries and staff costs	64,608	60	55,769	52
Rent and maintenance	8,061	8	6,781	6
Training and Conferences	3,376	3	5,179	5
Investor Education	2,218	2	1,835	2
Authority Members' Allowances	7,457	7	5,311	5
Professional and Market Development	5,561	5	14,185	13
Depreciation of Cars and Equipment	4,566	4	5,027	5
Others	13,764	11	13,627	11
TOTAL EXPENDITURE	109,611	100	107,714	100

TECHNOLOGY

Achieving a fully automated trading infrastructure remains one of the Authority's priorities aimed at enhancing efficiency and reduction of systemic risk in trading and settlement operations. Following the operationalization of the Central Depository System (CDS) in November 2004, the market is now experiencing increased efficiency as evidenced by increased trading activity at the Nairobi Stock

Exchange. To enhance this efficiency, the Authority has turned its attention to the implementation of automated trading system (ATS). We believe that the implementation of both CDS and ATS would transform our capital market to globally accepted financial market standards and competitively position it as a robust, safe and preferred investment destination. This will increase the fund raising capacity of our market


CHIEF EXECUTIVE'S REPORT (Cont'd)

LOOKING AHEAD

The year ahead is going to be an equally busy period in the capital markets against the backdrop of continued improvement in the macroeconomic environment, the positive impact of CDS and the anticipated Initial Public Offers (IPOs). We also envisage advanced developments towards the implementation of automated trading system at the stock exchange.

To ensure that market operations are fair, transparent and efficient, the Authority shall concentrate its efforts in reviewing the current legal and regulatory framework, enhancing information communication technology (ICT) capacity and systems, promoting

good corporate governance among market institutions, intermediaries and listed companies and enhancing public awareness of the capital markets. In recognition of the fact that there are limited products in the Kenyan capital markets, the Authority shall continue to support all initiatives aimed at increasing the number of existing products and services and the development of new products.



Edward H Ntalami
CHIEF EXECUTIVE

CORPORATE GOVERNANCE REPORT

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through the Ministry of Finance, for ensuring that the Authority complies with the law and the highest standards of corporate governance.

There are eleven members of the Board all of whom save for the Chief Executive are non-executive directors.

The directors possess a broad range of skills and competencies, including legal, finance, banking, economics and management.

During the period under review, the Board met 16 times

The Board of Directors Composition

During the period under review, the Board was composed as follows:

- **Prof. Chege Waruingi (Chairman):** A management consultant by profession holds a doctoral degree in Business Administration (Marketing) from Indiana University, USA. Has over 25 years of University level teaching in marketing and management in both the USA and Kenya and over 20 years as a trainer and consultant in marketing strategy, strategic management and human resource development. He is currently a member of the Council of Jomo Kenyatta University of Agriculture and Technology and a director of Magadi Soda Company.
- **Edward Ntalami (Chief Executive):** He holds a Masters of Business Administration Degree and is a FCCA and a CPA(K). He has wide management experience in accounting, finance and investment, spanning the private and public sectors.
- **Amos Wako (Attorney General)**
 - o **Alternate: Roselyn Amadi**
- **Joseph Kinyua (PS, Treasury)**
 - o **Alternate: Maurice Kanga**
- **Andrew Mullei (Governor of Central Bank)**
 - o **Jackson Kitili (Alternate to the Governor of Central Bank):**
- **Michael Cherwon:** An accountant by profession. Previously the Executive Director of the Deposit Protection Fund and the Finance Director of the

Central Bank of Kenya. He was also a commissioner in the Nairobi City Commission and a member of the Board of Governors of Kapsabet Boys High School and Moi Girls' Eldoret.

- **Selest Kilinda:** An accountant by training, holds a Bachelor of Commerce (Accounting Option) Degree from the University of Nairobi. Is a Certified Public Accountant and a Fellow of the Chartered Institute of Management Accountants. Currently the General Manager, Nation Marketing and Publishing Limited. A Council Member of the Institute of Certified Public Accountants and former Director of Muthaiga Golf Club.
- **Jimmy Muthusi Kitonga:** An advocate of the High Court of Kenya and Senior Partner in the law firm of Muthusi Kitonga & Company, Advocates.
- **Wanjohi Ndirangu:** He is a consulting economist, and is also a board member of the Kenya Investment Authority. He has worked as an economist in the Ministry of Planning and has been involved in various projects for the United Nations Development Programme (UNDP).
- **Lucy Njiru:** An advocate of the High Court of Kenya. She has previously worked as a State Counsel and is currently partner in the firm of Lucy Njiru & Company, Advocates.
- **Malachi Oddenyo:** An Economist by training and holder of a Masters degree in Monetary Economics from Makerere University and in Public Finance from Waterloo University, Ontario, Canada. Has a career spanning almost forty years in the civil service including the Ministry of Planning, Central Bank, East African Community, Ministry of Finance, Ministry of lands and Settlement and Ministry of Foreign Affairs. Currently a consultant in economic and financial management.

Responsibilities

The principal responsibility of the Board is that of establishing the long-term goals of the Authority and ensuring that effective plans are developed and implemented. This entails:

- Reviewing the values, vision and mission and developing strategy;
- Putting in place management structures [organization, systems and people] to achieve those objectives;

CORPORATE GOVERNANCE REPORT (Cont'd)

- Setting targets and monitoring performance;
- Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- The review and adoption of annual budgets for the financial performance of the Authority and monitoring the Authority's performance and results;
- Management of risk, overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards; and
- Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to stakeholders.

Board Committees

Subject to fundamental, strategic, policy and formal matters reserved for its decision, pursuant to Section 14 of the Capital Markets Act, the Board delegates authority to a number of committees which operate within defined terms of reference. Other committees are formed on an ad-hoc basis.

During the period under review, the Board had the following standing committees:

Capital Markets Advisory Committee

The Capital Markets Advisory Committee is established as a committee of the Board for the purpose of providing a forum for dialogue between the Authority and relevant stakeholders and to advise the Authority on the implementation of the central depository system and automated trading systems and the regulation and development of all aspects of the capital markets.

This committee draws its membership from experts in financial services including lawyers, accountants, insurers, bankers, economists, among other stakeholders in the capital markets. The Committee is chaired by the Chief Executive of the Capital Markets Authority, who is an ex official member of the Committee.

The Finance, Tender and Procurement Committee

This committee consists of three members, all of whom are non-executive members of the Board. The committee is chaired by Mr. Malachi Oddenyo.

It has oversight on all financial issues including procurement.

The committee met 2 times during this period.

The Audit Committee

This committee consists of four members, all of whom are non-executive members of the Board. The committee is chaired by Mr. Selest Kilinda. It oversees financial reporting and is responsible for the detailed review of all audit matters; consideration of the appointment of external auditors and the maintenance of a professional relationship with them; and for reviewing the accounting principles, policies and practices adopted in the preparation of public financial information, and reviews of the Authority's risk management and internal control procedures.

The committee met 2 times during the period. The

Human Resource Committee

This committee consists of five members, all of whom are non-executive members of the Board. Mrs. Lucy Njiru chairs the committee. It is responsible for the human resource matters including recruitment. The committee met 4 times during the year.

Technical Committee

The committee consists of four members all of whom are non-executive members of the Authority. The committee is chaired by Mr. Wanjohi Ndirangu. It is responsible for considering technical matters of the Authority's operations, including licensing and approval applications.

SUPPLY OF INFORMATION

Directors have unlimited access to management and to the advice and services of the Authority Secretary. They are provided with all the information needed to carry out their duties and responsibilities fully and effectively. In addition, directors are entitled where necessary to seek independent professional advice concerning the affairs of the Authority.

ACCOUNTABILITY AND AUDIT

Directors are required to present a balanced and understandable assessment of the Authority's financial position and prospects. The Authority has continued to release its various reports and statements as required by various stakeholders.

CORPORATE GOVERNANCE REPORT (Cont'd)

DEVELOPMENT OF DIRECTORS

The Authority continues to support the training and development of directors trustees through retreats and training courses.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board constantly monitors the operational and financial aspects of the Authority's activities and through the Finance and Audit Committee, the advice of external auditors and with recommendation from other technical advisors, considers appropriate actions relevant to any operational and financial risk that the Authority may face.

In addition, the Board has approved various internal control procedures and continues to investigate ways of further enhancing existing risk management strategies and procedures.

COMPLIANCE WITH THE LAW

The Board as a collective agency and the individual directors are satisfied that the Authority has to the best of their knowledge complied with all applicable laws. Save for the cases regarding the former Chief Executive and the former Head of Research and Corporate Affairs, which matters are before the courts, to the knowledge of the Board, no director or employee has acted or committed any offense or indulged in any unethical behaviour in the conduct of the lawfully authorized business of the Authority.

