



2007 ANNUAL REPORT
& FINANCIAL STATEMENTS

Annual Report and Financial Statements

for the Year ended June 30, 2007

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, 2007. 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

Stella N Kilonzo
AG 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 Advisers

The present members of the Authority are:

Prof. B Chege Waruingi	-	Chairman
Edward H Ntalami	-	Chief Executive
Nafisa Abbas		
Dr. Gituro Wainaina		
Selest Kilinda		
Simeon Ndirangu		
Margaret Ombok		
Jimmy Kitonga		
Joseph Kinyua	-	Permanent Secretary to the Treasury
Dr. Kamau Thugge	-	Alternate to the Permanent Secretary to the Treasury
Prof. Njuguna Ndung'u	-	Governor, Central Bank of Kenya
Jackson Kitili	-	Alternate to the Governor, Central Bank of Kenya
Hon Amos Wako	-	Attorney General
James Waweru	-	Alternate to the Attorney General

CHIEF EXECUTIVE

Edward H. Ntalami
P.O. Box 74800 - 00200
Nairobi

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REGISTERED OFFICE

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BANKERS

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Mama Ngina Street
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Nairobi

Savings and Loan Kenya Limited
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P O Box 45129 - 00100
Nairobi

AUDITORS

SCI Koimhuri Tucker & Co.
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P.O. Box 61120-00200
Nairobi.

ADVOCATES

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

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

Members of the Authority



Prof Chege Warungi



Edward H Ntalami



Nafisa Abbas



Dr. Gituro Wainaina



Margaret Ombok



Selest Kilinda



Jimmy M Kitonga



Prof. Njuguna Ndungu
Governor,
Central Bank of Kenya



Hon. Amos Wako
Attorney General



Joseph Kinyua
PS Treasury



Simeon Ndirangu



Jackson Kitili
Alt. to Governor



James Waweru
Alt. to Attorney General



Dr. Kamau Thugge
Alt. to PS Treasury

Senior management



Edward H Ntalami
Chief Executive



Christine Mweti
Manager,
Legal Affairs



Sammy Mulanga
Manager,
Research and Market Development



Esther Maiyo Ag.
Manager,
Finance



Stella Kilonzo
Manager,
Compliance and Market Operations



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



Prof. Chege Waruingi
Chairman

Once again I am pleased to present the Authority's Annual Report for the year ended 30 June 2007.

Operating Environment

The year 2006 was both exciting and challenging for the Authority with several key initiatives introduced in the capital market. This occurred within a backdrop of a thriving economy for the fourth year running. The Kenyan economy sustained incremental growth with GDP expanding by 6.1% in 2006 compared to 5.7% in 2005, 5.1% in 2004 and 2.9% in 2003. The robust growth which has been attributed to reforms initiated under the Economic Recovery Strategy programme launched in 2003 have yielded growth in virtually all the economic sectors with agriculture, transport and communication, manufacturing and wholesale and

retail trade being the main drivers of the growth. These four sectors jointly contributed 68.1% of gross value-added growth in 2006 compared to 62.8% in 2005. The growth has surpassed the Africa's economic average growth which expanded by 5.4% in 2006 and we believe our economy has fully recovered from the prolonged recessionary period of the 1990s.

This strong performance is expected to be sustained with the implementation of the "Kenya Vision 2030" covering the period 2008 – 2030 which aims to achieve a high and sustained non-inflationary economic annual growth of 10% by 2012. As a consequence, the importance of capital mobilization to be directed to value-adding enterprises can not be gainsaid, making capital markets occupy the centre stage in Kenya's development agenda. This is an

enormous task and the Authority in close collaboration with market stakeholders is committed to initiating appropriate reforms necessary to support productive enterprises in accessing affordable and long term capital.

Strategic Objectives

As a public institution entrusted with the responsibility of facilitating development of orderly, fair and efficient capital markets, we undertook a number of initiatives during the year pursuant to the following strategic objectives:

- Facilitate the development of the capital market products and services;
- Establish a robust, facilitative, legal and regulatory framework that conforms to international best practice;
- Strengthen the institutional capacity and corporate image of the Authority;
- Enhance capital market infrastructure and institutional arrangement;
- Strengthen professional and operational capacity of capital market institutions and intermediaries;
- Promote investor education and public awareness;
- Enhance the policy environment; and
- Build strategic alliances.

We conducted a number of studies as part of the measures to competitively position our capital markets in attracting both local and foreign capital.

These studies comprised:

- The adequacy and institutional arrangement of capital market service providers;
- The appropriate capital market segments and structural arrangement in Kenya;
- The demutualization of the Nairobi Stock Exchange (NSE), and
- The concept of book – building and its applicability in the Kenyan market.

We received useful comments and recommendations from the capital markets stakeholders and we are reviewing them in line with our reform agenda initiatives.

Policy Environment

The capital markets continue to support both the private sector and the government in accessing long term and affordable capital. Over the years the government has granted several policy and fiscal incentives aimed at deepening capital markets development in order to support increasing financing needs of the economy. During the budget speech for 2007/08 fiscal year, the Minister for Finance underscored the critical role played by the capital markets by providing further policy and fiscal incentives. The Initial Public Offerings (IPOs) processed during the year appreciated the importance of these incentives particularly the reduced corporate tax rate for the newly listed companies. The ongoing robust economic growth coupled with the favorable policy framework is expected to attract a number of enterprises seeking capital to meet the increasing demand for their goods and services.

Infrastructure Financing

Kenya's dilapidated Infrastructure continues to undermine the pace of economic growth. Provision of basic services such as clean drinking water, decent and affordable housing, electricity, roads and sanitation demonstrates the supportive role of infrastructure as a key driver for growth, poverty reduction and meeting the Millennium Development Goals. However, infrastructure projects often require tremendous amounts of capital and time commitment before potential returns are fully realized. The inadequacy of traditional mode of infrastructure financing has exacerbated the situation. Developed economies such as USA, Australia and Europe have for many years financed infrastructure projects through capital markets instruments.