MARKET PERFORMANCE REPORT

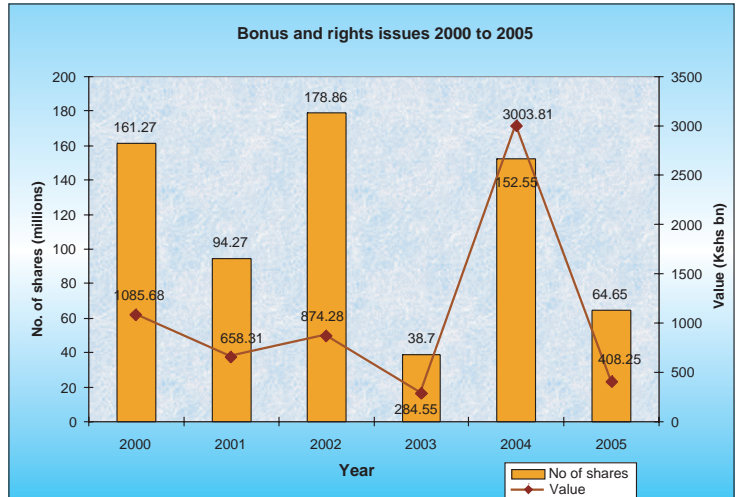
1. PRIMARY MARKET

1.1. Equity

There was little activity in the primary equity markets in the period under review. East African Breweries undertook a share split of five shares for every one held adding an additional 527.18 million new shares.

The absence of new listings continues to be of great concern. The Authority has undertaken a study on the lack of new listings, which has yielded recommendations on the basis of which we will be initiating measures to revitalize the market. The Authority continues to add its efforts to the privatization programme, which is expected to significantly rejuvenate the market.

Three bonus issues were approved during the financial year, resulting in an additional 64.7 million shares in the market compared to 153 million new shares supplied in 2004. There were a total of 38 interim and final dividend announcements by various companies listed at the NSE from which a total of Kshs.10.65 billion was paid out to shareholders in the form of dividends, being an equivalent of 2% of the total market capitalization of the NSE, compared to 44 announcements of Kshs.12.45 billion worth of dividends in 2004. The total number of bonus issues between 2000 and 2005 were 21 raising the number of new shares created through bonus and



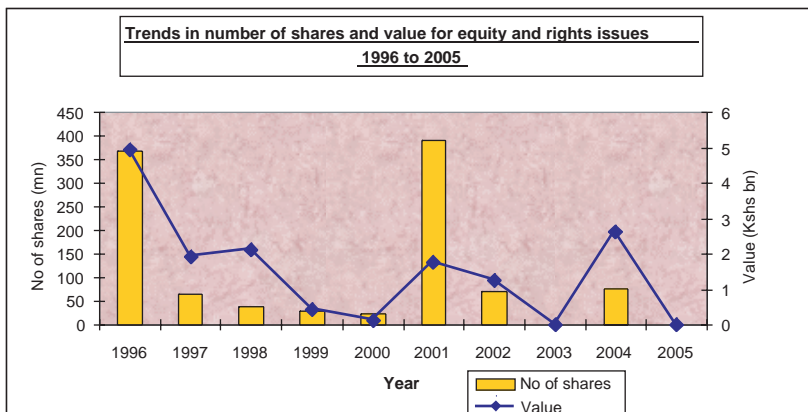
rights issues during the last six years to 599 million valued at Kshs.5.67 billion.

1.2. Debt instruments

(a) Treasury bonds

The year 2005 saw the bond market gradually improve as interest rates increased. However, the uncertainty in interest rates that prevailed in July through October 2004, forced cancellation of two issues in September and October. The one-year Treasury bond issues dominated the period accounting for about 40% of the total issues in value. As the interest rates improved on the 91-day Treasury bills to between 5% and 8% during the period January – June 2005, treasury bonds of tenors 3-5 year were issued although some did not receive full subscription. This scenario reflected investors' cautiousness on long-tenor issues following the erratic movement of interest rates during the year.

The yields on bond averaged between 4% on one-year tenor issue to 12% on four-year bonds. The number of new Treasury bonds issued also declined to 18 valued at Kshs.68.45 billion in 2005 compared with the 22 issues valued at Kshs.82.56 billion in 2004.



MARKET PERFORMANCE REPORT (Cont'd)

Treasury Bond Issue by tenor; 2002 - 2005

	2002		2003		2004		2005	
Tenor	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)
1 year	4	13.07	4	10.36	3	10.00	8	26.97
1 1/2 years	1	4	-	-	-	-	-	-
2 years	5	22.91	6	14.64	4	14.91	3	12.33
3 years	6	22.86	4	16.32	5	17.14	3	10.81
4 years	2	10	3	12	2	6.49	1	3.63
5 years	1	7	4	14.31	1	3.56	1	6.09
6 years	1	3	3	15	3	10.95	1	4.74
7 years	-	-	1	3	2	4.87	1	3.88
8 years	-	-	1	4	1	1.52	-	-
9 years	-	-	1	4	-	7.19	-	-
10 year	-	-	1	2.7	1	5.93	-	-
Total	20	82.84	28	96.33	22	82.56	18	68.45

(b) Corporate Bonds

The primary corporate bond market during the year 2005 facilitated Faulu Kenya, a non – bank Micro finance institution and the Eastern and Southern African Trade and Development Bank, commonly known as the PTA Bank to raise long term capital to finance their development projects. Faulu Kenya raised Kshs.500 million by issuing a five year corporate bond that was 75% guaranteed by Agence Francaise de Development (AFD). This was a major departure from the other corporate bond issuers as Faulu Kenya is a micro-finance institution targeting the rural areas of the country where access to financial services is limited. The PTA issue of seven-

years raised Kshs.800 million to finance its investments and financing activities in Kenya in various sectors of the economy, including tourism, construction, agriculture and mining. Equally, the East African Development Bank (EADB) a pioneer in the corporate bond market in Kenya raised Kshs.800 million during the year. Borrowing through issuance of corporate bonds is emerging as a cost effective method compared to accessing similar funds through the money markets. As interest rates tend to stabilize there is increased enthusiasm among the potential issuers and a number showed strong indications to issue corporate bonds in the coming financial year of the Authority.

Corporate Bond approvals

Issuer	Amount (Kshs mn)	Date of approval	Maturity	Outstanding (Kshs mn)	Yield (%)
E.A. Development Bank	1,500	30-Jun -04	31-July-11	782	7-Year Fixed T-Bond + 0.75%
	2,000	28- Mar-01	25-April-06	600	91 Day T-Bill +0.75%
*Mabati Rolling Mills Limited	1,000	19-Sep-02	30-Sep-06	1,000	91 Day T-Bill +1.25%
*Safaricom	4,000	17-May-01	30-Sep-05	2,440	91 Day T-Bill + 1.0%
*Faulu (K) Limited	500	17-Feb-05	29-Mar-10	500	191 Day T-Bill + 1.0%
PTA Bank	1,600	13-June-05	05-July-12	800	291 Day T-Bill + 1.0%
Total approved	10,600			6,122	

* 75% guaranteed

1 Most recent t-bill yield prior to the issue

2 Weighted t-bill yield at the beginning of each interest payment period

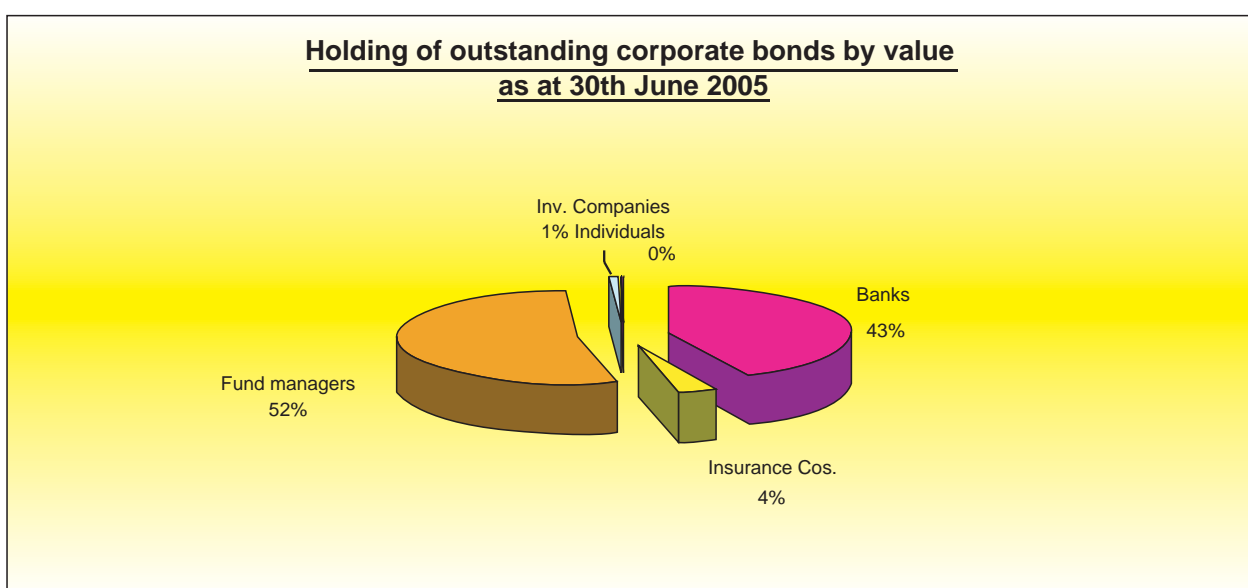
MARKET PERFORMANCE REPORT (Cont'd)

Holding of corporate bonds by class of investors as at June 30, 2005

ISSUER	BANKS (%)	INSURANCE COMPANIES (%)	FUND MANAGERS (%)	INVESTMENT COMPANIES (%)	INDIVIDUALS (%)
E.A.D.B. (2001 issue)	46.00	6.05	47.95	0.00	0.00
E.A.D.B. (2004 issue)	37.25	17.90	45.01	0.00	0.00
*Mabati Rolling Mills Limited	36.42	3.00	59.95	0.63	0.00
*Safaricom	45.48	2.78	50.88	0.50	0.38

* 75% guaranteed

Fund managers and banks continued to hold an average of over 90% of the total value of corporate bonds in the market with the rest held by insurance and investment companies.



(c) Commercial paper programme

There was one new Commercial Paper (CP) issue by Athi River Mining Company and five renewals from which Kshs.1.87 billion was raised. This reflected a slight growth in terms of total amounts raised compared to the previous year, where two new issues and four renewals were approved raisings Kshs.1.82 billion. At the close of June Kshs.1.64 billion worth of commercial paper was outstanding against Kshs.1.21 billion in 2004. Due to its flexibility, companies continue to access working capital through issuance of CP and its application is expected to improve in the coming year as interest rates stabilize.

	Issuer	Amount (Kshs mn)	Date of approval	Expiry date	Status of programme	Outstanding (Kshs mn)	Average Yield (%) ¹
1	Crown Berger	200	19-11-04	19-11-05	1st Renewal	177.52	10.34
2	Kenya Oil Company Ltd	1,000	01-02-05	01-02-06	2nd Renewal	940.77	Fixed ²
3	*Ecta (Kenya) Limited	70	01-02-05	01-02-06	3rd Renewal	70	Fixed ²
4	*Kenya Hotel Properties Limited	300	01-02-05	01-02-06	3rd Renewal	150	Fixed ²
5	*Cooper Kenya Ltd	100	01-03-05	01-03-06	1st Renewal	100	9.38
6	Athi River Mining	200	25-11-04	24-11-05	1st Issue	198.27	10.13
	Total approved	1,870				1,636.56	

*Bank guaranteed

¹ Average yield over the quarter ending June 2005

² Fixed margin below or above 91-Day T-bill rate as announced from time to time

MARKET PERFORMANCE REPORT (Cont'd)

Holding of Commercial paper by class of investors as at June 30, 2005

	Issuer	Banks (%)	Insurance companies (%)	Fund managers (%)	Investment Companies (%)	Individuals (%)
1	*Kenya Hotel Properties	46.67	13.33	20.00	20.00	0.00
2	Crown Berger	58.30	6.78	4.51	24.79	1.53
3	Kenya Oil Company Ltd	26.91	12.19	56.25	3.74	0.90
4	*Ecta (Kenya) Limited	14.29	0.00	7.14	72.86	5.71
5	*Cooper Kenya Ltd	56.00	16.00	28.00	0.00	0.00
6	CMC Holdings Limited	0.00	27.65	44.95	18.43	8.97

Commercial banks and investment companies recorded increased proportional holdings in the CP notes during the year compared to the previous period. Subscription to CP notes continues to be the domain of institutional investors mainly as a result of the placement process that targets institutional investors and where applicable few high net worth individual investors.

2. SECONDARY MARKET

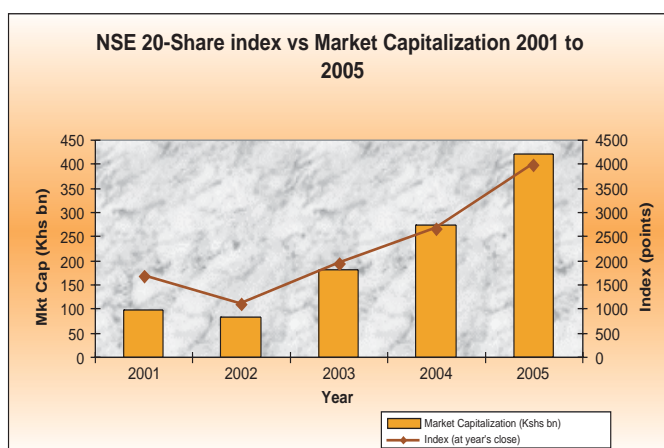
2.1. Secondary Equity Market

A bullish run driven by a robust expansion of the economy resulted in one of the most buoyant performance in the history of the Kenyan stock market. Other than the NSE 20 Share Index, which fell short of the highest figure ever recorded on the bourse's history in 1994 of 5000-plus, the rest of the capital market parameters attained historical highs, the most spectacular being market capitalization which rose by more than Kshs. 140 billion to Kshs. 421 billion. The year ironically started on low trading levels with an average monthly turnover of Kshs. 1.6 billion during the first six months, rising gradually during the third quarter and substantially in the final quarter to the highest average turnover ever witnessed at the NSE of about Kshs. 2.5 billion per month. The highest turnover ever recorded in the market in a month was experienced in June 2005, of Kshs. 3.82 billion.

The enhanced corporate earnings necessitated by improved economic performance saw the year 2005 perform slightly better than the previous year both in terms of share volume and turnover. The final quarter's exemplary performance was largely influenced by enhanced efficiency occasioned by the successful implementation of the Central Depository and Settlement System (CDS). Improved rate of immobilization of share certificates allowed more investors to trade after opening accounts with the CDS. Institutional investors, especially pension funds

and commercial banks continued to dominate demand for equities, even as the market turnover ratio's averaged 5%, inferring that the market was still largely illiquid with only a slice of investors' portfolio being traded during the year.

The NSE Index gained 1332 points representing a growth of 50% to move to a high of 3972 points in June 2005 from a low of 2640 points recorded in June 2004. The overall rise in the prices of most stocks and an additional supply of shares prompted by three bonus issues and one share split pushed market capitalization to Kshs. 421 billion at the end of June 2005, a significant leap equivalent to 53% growth over Kshs. 274 billion in 2004. The upward movement in both market capitalization and the NSE 20 Share Index remained steady during the first and second halves of the financial year with slight declines recorded in the month of March 2005, mostly as investors were keenly evaluating corporate earnings announcements against their expectations.



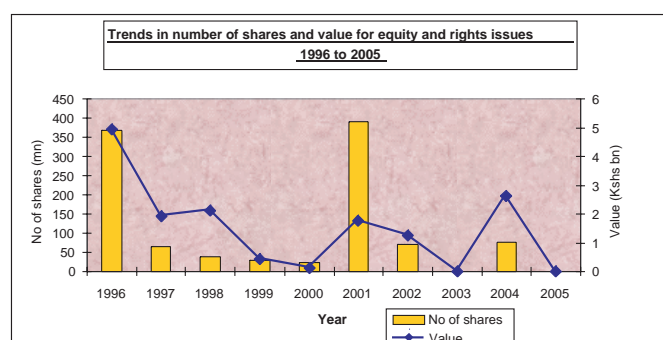
MARKET PERFORMANCE REPORT (Cont'd)

Gross Market Statistics 2001 to 2005

	2001	2002	2003	2004	2005
Share Volume (m)	126.64	106.07	198.1	525.88	579.94
Shares Turnover (Kshs bn)	3.8	2.02	7.51	20.35	22.03
Market Capitalization (Kshs bn)	98.4	83.3	180.65	274.41	420.7
Index (at year's close)	1675	1087	1935	2640	3972
Bond Turnover (Kshs bn)	5.66	33.21	36.31	48.38	14.30

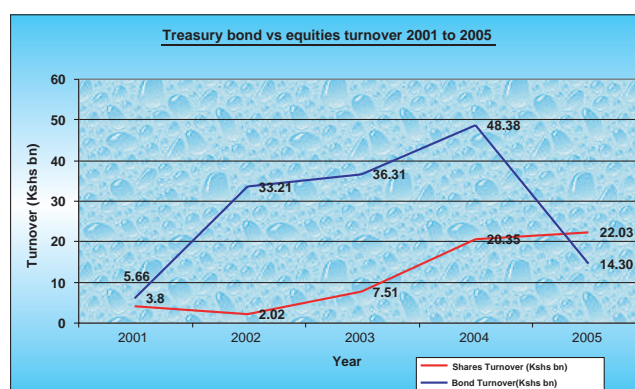
Share volume and turnover in the first half of the year was relatively low equally as a result of a temporary calm on the bullish trend necessitated by profit takings during the period ending March 2005. The implementation of the CDS that commenced in November 2004 slowed the transaction volume as well, largely due to lack of awareness. The situation improved in the second half of the year and particularly during the last quarter, driven by the improvement in the rate of opening of CDS accounts.

Share volume rose by 10% to 580 million compared to the previous year's level of 526 million, while turnover rose to a new historical high of Kshs 22.03 billion, reflecting a growth of 8% from the previous period's figure of Kshs 20.35 billion.



However, besides having few listed companies at the NSE, a number of them have offered just the minimum to the public and this significantly limits the volume of transaction. It therefore calls for appropriate policy intervention to encourage these companies to increase their free float.

The outlook for the equities market remains very bright for the coming year as CDS benefits trickle-in gradually, coupled with continued pursuit of economic reforms. There are also strong indications that some companies will list at the stock exchange, which will increase supply and bring about price movements based on fundamentals as opposed to being driven by skewed supply of securities, against an ever increasing demand that is emerging following increased awareness among other factors.