The capital markets have been preferred over traditional methods because:

- i) First, it is able to separate the investor of infrastructure project from the operator. This addresses the problems associated with the operator such as limitations on operator risk appetite and balance sheet size. This then allows infrastructure companies to take on projects that are larger than the current capacity of the company;
- ii) Second, tapping the capital markets disintermediates bank lending and enlarges the pool of lenders beyond banks, to include pension funds, insurance companies, and even retail investors. This helps increase the funding sources available to beyond what bank debt can offer; and
- iii) Third, longer – term financing is possible. Infrastructure projects have a long life-span and require long-term debt financing. The debt capital markets are able to offer tenures extending beyond that offered by bank debt, reducing refinancing risks and hedging costs.

Our bond market continues to be dominated by government paper with a few corporate bonds. We are committed to deepening this segment of the market through review of policy and regulatory framework. The Authority in collaboration with the market stakeholders developed a framework for Asset Backed Securities (ABS) which is awaiting gazette. We believe the introduction of ABS will facilitate institutions which provide infrastructure services to mobilize long term capital. These institutions would also take advantage of the tax incentives that have been granted to infrastructure-providing institutions. Further, the government has continued to lengthen the maturity profile of its paper currently at 15 years, which will facilitate the pricing of long term infrastructure debt financed products.

Investor Protection

Investor protection remains our key priority in the development of the capital markets reform agenda. We believe the best form of protection for investors is through dedicating resources to investor education and awareness activities. An informed investing public, aware of risks and their rights and with access to timely and reliable information, is a better investment decision maker. During the year 2006 we conducted a number of education and awareness programmes mainly in form of workshops and trade fairs. In addition, we carried out serialization of topical issues on capital markets including salient issues on IPOs in the print media. We are also revamping our website to make it an appropriate tool for disseminating capital markets information.

Market Integrity

Our market is increasingly attracting interest from both issuers and investors. The massive oversubscription of IPOs witnessed during the year is a strong vote of confidence for our market. However, raising capital from the public carries public responsibilities. Investors avail their capital to issuers because they believe in their business plans and management. They expect a fair return for their investment. Issuers must also ensure that they continuously provide timely and reliable information to shareholders and investors so that the latter can have a sound basis to make informed decisions.

Investors place their trust on market intermediaries. It is the duty of market intermediaries to ensure that they do not betray this trust. It is therefore important that market intermediaries invest heavily in human capital and information technology facilities to enable them offer competitive and value adding services to their clients.

In the last four years, stock prices appreciated to record levels. On the average the prices of quoted stocks more than quadrupled and many must have

made lots of money. Unfortunately some investors forgot that barely 5 years ago, stock prices hit record lows. It is not the role of the regulator to inform the investors how, what and when to invest, or to prevent investors from making money. As a regulator, our duty is to explain the market and to point out opportunities and risks. Investors should clearly understand the concept of risk and return and that share prices can rise as well as fall. My advice to investors is to be educated, to invest with eyes open and to understand what they are buying into and place emphasis on governance and performance.

Capital markets thrive on users' confidence and trust. The growth of our market therefore hinges critically on; the ability of investors to trust the market, facilitative and predictive policy and legal and regulatory framework, and active private sector characterized by quality issuers. A well functioning capital markets calls for concerted action by all stakeholders – the government, the regulator, market intermediaries, issuers and investors. No single stakeholder has the resources or the capacity to uphold the current market momentum. All of us need to appreciate our different roles and partner with each other to drive this market to a level that can adequately and consistently support our funding needs.

Market infrastructure

During the year under review we continued with our market modernization initiatives as part of the efforts towards enhancing efficiency and reducing systemic risk in trading and settlement operations. Following the implementation of Central Depository System (CDS) in November 2004 which has significantly reduced the trading cycle of equities we approved the implementation of the Automated Trading System (ATS) in September 2006. We consider the projects as key to achieving enhanced operational efficiency, transparency, reduced cost of doing business, and enhanced market integrity and investor confidence.

Both CDS and ATS have significantly contributed to high levels of trading in our market. The CDS and ATS will competitively position our market in attracting both local and foreign capital as access to long term capital continues to draw stiff competitive from developed economies.

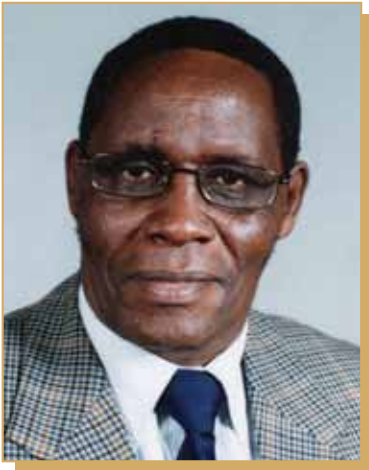
Cooperation

The Authority continues to actively participate in the regional and international arena. This is important to ensure that robust mutual arrangements and cooperation are promoted to assist our efforts in advancing market development. We work closely with organizations such as International Organization of Securities Commissions (IOSCO) and East African Securities Regulatory Authorities (EASRA) in sharing experience, knowledge and expertise. The establishment of an integrated East African market presents important opportunities for the capital markets. The integration offers opportunities for expanding the range of financial products and services and mobilization of capital from a larger market.

In conclusion, the significant progress registered in our capital market during the year was made possible by the wise counsel and dedication of my fellow board members. I wish also to extend my gratitude to the staff of the Authority, for their dedication, commitment and continuing contribution to our reform agenda and look forward to their support in the coming years.

Professor Chege Waruingi

CHAIRMAN



Edward H. Ntalami
Chairman

Stock Market Performance

During the period ended June 2007 the primary equities market witnessed vigorous activities with the Authority processing four Initial Public Offers (IPOs) and one listing by introduction. I am once again pleased to report that the Government was yet again the main catalyst for this feat as it successfully implemented its privatization programme through the Mumias Sugar Company and Kenya Reinsurance Corporation Offer for Sale to the public. The remaining issues – Access Kenya Group Limited and Eveready (EA) Limited, were offered by private companies demonstrating a clear indication of the NSE's absorptive capacity and its insatiable appetite for new listings. Similarly, the government bond programme recorded heavy activity with the issuance of 19 Treasury bonds which comprised two 12-year bonds and two 15-year bonds that were successfully introduced into the market.

The secondary market activity also recorded heavy activity with the NSE 20-Share index crossing the 5,000 mark for the first time in more than ten years, as market capitalization soared to a new historical high of Kshs 743.9 billion. Annual equities turnover rose by 66% to reach an all time high of Kshs 100 billion, as turnover ratio rose to 13.5%. Share volume increased

by 22% to 1.5 billion shares as newly issued shares continued to be actively traded.'

The strong performance continues to be supported by enhanced market trading infrastructure, enhanced policy framework and robust economic growth which has contributed to increased corporate earnings. The investor education programme undertaken by the Authority in collaboration with the market stakeholders has also brought on board a number of new investors.

COMPLIANCE

The Authority is responsible for developing and sustaining a fair, efficient and orderly market with systemic stability and integrity.

All stakeholders have a responsibility to ensure a well-regulated capital market. Participants need to diligently monitor their securities activities. Intermediaries must adopt high standards of compliance by adhering to laws, rules and regulations that relate to their activities and to the conduct and business practices of their employees, and uphold good corporate governance practices.

The Authority's regulatory structure entails the building of an effective system of market oversight that includes:

- Regular surveillance of trading in securities in the market and their settlement;
- Periodic reviews of all licensed persons in order to ensure they continue to comply with the oversight regulations;
- Periodic reviews of all listed companies to ensure that they meet listing and disclosure requirements on a continuous basis;
- Follow-up on the implementation of good corporate governance practices by both licensed persons and listed companies.

The following activities took place during the period under review:

1. Market Surveillance

The surveillance function constitutes an extremely vital link in the chain of activities we perform in fulfilling our mission of investor protection and development and regulation of capital markets.

It involves the planning, monitoring and conducting operations aimed at detecting unfair or irregular security dealings such as market manipulation that may cause damage to shareholders rights, thereby compromising market integrity and investor confidence. Market surveillance was achieved through the following mechanisms:

During the year under review, the Nairobi Stock Exchange automated its trading system for equities replacing the Open Outcry System by introducing the Automated Trading System (ATS). Subsequently the Authority implemented an electronic surveillance of the ATS so as to carry out in-depth reviews of securities transactions with regards to securities trends, authenticity of price movements and trade volumes and to track any suspect trades and their possible causes such as public disclosure of material price-sensitive information. Upon detection of irregular matters as a result of the electronic surveillance, the Authority investigates the same and takes appropriate and timely actions.

2. Investigations

The Authority conducts investigations with a view to examining alleged or suspected violations of the capital market regulations. These investigations involve the identification of persons/entities behind the capital markets irregularities and violations, gathering of elaborate data regarding primary issues, transactions in the secondary markets, trading details and subsequent analysis of the data. Upon the completion of investigation, and where it is determined that a capital markets regulation has been violated, appropriate enforcement measures are instituted as provided for in the Capital Markets Act and the various Regulations issued thereunder.

During the year, the Authority carried out various investigations pertaining to inter alia the following:

- i) Circumstances leading to collapse of a licensed stockbroker;
- ii) The trading in the shares of a listed company prior to the company being placed under receivership; and
- iii) Violation of trading rules and procedures in transactions involving large numbers of listed securities.

At the same time, tremendous impact on market turnover was realized from the automation of trading at the Nairobi Stock Exchange which in turn resulted in unprecedented number of complaints received and investigated by the Authority as explained below:

Nature of the Complaint		To June 30 2007		To June 30 2006	
		No. Received	No. Resolved	No. Received	No. Resolved
1	Financial impropriety	-	-	2	2
2	Investor complaints	199	181	57	45
3	Complaints regarding mismanagement of listed companies	1	1	3	3
4	Market operators without a license	1	1	-	-
5	Violation of Regulations	1	1	1	1
6	Fraudulent activities	1	1	0	0
7	Others	2	2	1	1
Total		205	187	64	52

Source: CMA Compliance database

3. On-site Inspections

To confirm the level of compliance with the requirements of the Capital Markets Act and the Regulations issued thereunder, the Authority carried out 122 on-site inspections involving 10 investment banks, 11 stockbrokers, 14 fund managers, 21 investment advisers and 6 authorized depositories. The reviews focused on among other areas: compliance with capital adequacy requirements, adherence to continuous reporting obligations with emphasis on submission of quarterly reports, compliance with record-keeping requirements and confirmation as to whether stock broking companies' front – office operations were conducted in accordance with relevant securities laws, rules and regulations.

4. Off-site Inspections

Reviews of financial reporting

The Authority received several financial reports that were analyzed to facilitate, determination of continuous compliance by listed companies and licensees of the Authority, and decision-making on various applications submitted to the Authority for approval related to initial public issues, privatizations, additional securities issues, issuance of fixed income securities, etc.

The following table shows the nature of 425 financial reports submitted to the Authority and analyzed in the year under review:

Submitting entities	Number of submission July 1 2006 to June 30 2006			
	Audited annual accounts	Quarterly Accounts	Approvals related reports	Total
Listed Companies	55	55	10	120
Licensees	52	204	-	256
Unit trusts funds	16	16	-	32
Applications for new licences	-	-	10	10
New equity issues	-	-	4	4
New commercial papers	-	-	1	1
New corporate Bonds	-	-	2	2
TOTAL	123	275	27	425

Source: CMA Compliance database

Oversight of Disclosure of Material Information by Listed Companies

Material information is required to be disclosed to the public in cases of significant developments and events that may affect decision-making process of investors and prices of capital market instruments. In this context, issuers of securities are required to reveal material information in conformity with the principles outlined by the Capital Markets Act and the regulations issued there under. Material information includes but is not limited to a listed company's capital structure, changes in directorship and key management, profit warnings where material discrepancies in operational results are anticipated.