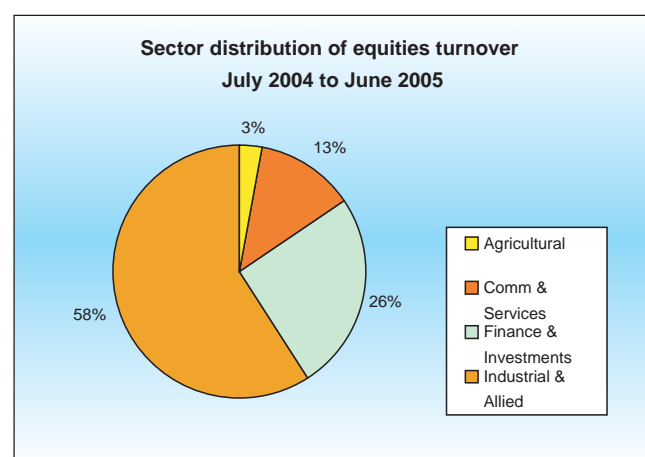
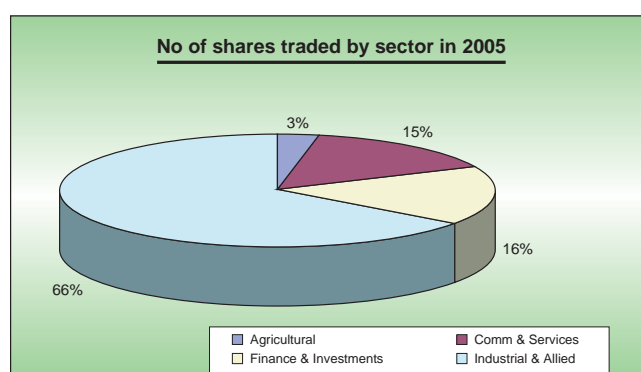
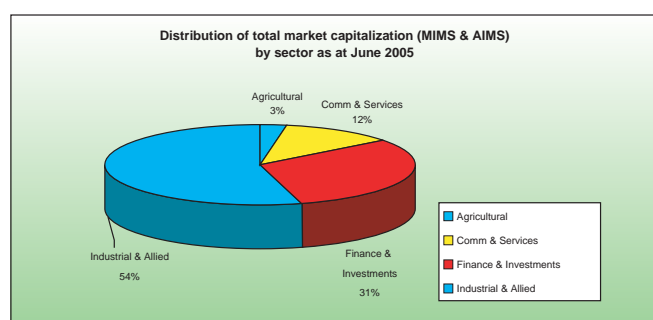
The equities turnover has been increasing steadily and at close of June 2005, it surpassed the bond turnover. The bond turnover experienced a step decline as a result of depressed demand following the issuance of new bonds in the year offering higher yields.

MARKET PERFORMANCE REPORT (Cont'd)

Sector analysis of the secondary equities market

Market capitalization

	Agricultural Mkt Cap (Kshs bn)	Comm & Services Mkt Cap (Kshs bn)	Finance & Investments Mkt Cap (Kshs bn)	Industrial & Allied Mkt Cap (Kshs bn)
Main Investment Market Segment	9.32	45.74	130.39	229.31
Alternative Investment Market Segment	2.43	3.21	0.24	0.06
Total	11.75	48.95	130.63	229.37



The sectoral ranking performance was also similar in the equities turnover and volume traded as the Industrial and Allied sector dominated by contributing an equivalent of 58% and 66% respectively. The finance sector was second, while the agricultural sector was the last with a share size of 3%. The un-proportional sectoral distribution of listed companies will continue influencing this ranking in the coming years as the industrial sector currently has an equivalent of 35% of the total number of listed companies; finance sector with 25%; commercial with 23% and agricultural sector with 17%. This is in spite of agricultural sector accounting for over 24% of the GDP.

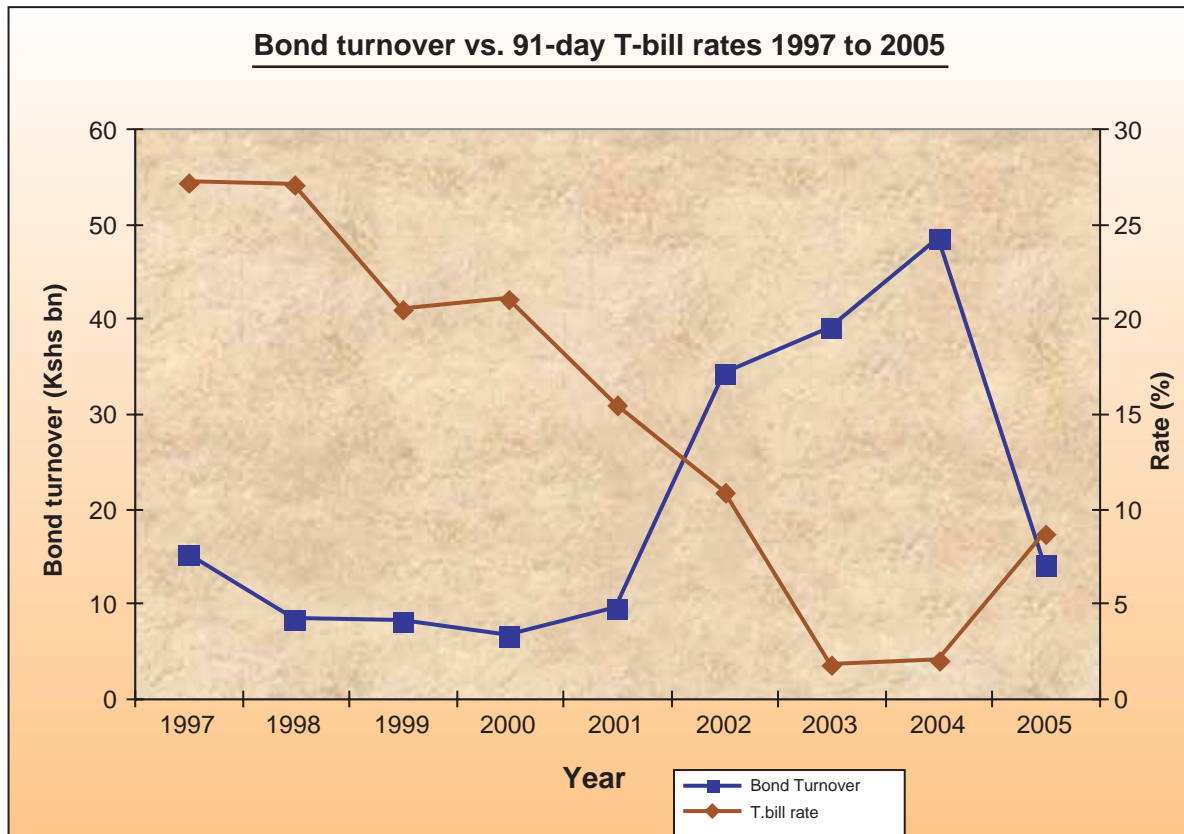
2.2. Secondary Treasury bond Market

There was a significant decline in the secondary bonds market with Kshs.14.03 billion turnover recorded compared to Kshs.48.13 billion in 2004. This is attributed to mixed signals in the market, resulting in very low interest rates of less than 2% during the first half of the year followed by a rise to 8% in January 2005 which sustained during the second half. The result of this was that already listed bonds were attracting lower yields as newly issued shorter dated Government paper paid higher returns; hence investors in the secondary market were locked in with their less attractive bonds.

Similarly, the cancellation of two government zero-coupon bonds during the year led to greater uncertainty over the future of bonds resulting in a shift to the equities market.

The outlook for secondary bond market is set to improve as the interest rates stabilize, equally the increasing corporate issues would result in more liquidity.

MARKET PERFORMANCE REPORT (Cont'd)



There has been a steady increase in the secondary bond market activity, driven mainly by the increased bond issues particularly the treasury bonds, notwithstanding the declining interest rates. However, there was a sharp drop in 2005 occasioned by

increasing interest rates in the primary auction. The main challenge for the government is to extend the maturity profile further, so that the securities are appropriately priced based on a market based yield curve.

REPORT OF THE MEMBERS OF THE AUTHORITY

The members of the Authority have pleasure in presenting their report and audited financial statements for the year ended 30 June 2005.

INCORPORATION

Capital Markets Authority is a body corporate established under the Capital Markets Act, Cap 485A, 1989, which became operational on 15 December 1989. The Act was amended in 2000 and renamed the Capital Markets Act.

ACTIVITIES

The Authority promotes and facilitates the development of an orderly, fair and efficient capital markets in Kenya. It licences, regulates and supervises operators in the capital markets.

RESULTS

	2005 Sh
Total income from services for the year	133,801,689
Total operating expenditure for the year	(107,592,216)
Gross surplus from services	26,209,473
Tribunal expenses	(2,019,290)
Finance income	5,195,353
Surplus for the year transferred to the general fund	29,385,536

AUTHORITY MEMBERS AND MANAGEMENT

The present members of the Authority are shown on page 5.

AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Chief Executive

Nairobi

1st December, 2005

STATEMENT OF AUTHORITY MEMBERS' RESPONSIBILITIES

The Capital Markets Act requires the Authority members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of its operating results for that year. It also requires the members to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

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

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



Chairman



Chief Executive

1st December, 2005

Certified Public Accountants (Kenya)
"Kirungi"
Ring Road, Westlands

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Nairobi
Kenya

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT TO THE CONTROLLER AND AUDITOR GENERAL ON THE AUDIT OF THE FINANCIAL STATEMENTS OF CAPITAL MARKETS AUTHORITY

We have audited the financial statements on pages 28 to 40 for the year ended 30 June 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of Authority members and auditors

As described on page 26, the Authority members are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Authority members, and evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept by the Authority and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Authority at 30 June 2005 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Capital Markets Act.

Deloitte & Touche

15 December

2005

**Deloitte
Touche
Tohmatsu**

Partners: D.M. Ndonge H. Gadhoke* D.C. Hodges* S.O. Onyango J.W. Wangai
British*



INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 Sh	2004 Sh
FEE INCOME	2	127,982,575	140,737,000
OTHER OPERATING INCOME		5,819,114	543,240
TOTAL INCOME FROM SERVICES		133,801,689	141,280,240
EXPENDITURE	3	(107,592,216)	(106,275,605)
GROSS SURPLUS FROM SERVICES		26,209,473	35,004,635
TRIBUNAL EXPENSES	4	(2,019,290)	(1,437,602)
GOVERNMENT GRANT		-	10,000,000
FINANCE INCOME	5	5,195,353	2,417,606
SURPLUS FOR THE YEAR		29,385,536	45,984,639

BALANCE SHEET

30 JUNE 2005

	Note	2005 Sh	2004 Sh
ASSETS			
Non-current assets			
Equipment	7	12,485,601	12,778,805
Staff loans and advances	8	4,144,759	7,671,972
Investors' compensation fund investment in CDSC	9	7,000,000	7,000,000
Investors' compensation fund investment in treasury bonds	9	2,029,574	22,113,956
Investment in government securities	10	99,078,356	45,104,777
		124,738,290	94,669,510
Current assets			
Staff loans and advances	8	2,091,244	3,532,567
Trade and other receivables	11	20,500,837	4,656,865
Investors' compensation fund	9	41,756,460	8,062,798
Staff Benevolent Fund bank balance		3,157,229	3,051,512
Investment in government securities	10	25,201,487	65,784,800
Call deposit		10,184,840	10,009,864
Bank and cash balances		7,058,790	8,405,994
		109,950,887	103,504,400
Total assets		234,689,177	198,173,910
FUNDS AND LIABILITIES			
Funds			
Capital fund		27,885,508	27,885,508
General fund		129,805,416	100,419,880
		157,690,924	128,305,388
Current liabilities			
Accounts payable	12	22,647,797	29,233,063
Investors' compensation fund	9	50,786,034	37,176,754
Staff Benevolent Fund		3,157,229	3,051,512
Millennium staff savings scheme		407,193	407,193
		76,998,253	69,868,522
Total funds and liabilities		234,689,177	198,173,910

The financial statements on pages 28 to 40 were approved by the members of the Authority on December 1, 2005 and were signed on their behalf by:

By George Wamunzi

CHAIRMAN

Elmer Davis

CHIEF EXECUTIVE



STATEMENT OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED 30 JUNE 2005

	Capital fund Sh	General fund Sh	Total Sh
At 1 July 2003	27,885,508	54,435,241	82,320,749
Surplus for the year	-	45,984,639	45,984,639
	-----	-----	
At 30 June 2004	27,885,508	100,419,880	128,305,388
	=====	=====	=====
At 1 July 2004	27,885,508	100,419,880	128,305,388
Surplus for the year	-	29,385,536	29,385,536
	-----	-----	
At 30 June 2005	27,885,508	129,805,416	157,690,924
	=====	=====	=====

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 Sh	2004 Sh
OPERATING ACTIVITIES			
Cash generated from operations	13(a)	24,861,332	77,478,595
Interest received		5,195,353	2,417,606
Net cash generated from operating activities		30,056,685	79,896,201
INVESTING ACTIVITIES			
Purchase of equipment		(4,273,650)	(1,793,596)
Proceeds of disposal of equipment		150,000	3,200
Cash used in investing activities		(4,123,650)	(1,790,396)
FINANCING ACTIVITIES			
Maturity/(purchase)/of treasury bills by the Investors' Compensation Fund		4,959,900	(3,268,556)
Purchase of treasury bonds by the Investors' Compensation Fund		(15,835,188)	(4,531,680)
Purchase of treasury bonds		(79,175,066)	(35,536,106)
Net cash used in financing activities		(90,050,354)	(43,336,342)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(64,117,319)	34,769,463
CASH AND CASH EQUIVALENTS:			
AT BEGINNING OF THE YEAR		87,581,438	52,811,975
AT END OF THE YEAR	13(b)	23,464,119	87,581,438

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies remain unchanged from the previous year and are set out below:

(a) Basis of accounting

The financial statements are prepared under the historical cost convention as modified to include the revaluation of certain investments to fair value.

(b) Government grants

Government grants are recognised to income when received.

(c) Fees, interest and other income

Fees, interest and other income are recognised to income on the accruals basis.

(d) Motor vehicles, furniture and equipment and depreciation

Motor vehicles, furniture and equipment are stated at cost less depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of motor vehicles, furniture and fittings, equipment and computers over their expected useful lives at the following annual rates:

Furniture and fittings	12.5%
Equipment	20%
Motor vehicles	25%
Computers	25%

(g) Employee benefits

The Authority operates an in-house defined benefits pension scheme for its staff and also makes contributions to the statutory National Social Security Fund, a defined contribution scheme registered under the National Social Security Act. In addition, it pays service gratuity to staff on contract under the terms of their employment.

The Authority's obligations to all staff retirement benefits schemes are recognised to the income statement as they fall due.

Employee entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability for annual leave accrued at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(h) Foreign currency translation

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at rates ruling on the dates of the transactions. Exchange gains and losses are dealt with in the income and expenditure statement.

(i) Financial instruments

Financial assets and financial liabilities are recognised in the Authority's balance sheet when the Authority becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are stated at their nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are stated at their nominal value.

Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity where the Authority has the positive intent and ability to hold to maturity are measured at amortised cost less accumulated impairment losses

Financial assets held for trading

Financial assets acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are measured at their fair values.

(j) Cash and cash equivalent

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash.

	2005 Sh	2004 Sh
2 FEE INCOME		
Capitalization, rights and new issues fees	55,447,160	65,206,645
NSE - transaction fees	56,277,158	62,259,097
Application and licensing fees	16,258,257	13,271,258
	127,982,575	140,737,000
	127,982,575	140,737,000

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

	2005 Sh	2004 Sh
3 EXPENDITURE		
Personnel costs (note 6)	61,963,433	52,994,643
Rent and maintenance	8,060,687	6,781,116
Training and conferences	3,375,496	5,178,795
Medical scheme and insurance expenses	2,644,677	2,774,041
Entertainment and public relations	1,817,930	1,736,499
Telephone, postage and utilities	2,657,045	2,692,167
Equipment maintenance and stationery	4,119,132	2,931,058
Motor vehicle running expenses	1,140,243	886,284
Subscriptions and IOSCO membership	1,380,955	1,423,314
Authority members' allowances	7,456,840	5,310,900
Professional and market development services	5,560,910	14,185,561
Staff uniforms & miscellaneous expenses	217,023	55,112
Depreciation expense	4,566,854	5,026,852
Audit fees	412,500	370,000
Investor education and awareness programme	2,218,491	1,834,750
Bad debt expense	-	2,094,513
	107,592,216	106,275,605
	107,592,216	106,275,605

4 TRIBUNAL EXPENSES

This represents sitting and other expenses incurred by the Capital Markets Tribunal in relation to investigations into matters involving the Authority and other parties aggrieved by its pronouncements.

	2005 Sh	2004 Sh
5 FINANCE INCOME		
Interest earned on investments	5,195,353	2,417,606
	5,195,353	2,417,606
6 PERSONNEL COSTS		
Consolidated pay, leave pay and passages	49,775,299	42,047,378
Staff retirement benefits and gratuity	12,002,134	10,459,515
Benevolent fund contributions	111,600	402,150
National Social Security Fund (NSSF)	74,400	85,600
	61,963,433	52,994,643
	61,963,433	52,994,643
Average number of employees during the year	31	36
	31	36

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 EQUIPMENT

	Motor vehicles Sh	Computer equipment Sh	Office equipment Sh	Furniture and fittings Sh	Total Sh
COST					
At 1 July 2004	14,361,285	7,134,098	5,866,836	20,239,427	47,601,646
Additions	-	1,384,325	879,965	2,009,360	4,273,650
Disposals	-	-	(845,680)	-	(845,680)
At 30 June 2005	14,361,285	8,518,423	5,901,121	22,248,787	51,029,616
DEPRECIATION					
At 1 July 2004	10,638,709	5,126,748	4,580,893	14,476,491	34,822,841
Charge for the year	2,068,790	945,065	439,298	1,113,701	4,566,854
Eliminated on disposals	-	-	(845,680)	-	(845,680)
At 30 June 2005	12,707,499	6,071,813	4,174,511	15,590,192	38,544,015
NET BOOK VALUE					
At 30 June 2005	1,653,787	2,446,611	1,726,607	6,658,596	12,485,601
At 30 June 2004	3,722,576	2,007,350	1,285,943	5,762,936	12,778,805

Included in motor vehicles, furniture and equipment are assets with a cost of Sh 25,288,242 (2004 – Sh 23,975,838), which are fully depreciated. The notional annual depreciation charge on these items is Sh 4,622,385 (2004 – Sh 4,463,197).