The Authority monitors the disclosure of material information by listed companies. The emphasis on material information is to ensure timely disclosure to give all investors equal opportunity in using such information to make informed investment decisions.

In the year under review, great improvement was noted in the timeliness and disclosure content of material information required to be disclosed to the public. Many listed companies have embraced regular investor and press briefings especially when releasing key announcements to the public.

Corporate Governance

Financial and corporate reporting plays an important role in any given economy. The information contained in the financial reports and other disclosures is the lifeblood upon which significant economic decisions by the various stakeholders thrive. Such decisions substantially impact the economic growth and no doubt provision of such information should not only be comprehensive but more importantly be relevant and represent the economic phenomenon that it purports to represent.

The full disclosure system is designed to provide investors with material information, foster investor confidence, contribute to the maintenance of a fair and orderly market and inhibit fraud.

a) Listed Companies' Compliance with key good governance practices

Based on the Corporate Governance Guidelines issued by the Authority, as best practice, the table below summarizes listed companies' compliance status during the year under review:

	Corporate Governance Guideline	Listed Companies Meeting Guideline	Number of Listed Companies*
1	Establishment of board committees	45	57
2	Sufficient board composition	42	57
3	Disclosure of a statement on corporate social responsibility in the annual report	44	57
4	Ownership details of the top ten shareholders in annual report	44	57
5	Timely release and submission of 2006 audited accounts	50	57
6	Timely submission of interim reports 2006/2007	51	57
7	Chief finance officers being in good standing with ICPA (K)	43	57
8	Company secretary being in good standing with ICPS (K)	57	57

*Note: Listed equities and corporate bonds amounted to 57 companies as at June 30, 2007 comprising 53 listed companies and 4 issuers of corporate bonds.

ICPA (K) – Institute of Certified Public Accountants (Kenya)

ICPS (K) – Institute of Certified Public Secretaries (Kenya)

Source: CMA Compliance database

b) Management of Listed Companies

Aggregate individual chairmanship in listed companies' boards by June 30 2007

	Aggregate chairmanship		
	in one company	in two company	in three companies
Individual Chairmen	51	6	NIL

Aggregate individual directorship in listed companies' boards by June 30 2007

	Aggregate Directorship				
	in one company	in two company	in three company	in four company	in five company
Individual Directors	445	14	7	1	1

Number of directors in listed companies by June 30 2007

	Number of listed companies with				
	Less than 3 directors	3 to 5 directors	6 to 10 directors	11 to 14 directors	15 to 16 directors
Individual Directors	0	9	38	9	1

Source: CMA Compliance database

Good corporate governance practices reflect quality management. Apart from Board balance and composition, it is considered that overload of individual directors and chairmen of listed companies can impact negatively on their contributions. The table below shows representation of individual directors/ chairmen on the Boards of the 53 listed companies plus 4 issuers of corporate bonds resulting in 57 companies:

Promotion of Excellence in Financial Reporting

The Authority jointly with the Institute of Certified Public Accountants of Kenya (ICPAK) and the Nairobi Stock Exchange once again co-sponsored the Financial Reporting Excellence (FiRE) award aimed at recognizing and encouraging listed companies and other public companies to prepare financial statements in compliance with International Financial Reporting Standards, the Companies Act, good corporate governance practices and social responsibility accounting.

LICENSING, APPROVALS & REGULATORY ACTIONS

Licences

During the year the Authority issued new licences to the following:

- Investment Adviser – Deloitte Financial Advisory Limited.
- Authorized Depository – CFC Bank Limited, I&M Bank Limited and Equity Bank Limited.
- Investment Bank – NIC Capital Limited.
- Stockbrokers: The stockbroking licence of Bob Mathews Stockbrokers Limited was reinstated during the year.

The Authority renewed 57 licences for ten (10) Investment Banks; ten (10) Stockbrokers; fifteen (15) Fund Managers; fifteen (15) Investment Advisers and six (6) Authorized Depositories.

Suspended licensees

Town & Country Securities Limited and Shah Munge & Partners Limited remained suspended during the year, which also saw the Authority place Francis Thuo & Partners, one of the oldest brokerage firm, under statutory management due to solvency problems.

Collective Investment Schemes

Collective Investment Schemes (CIS) are gaining importance in mobilizing pools of funds to be

invested in financial markets. They provide an opportunity to the general public for professionally managed investment at relatively low cost and the opportunity to maximize on economies of scale and diversification. The Authority renewed the registration of five approved collective investment schemes, namely the Old Mutual Stanbic Unit Trust Funds, Old Mutual CBA Unit Trust Funds and British-American Unit Trust Funds, Old Mutual Unit Trust Funds and the African Alliance Unit Trust Funds.

During the year, the Authority also registered four new schemes, namely:

- Zimele Unit Trust Scheme
- Suntra Unit Trust Scheme
- ICEA Unit Trust Scheme
- Standard Investment Trust Funds

Offers and Listings

The Authority approved initial public offers and listing of the ordinary shares of Eveready East Africa Limited, Access Kenya Group Limited and Kenya Reinsurance Corporation. Approval was also granted to Mumias Sugar Company for an Offer for Sale.

Express Kenya Limited, Barclays Bank Kenya Limited, Sasini Tea & Coffee Limited, Equity Bank Limited and Standard Group were granted approval to issue bonus shares while Diamond Trust Bank Limited was granted approval to issue and list additional shares by way of a rights issue.

With rising prices in the secondary market, a number of companies undertook share splits so as to increase the affordability of their shares. The companies approved for share splits were East African Cables, Barclays Bank Kenya, Sasini Tea & Coffee, CMC Holdings, ICDC Investments and Kenya Commercial Bank.

Commercial Paper and Treasury Bonds

Approval was granted for the issue of eight (8) commercial paper programmes and for the issue and listing of nineteen (19) Treasury Bonds.