8 STAFF LOANS AND ADVANCES

	SHORT TERM Sh	LONG TERM Sh	TOTAL 2005 Sh	TOTAL 2004 Sh
Car loans	342,394	969,549	1,311,943	2,605,517
House loans	-	1,920,452	1,920,452	1,920,452
Other loans and advances	1,748,850	3,176,775	4,925,625	8,600,587
Provision for bad debts	-	(1,922,017)	(1,922,017)	(1,922,017)
	2,091,244	4,144,759	6,236,003	11,204,539

9 INVESTORS' COMPENSATION FUND

In accordance with Section 18 of Capital Markets Act, Cap 485A, the Authority is required to maintain a fund to be known as the Investor Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. This requirement was implemented in July 1995.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

The fund derives its income from the following sources:

- (i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- (ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Stock Exchange.
- (iii) Interest earned from investment of the funds held in this account.
- (iv) Financial penalties imposed on operators for non-compliance with CMA Rules and Regulations.

The movement in the fund balance during the year is as shown below:

	2005 Sh	2004 Sh
At beginning of the year	37,176,754	31,535,309
Nairobi Stock Exchange transactions fees	4,466,685	4,445,758
Interest on investments	1,596,701	1,695,687
Management fees	(500,000)	(500,000)
Public issue fees	8,045,894	-
	50,786,034	37,176,754
	50,786,034	37,176,754
The Investors' Compensation Fund balance is represented by the following assets:		
Non-current		
Equity investment in the Central Depository and Settlement Corporation (at cost)	7,000,000	7,000,000
Treasury bonds maturing after one year (effective interest rate – 5.25%)	2,029,574	22,113,956
	9,029,574	29,113,956
Current		
Treasury bonds – maturing within 1 year (effective interest rate – 6.45%)	30,122,181	3,003,682
Treasury bills – maturing after 3 months (effective interest rate – 2.7%)	-	4,959,900
Transaction fees receivable	525,125	269,948
Management fees payable to CMA	-	(500,000)
Bank balance	3,063,260	329,268
Public issue fees receivable	8,045,894	-
	41,756,460	8,062,798
	41,756,460	8,062,798
	50,786,034	37,176,754
	50,786,034	37,176,754

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 GOVERNMENT SECURITIES

	2005 Sh	2004 Sh
(a) Treasury bonds		
Maturing after 1 year	97,854,519	44,705,730
Accrued interest	1,223,837	399,047
	99,078,356	45,104,777
(b) Treasury bonds		
Maturing within 1 year	24,945,982	-
Accrued interest	255,505	-
	25,201,487	-
(c) Treasury bills		
Redemption value – maturing within 1 year	-	66,000,000
Less: unearned discount	-	(215,200)
	-	65,784,800
	124,279,843	110,889,577

The average interest rate earned on Treasury bonds during the year was 4.5% (2004 – 4.6%) while the average interest rate earned on Treasury bills during the year was 2.6% (2004 – 2.6%).

11 TRADE AND OTHER RECEIVABLES

	2005 Sh	2004 Sh
Transaction fees receivable	18,504,915	3,556,734
Prepayments	40,600	-
Sundry receivables	1,955,322	1,100,131
	20,500,837	4,656,865

12 ACCOUNTS PAYABLE

Sundry payables	16,415,297	15,103,063
Provisions for pending lawsuits	5,820,000	8,000,000
Restructuring costs	-	5,760,000
Audit fees	412,500	370,000
	22,647,797	29,233,063

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 NOTES TO THE CASH FLOW STATEMENT

	2005 Sh	2004 Sh
(a) Reconciliation of surplus from services to cash generated from operations		
Gross surplus from services	26,209,473	35,004,635
Depreciation	4,566,854	5,026,852
Government grants	-	10,000,000
Gain on disposal of equipment	(150,000)	(3,200)
Tribunal expenses	(2,019,290)	(1,437,602)
Operating cash flow before working capital changes	28,607,037	48,590,685
Increase in trade and other receivables	(15,843,972)	(719,864)
Decrease in staff loans and advances	4,968,536	5,911,094
(Decrease)/increase in accounts payable	(6,585,266)	19,546,604
Increase in investors' compensation fund	13,609,280	5,641,445
Increase in staff benevolent fund	105,717	89,087
Decrease in millennium staff savings scheme balance	-	(1,580,456)
Net cash generated from operations	24,861,332	77,478,595
(b) Analysis of cash and cash equivalents		
Bank and cash balances	7,058,790	8,405,994
Call deposit	10,184,840	10,009,864
Staff benevolent fund bank balance	3,157,229	3,051,512
Investors compensation fund bank balance	3,063,260	329,268
Treasury bills - maturing within 3 months	-	65,784,800
	23,464,119	87,581,438

14 OPERATING LEASE COMMITMENTS

Operating lease commitments represent rentals payable by the Authority for its office property. Property rental expenses during the year amounted to Sh 8,060,687 (2004 - Shs 6,781,116). At the balance sheet date, the Authority had outstanding commitments under operating leases, which fall due as follows:

	2005 Sh	2004 Sh
Within one year	8,299,401	6,354,189
Between 2-5 years	10,937,015	16,972,376
At 30 June	19,236,416	23,326,565

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 RETIREMENT BENEFIT OBLIGATIONS

The Authority operates an in-house defined benefits pension scheme for its employees. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

The scheme is subjected to triennial valuations by independent actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000. The latest actuarial valuation was carried out as at 1 July 2004. The actuarial valuation method adopted, 'Attained Age Method', entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The principal actuarial assumptions applied in the valuation are:

- Investment returns 10% per annum
- Rates of salary escalation 8% per annum
- Rate of pension increases 3% per annum

Based on the actuarial report, the Actuaries estimate that the present value of past service actuarial liabilities amounted to Sh. 38,506,000 at 1 July 2004, and that the value of scheme's assets exceeded the liabilities by Sh. 275,000 at that date.

The Authority's contributions to this scheme for the year to 30 June 2005 amounted to Sh. 3,212,725 (2004 – Sh. 2,952,772).

The Authority also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the statutory scheme are determined by local statute and are currently limited to Sh 200 per employee per month. Contributions to this scheme during the year amounted to Sh. 74,400 (2004 – Sh. 85,600).

16 CAPITAL COMMITMENTS

	2005 Sh	2004 Sh
Commitments at year-end for which no provision has been made in these financial statements		

Authorised but not contracted for	24,360,000	10,500,000
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17 CONTINGENT LIABILITY

Pending law suits	58,722,695	53,722,695
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NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

A former Chief Executive and a former Manager of the Authority have filed suits against the Government of Kenya and the Authority for wrongful dismissal and are seeking damages totalling Sh. 61,722,695. Based on the advice of legal counsel, the authority members have estimated a liability of Sh. 3,000,000 will arise from these suits. The estimated liability has been recognised in these financial statements.

18 CURRENCY

The financial statements are presented in Kenya Shillings (Sh)

ENABLING LEGISLATION

a) Main Acts

i) ***The Capital Markets Act Cap 485A***

This Act establishes the Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient Capital Markets in Kenya and for connected purposes.

ii) ***The Central Depositories Act 2000***

It was operationalised in June 2003. This Act is to facilitate the establishment, operation and regulation of central depositories, to provide for the immobilization and eventual dematerialization of, and dealings in securities deposited therewith in Kenya.

b) Regulations

i) ***The Capital Markets (Collective Investment Schemes) Regulations, 2001***

The Collective Investment Schemes Regulations are aimed at facilitating specialized mutual funds, unit trusts or special form of collective investment schemes and offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk.

ii) ***The Capital Markets (Securities)(Public Offers, Listing and Disclosures) Regulations, 2002***

These regulations primarily govern public offers, disclosure requirements and listings of securities. Broadly, the regulations prescribe the approval process for the public offers of securities, requirements of information memoranda, eligibility requirements for public offers and listing of securities in each of the market segments of the securities exchange. The regulations also prescribe detailed disclosure requirements for each of the market segments as well as continuing reporting obligations for listed companies.

iii) ***The Capital Markets (Licensing Requirements)(General) regulations, 2002***

These regulations requirements for licensing, approval as well as financial requirements prescribes code of conduct and reporting obligations of capital markets institutions.

iv) ***The Capital Markets (Takeovers & Mergers) Regulations, 2002***

These Regulations govern the procedure and timing of the takeovers and mergers and set out the obligations of parties to the transactions.

v) ***The Capital Markets (Foreign Investors) Regulations, 2002***

These regulations govern foreign investor participation in the Kenyan Capital Markets.

ENABLING LEGISLATION (Cont'd)

vi) ***The Capital Markets Tribunal Rules, 2002***

These are rules that deal with the procedures of Appeals made to the Tribunal by persons aggrieved by a decision made by the Authority.

c) **Guidelines**

i) ***The Capital Markets Guidelines on corporate governance practices by public listed companies in Kenya***

These regulations set out requirements for corporate governance for public listed companies and issuers of securities in the capital markets and are both prescriptive (the principles) and non prescriptive (best practices).

ii) ***The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies***

These guidelines prescribe requirements for registration, accreditation and approval of rating agencies for the purpose of rating issuers of debt securities through the capital markets.

Credit rating is an objective and independent opinion on the general creditworthiness of an issuer of a debt instrument and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future. Ratings rank the issue within a consistent framework to compare risk among the different debt instruments in the market and assign a risk grade.

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE 2005

APPROVED INSTITUTIONS

SECURITIES EXCHANGE

Nairobi Stock Exchange Ltd.