REGULATORY FRAMEWORK

Asset-backed securities & Venture capital funds

The proposed Capital Markets (Asset-Backed Securities) Regulations, 2006, and the proposed Capital Markets (Registered Venture Capital Companies) Regulations, 2006, were submitted to the Minister for Finance for review and approval, and then the draft Regulations were reviewed and submitted to the Attorney General's Chambers for further review and subsequent gazettelement.

MARKET DEVELOPMENT

Policy & Fiscal incentives

The Government continues to create an enabling environment for the development of capital markets. During the budget speech for the 2007/08 fiscal year, the Minister for Finance made a number of proposals on capital markets.

i) Regional incentives

- All citizens of the EAC Partner States to be treated as local investors and will pay withholding tax at the rate of 5% just like Kenyans; and
- The percentage of IPOs initially reserved for Kenyans at 25% were increased to 40% to accommodate the increased local investors.

These measures are in line with the Capital Markets Development Committee (CMDK) recommendations on capital markets integration initiatives.

ii) Asset Backed Securities

The Minister proposed a blanket exemption from the Stamp Duty Act (Cap 480) for any instrument that is certified by the Capital Markets Authority to be, or to have been, executed pursuant to, or in connection with the issue of asset-backed securities through a scheme approved by the Capital Markets Authority.

This blanket exemption would ease the issuance of asset backed securities which involves executions of

various transfers for purposes of protecting the interests of the parties in related transactions. Such transactions include transfers between: the originator and special purposes vehicle, the investors and special purpose vehicle, the special purpose vehicle and the credit enhancer, investors and credit enhancer.

iii) Share Capital Expansion

An amendment to the Stamp Duty Act Cap 480 to exempt a company listed on a stock exchange approved under the Capital Markets Act from paying stamp duty following an increase in its share capital.

This measure is aimed at encouraging listed companies to continue using the capital markets to raise additional equity capital.

iv) Investor Compensation Fund Board

- A proposal to amend the Capital Markets Act to recognize unclaimed dividends outstanding in listed companies for more than seven years as income to investor compensation fund; and
- To establish a Board to be known as the Investor Compensation Fund Board. The board will be a body corporate with perpetual succession and a common seal. The function of the board shall be to administer investor compensation fund which includes tracing and paying beneficiaries from collected unclaimed dividends when they resurface.

v) Deepening the Debt Market

The Minister proposed amendments to Internal Loans Act in order to recognize a dematerialized/paperless government security which is necessary for trading under the current automated trading infrastructure.

Legal framework

Several amendments to the Capital Markets Act and the licensing regulations were proposed to strengthen the regulatory role of the Authority. These proposals include:

- a) Transfer of Sanction Provisions from Regulations to the Act;
- b) Express power to impose sanction introduced in the Act with regard to breach of provisions of the Act or regulations;
- c) Financial penalties on conviction for an offence under the Act by the court; and
- d) License validity during renewals.

Capital Market Studies

The Authority carried out the following studies to inform market reform process:

- i) The Adequacy and Institutional Arrangement of Capital Market Service Providers;
- ii) The Appropriate Capital Market Segments and Structural Arrangement in Kenya;
- iii) The Demutualization of the Nairobi Stock Exchange; and
- iv) The Concept of Book – Building and its Applicability in the Kenyan Market.

HUMAN RESOURCES DEVELOPMENT

During the year, the Authority maintained its organization structure of six functional departments, with the approved establishment of 46 employees; with 30 employees in positions, and 16 vacant posts.

DEPARTMENTS /POSITIONS	CEO's Office	Legal Affairs	Compliance & Markets Operations	Research & Market Development	Finance	Human Resources & Administration	TOTAL
Chief Executive	1	-	-	-	-	-	1
Managers	-	1	1	1	1	1	5
Assistant Managers	2	2	2	2	1	-	9
Senior Officers	1	1	3	4	1	-	10
Officers	1	2	3	3	1	2	12
Auxiliary Staff	1	1	-	-	-	7	9
Total	6	7	9	10	4	10	46

The Authority continued to develop and deepen its employees' core competencies and skills through short-term and medium term professional courses, seminars and workshops at local, regional and international levels and study tours to both developed and emerging markets. The Authority is in the process of reviewing its organization structure and workforce levels to enable it respond to changing market needs.

FINANCIAL HIGHLIGHTS

The Authority's financial statements are presented in detail in the audited accounts for the financial year ended 30 June 2007.

Generally the Authority's financial position continued to grow and strengthen. A net surplus of income over expenditure of Kshs. 232 million was realised for the year. The balance sheet shows a strong liquid asset base, (73 % of total assets), due to the fact that surplus funds are invested in short-term call deposits and government securities.

The total income earned in the year is at all time high at Kshs. 393 million, an increase of 37% over the previous year. The good performance is attributable to heightened market activity as a result of automation at the Nairobi Stock Exchange, additional issues of securities in the secondary market, among other factors.

The total expenditure incurred is Kshs. 161 million which is Kshs.35 million higher than previous year due to increased spending under investor education, staff training and conferences and consultancy and professional services owing to enhanced market activity.

INCOME & EXPENDITURE SUMMARY:	30.06.2007	30.06.2006
	Sh' 000	Sh' 000
INCOME		
Government Bonds and Capitalization fees	93,989	108,192
NSE Transaction fees	242,007	146,043
Others	50,126	28,184
TOTAL OPERATING INCOME	386,122	282,419
Donor Funding	7,707	4,290
Total Income	393,829	286,709
EXPENDITURE		
Salaries and staff costs	76,416	64,460
Rent and maintenance	9,926	8,684
Training and Conferences	7,769	2,767
Investor Education	6,021	3,304
Authority Members' Allowances	10,330	8,238
Professional and Market Development	19,061	11,919
Depreciation on Property, Plant & Equipment	3,695	4,348
Others	28,324	22,654
TOTAL EXPENDITURE	161,542	126,374

LOOKING AHEAD

The approval for listing of 4 new companies and one second offer during the 2006/07 fiscal year and the heavy secondary trading demonstrated the great potential of our capital market. The market growth momentum is expected to continue against the background of enhanced policy and fiscal incentives and modernized trading infrastructure. The market looks forward to Safaricom Ltd. IPO which will be the biggest privatization to be handled in the region. The continued robust economic growth will go a long way in encouraging the private sector to seek long term capital to meet the increasing demand for their goods and services. Similarly, the gazettelement of the Asset

Backed Securities and Venture Capital companies' regulations will increase the range of investment products as we position our capital market to support infrastructure financing.

The successful year would not have been possible without the committed board and staff. I take this opportunity to thank them for their commitment.

Edward H Ntalami
CHIEF EXECUTIVE

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 15 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, he holds a doctoral degree in Business Administration (Marketing) from Indiana University, USA. He has over 25 years of University level teaching experience in marketing and management in both the United States of America and Kenya and over 20 years experience as a trainer and consultant in marketing strategy, strategic management and human resource development. He is currently a director of the Magadi Soda Company, and Vice Chancellor of Greta University.

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)

Alternate: James Waweru

Mr. Wako holds a Master of Law degree from the University of London, with specialization in Comparative Constitutional Law, International Economic Law

and the Law of Treaties. He is a Fellow of the Chartered Institute of Arbitrators (London) and of the International Academy of Trial Lawyers (U.S.A). He has worked with the United Nations, and other Regional and International Non Governmental Organisations, and is the principal legal advisor to the Government of Kenya.

Joseph Kinyua (PS, Treasury)

Alternate: Dr. Kamau Thugge

Mr. Kinyua holds Bachelors & Masters Degrees in Economics, and has wide experience in financial and public sector management, having worked with the University of Nairobi, the International Monetary Fund and the Central Bank of Kenya.

Prof. Njuguna S. Ndung'u

(Governor of Central Bank)

Alternate: Jackson Kitili

An Economist by profession, Prof. Ndung'u holds a PhD in Economics from the University of Gothenburg, Sweden, and Masters and Bachelors degrees in Economics from the University of Nairobi. He's an Associate Professor of Economics at the University of Nairobi, and has worked in various capacities with the International Development Research Centre (IDRC) Canada, and the Kenya Institute of Public Policy Research and Analysis (KIPPR), among other Institutions.

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. 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).

Nafisa Abbas

She holds a Bachelor of Business Administration degree from the American University in Cairo, and an MBA from USIU Nairobi. She has diverse experience in the business sector where she holds directorship roles, and has some non-executive responsibilities in non-profit organizations.

Dr. Gituro Wainaina

He is a consulting economist and educator, holds a PhD in Agricultural Economics, an MBA and Bachelor of Education degrees. He has extensive working experience with the World Bank, CARE International and the Education Ministries in Kenya, Malawi and Rwanda.

Margaret Ombok

She holds a B.Ed (Hons) from Kenyatta University, an MBA from the University of Nairobi, and is currently a PhD student in Marketing. She has diverse experience in the education sector, and has co-authored a Commerce textbook for high school students, as well as written a number of manuscripts. She is a member of the Kenya Institute of Management and the Marketing Society of Kenya.

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;
- 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;
- 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 constituted the following committees:

The Finance Committee

This committee consists of three members, all of whom are non-executive members of the Board. It has oversight on all financial issues including procurement. The committee met twice 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 3 times during the period.

The Human Resource Committee

This committee consists of five members, all of whom are non-executive members of the Board. The committee was chaired by Mrs. Margaret Ombok. It is responsible for the human resource matters including recruitment. The committee met once during the year.

Technical Committee

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

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.

DEVELOPMENT OF DIRECTORS

The Authority continues to support the training and development of directors. This year, some of the directors attended a State Corporations Seminar and a training on Corporate Governance.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board constantly monitors the operational and financial aspects of the Authority's activities and through the 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.

To the knowledge of the Board, no director or employee has acted or committed any offence or indulged in any unethical behaviour in the conduct of the lawfully authorized business of the Authority.

Market Performance Report

PRIMARY MARKET

1.1. Equity

The buoyant activity in the primary equities market that was witnessed in 2006 continued in earnest with the largest number of annual public issues ever observed in the history of our capital markets.

Diamond Trust Bank's rights issue of one share for every eight shares held, priced at Kshs 50 per share was oversubscribed by 197%, with 15.5 million new shares created and Kshs 776 million raised.

Eveready East Africa Limited IPO in October 2006, a key player in the portable power and personal grooming industry offered 63 million shares at a price of Kshs. 9.50. The IPO attracted a subscription of 733%.

The move by the Government to divest a further 18% stake in Mumias Sugar Company boosted the primary market further as the additional 92 million shares offered for sale reduced its ownership to just 20%. The issue was marginally oversubscribed at an offer price of Kshs 49.50, from which Kshs 4.5 billion was raised.

Access Kenya Group Ltd, a private company providing a range of information and communication technology services offered for subscription 45 million ordinary shares to raise additional capital and an offer for sale of 35 million. The issue, priced at Kshs 10.00 was oversubscribed by 263%.

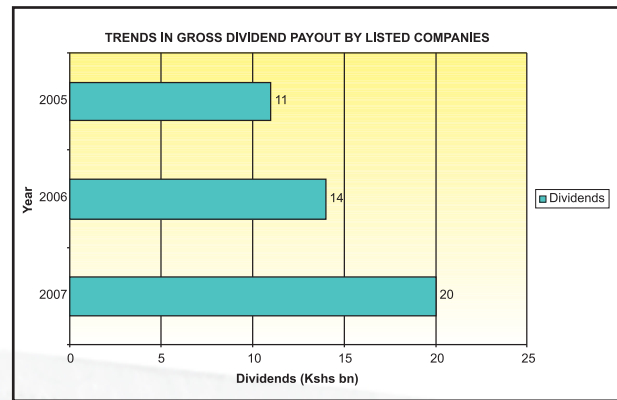
Market activity was however temporary jolted by the Government's decision to call off the much awaited Offer for Sale (OFS) of Kenya Electricity Generating Company's (Kengen) second tranche of 418 million shares equivalent to 19% of its share capital, citing the low prevailing market price of the share.