Kimathi Street, Nation Centre, 1st Floor

P.O. Box 43633

Nairobi

Tel: 254 2 230692

Fax: 254 2 224200

Email: info@nse.co.ke

Home page: www.nse.co.ke

DEPOSITORY AND SETTLEMENT SYSTEM

Central Depository and Settlement Corporation

Nation Centre, Kimathi Street, 10th Floor

P. O. Box 3464

Nairobi

Tel: 254 2 253078/230692 ext 248

Fax: 254 2 253077

Email: [:helpdesk@cdskenya.com](mailto:helpdesk@cdskenya.com)

INVESTMENT BANKS

African Alliance Kenya Ltd.

4th Floor, Kenya Re Towers, Upper Hill

P.O. Box 27639 - 00506 Nairobi

Tel. 2710978/2718720

Fax. 2710247

Email: enquiries@africanalliance.co.ke

Apex Africa Investment Bank Ltd

Rehani House (HFCK), 4th Floor

Corner of Kenyatta Avenue and Koinange Street

P.O. Box 43676 - 00100

NAIROBI

Tel: 254 2 242170

Fax: 254 2 215554

Email: hak@insightkenya.com

CFC Financial Services Ltd.

CFC Center, Chiromo Road

P.O. Box 44074 – 00100 Nairobi

Tel. 3752900/1

Fax. 3752905/7

Email: enquiries@cfcbank.co.ke

CBA Capital

International House

Ground Floor

P.O. Box 30437 - 00100

Nairobi

Fax: 335827

Email: cbacapital@cba.co.ke

Website: www.cba.co.ke

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

Dyer & Blair Investment Bank Ltd

Loita House, 10th Floor
P.O. Box 45396 - 00100
Nairobi
Tel: 227803/3240000
Fax: 218633
E-mail: admin@dyer.africaonline.com
Website: www.dyerandblair.com

Standard Investment Bank

Hazina Towers, 17th floor
P.O. Box 13714 – 00800
Nairobi
Tel: 220225/227004
Fax: 240297
Email: info@standardstocks.com
Website: www.standardstocks.com

Francis Drummond & Co. Limited

Hughes Building, 2nd Floor
P.O. Box 45465 – 00100
Nairobi
Tel: 318686/318689
Fax: 223061
E-mail: info@francisdrummond.com
Website: www.francisdrummond.com

Suntra Investment Bank Ltd

10th Floor Nation Centre,
Kimathi Street
P.O. Box 74016-00200
Nairobi
Tel: 247530/223329/223330
Fax: 224327
E-mail: info@suntra.co.ke
Website: www.suntra.co.ke

Kestrel Capital (EA) Limited

Hughes Building, 7th Floor
P.O. Box 40005 - 00100
Nairobi
Tel: 251758/251893
Fax: 243264
Email: info@kestrelcapital.com

Barclays Financial Services

Barclays Plaza M6
Loita Street
Nairobi
P.O. Box 30120-00100

First Africa East Africa Ltd

5th Floor I&M Bank House
2nd Ngong Avenue
P.O. Box 56179-00200
Nairobi
Tel: 2710821/2
Fax: 2711331
Website: www.first-africa.com

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

STOCKBROKERS

Ngenye Kariuki & Co. Ltd.

Travel (UTC) House, 5th floor
P.O. Box 12185 - 00400
Nairobi
Tel: 220052/220141/224333
Fax: 241825
email: info@sterlingstocks.com
E-mail: ngenyekari@wananchi.com

Ashbhu Securities

Finance House, 13th floor
P.O. Box 41634 - 00100
Nairobi
Tel: 210178/212989
Fax: 210500
Email: ashbhu@africaonline.co.ke
faidastocks@wananchi.com

Francis Thuo & Partners Ltd.

International House, 12th Floor
P.O. Box 46524 - 00100
Nairobi
Tel: 226531/2/3
Fax: 228498
E-mail: ftbrokers@wananchi.com
Website: www.ftbrokers.com

Reliable Securities Limited

Standard Building, 4th Floor
P.O. Box 50338 - 00200
Nairobi
Tel: 241350/54/79
Fax: 241392
E-mail: reliable@gt.co.ke

Sterling Securities Limited

Finance House, 10th Floor, Loita St.
P.O. Box 45080 - 00100
Nairobi
Tel: 213914/224077

Faida securities Ltd.

Windsor House, 1st floor
P.O. Box 45236 - 00100
Nairobi
Tel: 243811/2/3
Fax: 243814
E-mail: info@faidastocks.com

Nyaga Stockbrokers Ltd.

Nation Centre 12th floor
P.O. Box 41868 - 00100
Nairobi
Tel: 315628/9
Fax: 315630
E-mail: nyagastk@users.africaonline.co.ke

Solid Investment Securities Ltd

Contrust Building, 6th Floor
P.O. Box 63046 - 00200
Nairobi
Tel: 244272/9
Fax: 244280
E-mail: sisl@solidkenya.com

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

Crossfield Securities Ltd

IPS Building 5th Floor Kimathi St.
P.O. Box 34137 - 00100
Nairobi
Tel: 246036
Fax: 245971
E-mail: crossfield@wananchi.com

Discount Securities Ltd.

International House, Mezzanine
P.O. Box 42489 - 00100
Nairobi
Tel: 219552/38, 240942
Fax: 230987
E-mail: discount@dsl.co.ke

FUND MANAGERS

AIG Global Investment Co. (EA) Ltd

ICEA Building, 2nd floor
P.O. Box 67262 - 00200
Nairobi
Tel: 2733400/8
Fax: 2733410
E-mail: admin@aigea.co.ke

African Alliance (K) Management Ltd.

Kenya Re Towers, 4th Floor
P.O. Box 27639 - 00506
Nairobi
Tel: 2710978
Fax: 2710247
E-mail: enquiries@africanalliance.co.ke

Old Mutual Asset Managers (K) Ltd

Old Mutual building, Mara Road, Upper Hill
P.O. Box 11589-00400
Nairobi
Tel: 2711309/2730466
Fax: 2711066
E-mail: omam@omamkenya.com
Website: www.oldmutualkenya.com

Stanbic Investment Management Services Ltd.

Stanbic Building, Kenyatta Avenue
P.O. Box 30550 - 00100, Nairobi
Tel: 3268000
Fax: 247285
E-mail: sims@africaonline.co.ke

Old Mutual Investment Services Ltd.

Old Mutual building, Corner of Mara/
Hospital Road
P.O. Box 30059-00100
Nairobi
Tel: 2829333
Fax: 2722415
E-mail: ut@oldmutualkenya.com
Website: www.oldmutualkenya.com

Zimele Asset Management Co. Ltd.

Unipen House
Hurlingham Shopping Centre
P.O. Box 76528 - 00508
Nairobi
Tel: 2729078/2722953
Fax: 2722953
E-mail: zimele@africaonline.co.ke

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

Aureos Kenya Managers

Norfolk Towers, Kijabe Street 1st Floor
P.O. Box 43233 - 00100
Nairobi
Tel: 228870-/337828
Fax: 330120/219744
E-mail: aureos.co.ke
Website: www.aureous.com

ICEA Investment Services Ltd.

ICEA Bldg 14th Floor
P.O. Box 46143 - 00100
Nairobi
Tel: 340365/6
Fax: 338089
E-mail: iisl@icea.co.ke

Co-op Trust Investment Services Ltd.

Co-operative Hse Mezzanine 1
P.O. Box 48231 - 00100
Nairobi
Tel: 32076000

Standard Chartered Investment Services Ltd.

Stanbank House, Moi Avenue
P.O. Box 30003 - 00100
Nairobi
Tel: 32093703/32093000
Fax: 223380

Amana Capital Limited

Barclays Plaza, Ground Floor, Loita St.
P.O. Box 9480 - 00100
Nairobi
Tel: 313356/312144

Genesis (K) Management Ltd

Lonrho House, 12th Floor
P.O. Box 79217
Nairobi
Tel: 251012
Fax: 250716
E-mail: genesis@swiftkenya.com

British-American Asset Managers Limited

Britak Centre Upperhill
P.O. Box 30375-00100
Nairobi
Tel: 2710927
Fax: 2717626
E-mail: Britak@Britak.co.ke
Website: www.britak.com

Old Mutual Asset Managers (EA) Ltd

Old Mutual building, Corner of Mara/
Hospital Road
P.O. Box 30059-00100
Nairobi
Tel: 2829333

InvesteQ Capital Limited Milimani Road

Ambassador Court, Suite No. A4
P.O. Box 56977-00200
Nairobi
Tel: 2730980/1
Fax: 2727783

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

INVESTMENT ADVISORS

Bridges Capital Ltd.

No. 209/362 Lenana Road
P.O. Box 62341 – 00200
Nairobi
Tel: 2714372/3
Fax: 2714657
E-mail: bcap@africaonline.co.ke
Website: www.bridgescapital.com

Inter-Alliance International (K) Ltd.