To crown a truly remarkable year for the primary equities market, the Government offered for sale 240 million shares in Kenya Reinsurance Corporations equivalent to 40% of its share capital to the public at a price of Kshs 9.50. Being part of the Government's

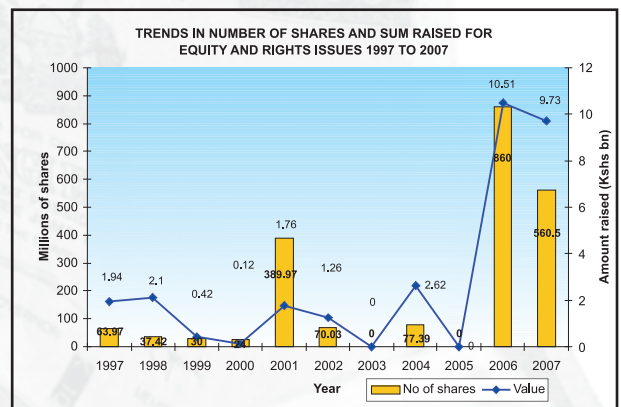
ongoing privatization programme, the offer was very successful, attracting a subscription rate of 505% and demonstrating the enormous absorptive capacity of our capital markets. During this IPO the Authority for the first time, allowed Qualified Institutional Investors (QII) to apply for shares and pay on allotment as one of the measures to address cheque refunds challenges that had been associated with the previous IPOs.

Corporate Actions

Six companies effected share splits during the year with five issuing bonuses. This increased the number of shares listed by more than 3 billion. In addition to these, there were a total of 39 interim and final dividend announcements by various companies listed at the NSE from which a total of Kshs. 19.8 billion was paid out to shareholders in the form of dividends, being an equivalent of 2.7% of the total market capitalization of the NSE, compared to 54 announcements of Kshs.14.7 billion worth of dividends in 2006.



Source: CMA Compliance database



Source: CMA Compliance database

Treasury Bond Issue by tenor; 2004 – 2007

Tenor (Years)	2004		2005		2006		2007	
	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	3	10	8	26.97	—	—	2	8.08
1½	—	—	—	—	—	—	—	—
2	4	14.91	3	12.33	4	18.96	3	11.68
3	5	17.14	3	10.81	2	—	2	6.87
4	2	6.49	1	3.63	3	9.55	1	3.38
5	1	3.56	1	6.09	2	7.91	2	5.39
6	3	10.95	1	4.74	2	14	2	11.7
7	2	4.87	1	3.88	1	3.18	1	2.26
8	1	1.52	—	—	1	3.2	1	2.62
9	—	7.19	—	—	1	2.95	—	—
10	1	5.93	—	—	1	5.09	—	—
11	—	—	—	—	—	—	1	3.91
12	—	—	—	—	—	—	2	8.82
15	—	—	—	—	—	—	2	11.07
Total	22	82.56	18	68.45	17	77.64	19	75.78

Source: CMA Compliance database, CBK Website

1.1. Debt instruments

(a) Treasury bonds

The Government sustained the implementation of its policy of issuing longer-dated paper, with Treasury Bonds of more than 10-year maturity being issued for the first time in its history. During this period two 15-Year bonds were issued, both of which were oversubscribed, raising more than Kshs 11 billion.

In total 19 bonds were issued, raising Kshs 76 billion compared to the 17 bonds issued the previous year which raised Kshs 78 billion.

Average bond yields varied from 6.16% on the Zero

Coupon bonds to 14.36% on the 12-Year fixed rate bond as the higher tenor bonds attracted higher yields.

(b) Corporate Bonds

There were no new corporate bond issues in 2007. However, Celtel Kenya retired its Kshs 4.5 billion bond midstream in February 2007, after Celtel International BV, Amsterdam (CI), its majority shareholders and MTC Kuwait, who had acquired CI, decided to increase shareholder financing and reduce debt financing in order to balance its gearing ratio.

More activity is expected in this market in the coming financial year as Barclays Bank, PTA Bank and African Development Bank have all shown keen interest.

Approved Corporate Bonds

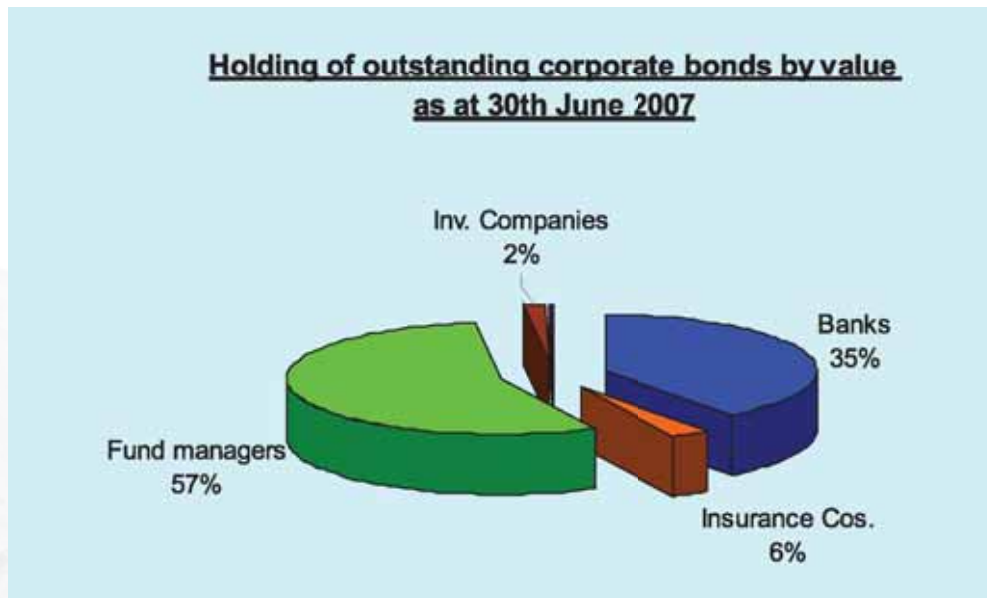
Issuer	Amount (Kshs mn)	Date of approval	Maturity	Outstanding (Kshs mn)	Yield (%)
E.A. Development Bank	1,500	30-Jun-04	31-July-11	800	7-Year Fixed T-Bond + 0.75%
*Mabati Rolling Mills Limited	1,000	19-Sep-02	30-Sep-07	400	91 Day T-Bill +1.25%
*Faulu (K) Limited	500	17-Feb-05	4-Apr-10	500	91 Day T-Bill +1.0%
PTA Bank	1,600	04-July-05	05-July-12	800	91 Day T-Bill +1.0%
Athi River Mining	800	27-oct-05	Oct-10	800	91 Day T-Bill +1.75%
Shelter Afrique	500	Dec-05	May-09	500	91 Day T-Bill +1.25%
Total approved	5,600			3,500	