6 Longonot Place
P.O. Box 44249-00100
Nairobi
Tel: 252989/243421/246377
Fax: 211275
Email: inter-alliance@wananchi.com
Website: www.inter-alliance

Cititrust (K) Limited

Citibank House,
P.O. Box 30711 - 00100
Nairobi
Tel: 2711221/222248
Fax: 2714811
Website: www.citigroup.co.ke
Email: covenant@nbi.ifbkenya.com

Veritas Financial Services

Village Market
P.O. Box 4-00621
Nairobi

Executive and Corporate Advisory Services (K) Ltd

Mvuli Road, Westlands
P.O. Box 72216-00200
Nairobi
Tel: 4444913/6
Fax: 4444897
E-mail: execorp@nbi.ispkenya.com

Covenant International Ltd

Sarit Centre
P.O. Box 931- 00600
Nairobi
Tel: 513532
Fax: 513532

Cooperative Consultancy Services Ltd

International House
Mama Ngina Street
P.O. Box 48231
Nairobi
Tel: 228711/2/3
Fax: 219821
Email: cmb@africaonline.co.ke

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

Dry Associates

Dry Associates House
Brookside Grove/Matundu Lane
P.O. Box 684 Sarit Centre 00606
Nairobi
Tel: 4450520/1/2/3/4, 4440546
Fax: 4441330
E-mail: dryassoc@wananchi.com
Website: www.dryassociates.com

Professional Investment Consultants Ltd.

Muthaiga Shopping Center
P.O. Box 63998, Muthaiga -00609
Nairobi
Tel: 352072/ 3747243
Fax: 3747243
E-mail: pic@accesskenya.com
Homepage: www.123-pic.com

BA Financial Management (K) Ltd.

P.O. Box 555 Sarit Center 00606
Nairobi
Email: bafinance@exchange.uk.com

Iroko Securities Kenya Ltd.

2nd Floor, Fedha Towers
Muindi Mbingu Street
P.O. Box 66249-00800
Nairobi
Tel: 3740497-8
Fax: 3740497

Loita Capital Partners Ltd.

Victoria Towers, 8th floor
P.O. Box 39466 - 00623
Nairobi
Tel: 219015/219033
Fax: 218992
Website: www.loita.com

First Africa Capital Ltd.

5th Floor, I & M Bank House
P.O. Box 56179 - 00200
Nairobi
Tel: 2711279/ 2710821
Fax: 2 711331
E-mail: firstaf@firstafrica.co.ke
Website: www.first-africa.com

J.W. Seagon

Muthaiga Shopping Centre
P.O. Box 63420-00619
Nairobi

Jani Consultancy Services Limited

Shimmer's Plaza, 4th Floor
Westlands Road
P.O. Box 40583,
Nairobi

LICENSEES AND APPROVED INSTITUTIONS AS AT 30 JUNE (Cont'd)

AUTHORIZED DEPOSITORIES

Barclays Bank of Kenya Ltd.

Barclays Plaza, Loita Street
P.O. Box 30120
Nairobi
Tel: 332230/313405/313364
Fax: 312392
Homepage: www.barclays.com

Kenya Commercial Bank Ltd.

Kencom House
P.O. Box 48400
Nairobi
Tel: 254 2 339441
Fax: 254 2 339415
Email: custody@kcb.co.ke
Homepage: www.kcb.co.ke

National Industrial Credit Bank Ltd.

NIC Hse, 2nd Floor
Masaba Road/Uhuru Highway
P.O. Box 72866-00200
Nairobi.
Tel: 718200/229251
Email: info@nic.bank.com
Website: www.nic-bank.com

Stanbic Bank of Kenya Ltd.

Stanbic Building
P.O. Box 30550
Nairobi
Tel: 254 2 335888
Fax: 254 2 330227
E-mail: stanbic@africaonline.co.ke

National Bank of Kenya Ltd

National Bank Building
P.O. Box 72866
Nairobi
Tel: 254 2 339690
Fax: 254 2 330784
E-mail: vicki@nationalbank.co.ke
H.Page: www.nationalbank.co.ke

Cooperative Bank of Kenya

Coop House
Haile Selassie Avenue
P.O. Box 48231-00100
Nairobi
Tel: 320760000/32076100

CREDIT RATING AGENCIES

Global Credit Rating Company

P.O. Box 76667
Wendywood, 2144
South Africa
Tel: 2711 784-1771
Fax: 2711 784-1770
E-mail: king@globalratings.net

REGISTERED VENTURE CAPITAL FUND

Acacia Fund

Norfolk Towers, Kijabe Street 1st Floor
P.O. Box 43233
Nairobi
Tel: 228870
Fax: 330120
E-mail: general_manager@kcpafrica.com
Homepage: www.kcpafrica.com

Aureous East Africa Fund

Norfolk Towers First floor
Kijabe Street
P.O. Box 43233-00100
Nairobi
Tel: 228870
Fax: 330120
Email: mail@aureous.co.ke

APPROVED COLLECTIVE INVESTMENT SCHEMES

1. African Alliance Unit Trust Scheme
 - (i) African Alliance Kenya Shilling Fund
 - (ii) African Alliance Kenya Fixed Income Fund
 - (iii) African Alliance Kenya Managed Fund
2. Old Mutual Unit Trust Scheme
 - (i) Old Mutual Equity Fund
 - (ii) Old Mutual Money Market Fund
3. Old Mutual Stanbic Unit Trust Funds
 - (i) Stanbic Money Market Fund
 - (ii) Stanbic Flexible Income Fund
 - (iii) Stanbic Managed Prudential Fund
4. Old Mutual CBA Unit Trust Funds
 - (i) Commercial Bank of Africa Equity Fund
 - (ii) Commercial Bank of Africa Money Market Fund
5. British American Unit Trust Funds
 - (i) British American Equity Fund
 - (ii) British American Money Market Fund
 - (iii) British American Income Fund
 - (iv) British American Balanced Fund
 - (v) British American Managed Retirement Fund

LISTED COMPANIES AND MARKET CAPITALIZATION AT JUNE 30 2005

	SECURITY	ISSUED SHARES (M)	CLOSING PRICE (KSHS)	MARKET CAP (KSHS B)
	MAIN INVESTMENT MARKET SECTOR			
	Agricultural sector			
1	Unilever Tea (Kenya) Ltd	48.88	117	5.72
2	Kakuzi Ltd.	19.60	57	1.12
3	Rea Vipingo Ltd.	60	19.70	1.18
4	Sasini Tea & Coffee Ltd.	38.01	34.25	1.30
	Commercial and services sector			
5	CMC Holdings Ltd.	48.56	51	2.48
6	Car & General (K) Ltd.	22.28	30	0.67
7	Hutchings Biemer Ltd.(s)	0.36	20.25	0.01
8	Kenya Airways Ltd	461.62	58.50	27.00
9	Marshalls (EA) Ltd.	14.39	26	0.37
10	Nation Media Group Ltd.	53.48	199	10.64
11	Tourism Promotion Services (Serena)	38.68	87	3.37
12	Uchumi Supermarkets Ltd.	60.00	20	1.20
	Finance & investment sector			
13	Barclays Bank (K) Ltd.	203.68	250	50.92
14	CFC Bank Ltd.	144	67	9.65
15	Diamond Trust Bank of Kenya Ltd.	99.38	29	2.88
16	ICDC Investment Co. Ltd.	55.00	66.50	3.66
17	Housing Finance Co. Ltd	115	12.70	1.46
18	Jubilee Insurance Co. Ltd.	36	70.50	2.54
19	Kenya Commercial Bank Ltd.	199.6	69.50	13.87
20	National Bank of Kenya Ltd.	200	20.50	4.10
21	NIC Bank Ltd.	82.41	52	4.29
22	Pan Africa Insurance Holdings Ltd.	48	31.50	1.51
23	Standard Chartered Bank Ltd.	271.97	130	35.36
	Industrial & Allied sector			
24	Athi River Mining Ltd	93	24	2.23
25	British American Tobacco (K) Ltd.	100	142	22.10
26	Bamburi Cement Ltd.	362.96	120	43.56
27	BOC Kenya Ltd.	19.53	221	2.77
28	Carbacid Investments Ltd.	11.33	125	1.42
29	Crown Berger Ltd.	23.73	29	0.69
30	Olympia Capital Holdings Ltd.	10	23.75	0.24
31	E.A.Cables Ltd.	20.25	145	2.94
32	E.A. Portland Cement Ltd.	90	97	8.73
33	East African Breweries Ltd.	658.98	149	98.19
34	Sameer Africa Ltd.	278.34	18	5.01
35	Kenya Oil Co. Ltd.	100.80	110	11.09
36	Kenya Power & Lighting Ltd.	79.13	111	8.78
37	Mumias Sugar Co. Ltd.	510	24.25	12.37
38	Total Kenya Ltd.	175.06	44.75	7.83
39	Unga Group Ltd.	63.09	19.40	1.22
	ALTERNATIVE INVESTMENT MARKET SEGMENT			
40	A. Baumann & Co. Ltd.	3.84	10.70	0.04
41	City Trust Ltd.	4.17	57	0.24
42	Eaagads	8.04	17	0.14
43	Express Kenya Ltd.	32.19	15.85	0.51
44	Kapchorua Tea Co. Ltd.	3.91	185	1.27
45	Kenya Orchards Ltd.	12.87	4.55	0.72
46	Limuru Tea Co. Ltd.	0.60	365	0.06
47	Standard Newspapers Group Ltd.	65.13	40.75	0.22
48	Williamson Tea Kenya Ltd	8.76	145.00	2.65
	Preference shares			
1	Kenya Power & Lighting Ltd. Pref. 4%	1.80	10	0.02
2	Kenya Power & Lighting Ltd. Pref. 7%	0.35	8.3	0.003