Source: CMA Research Database * 75% guaranteed

ISSUER	BANKS (%)	INSURANCE COMPANIES (%)	FUND MANAGERS (%)	INVESTMENT COMPANIES (%)
E.A.D.B. (2004 issue)	36.25	17.50	46.25	0.00
*Mabati Rolling Mills Limited	36.42	3.00	59.95	0.63
Faulu (Kenya)	40.00	0.00	46.00	14.00
PTA Bank	45.13	1.13	53.13	0.63
Athi River Mining	19.50	10.50	70.00	0.00
Shelter Afrique 1 ST Tranche	60.00	0.00	37.50	2.50
Shelter Afrique 2 nd Tranche	6.67	6.67	86.67	0.00

Source: CMA Research Database * 75% guaranteed

Corporate Bond holdings by fund managers and commercial banks continued to dominate the sector during the first half of 2007, although their aggregate holdings dropped to 92% compared to 96% recorded the previous period. This was largely as a result of increased participation by insurance and investment companies whose market shares increased from 3% to 6% and 1% to 2% respectively in 2007.



Source: CMA Research Database

(c) Commercial paper programme

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The short-term debt market continued to flourish as two new Commercial Paper (CP) issues and six renewals increased the funds raised through this market to Kshs 3.02 billion in 2007, compared to the six new issues and two renewals that raised Kshs 2.87 billion during the previous financial year. The outstanding

commercial papers at the end of 2007 were Kshs. 2.94 billion in comparison with Kshs. 2.03 billion in 2006. CPs remain a popular alternative of raising funds to finance company's working capital needs and more activity is expected in the coming year, subject to interest rates remaining stable.

Approved Commercial Paper

	Issuer	Amount (Kshs mn)	Date of approval	Expiry date	Status of programme	Outstanding (Kshs mn)	Average Yield (%)
1	Kenya Oil Company Ltd	1,500	08-05-07	01-05-08	5th Renewal	1,500	N/A
2	*Kenya Hotel Properties	550	13-03-07	13-03-08	First issue	550	7.38
3	*Ecta (Kenya)	70	14-02-07	14-02-08	First issue	65	7.72
4	Cooper Kenya Limited	100	06-03-07	06-03-08	1ST Renewal	100	7.49
5	*CMC Holdings	250	08-09-06	08-09-07	5th Renewal	249.7	7.47
6	Crown Berger	200	01-12-06	01-12-07	1st Renewal	170.08	8.75
7	Synergy Industrial	100	10-08-06	10-08-07	1st Renewal	55	7.33
8	Athi River Mining	250	08-05-07	05-05-08	1st Renewal	250	N/A
	Total approved	3,020				2,939.78	

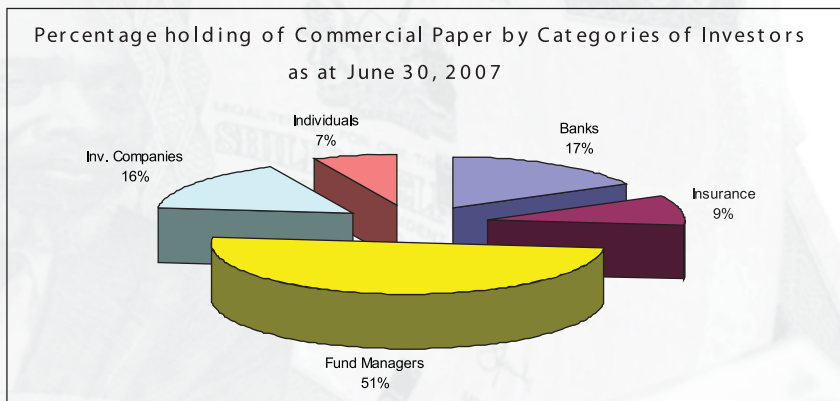
Source: CMA Research Database *Bank guaranteed 1 Average yield as at June 2007

Holding of Commercial paper by class of investors as at June 30, 2007

	Issuer	Banks (%)	Insurance companies (%)	Fund managers (%)	Investment Companies (%)	Individuals (%)
1	*Kenya Hotel Properties	45.45	3.64	45.45	5.45	0.00
	Athi River Mining	40.00	0.00	60.00	0.00	0.00
2	Crown Berger	23.28	7.96	58.21	7.64	2.91
3	Kenya Oil Company Ltd	6.92	29.48	61.70	0.80	1.11
4	*Ecta (Kenya) Limited	0.00	0.00	50.00	50.00	0.00
5	*Cooper Kenya Ltd	0.00	9.50	65.50	25.00	0.00
6	CMC Holdings Limited	34.00	4.80	25.45	12.15	23.59
8	Synergy Industrial Credit	0.00	0.00	100.00	0.00	0.00

Source: CMA Research Database

Commercial banks and investment companies recorded increased proportional holdings in CP notes during the year compared to the previous period. Subscription to these 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



SECONDARY MARKET

2.1. Secondary Equity Market

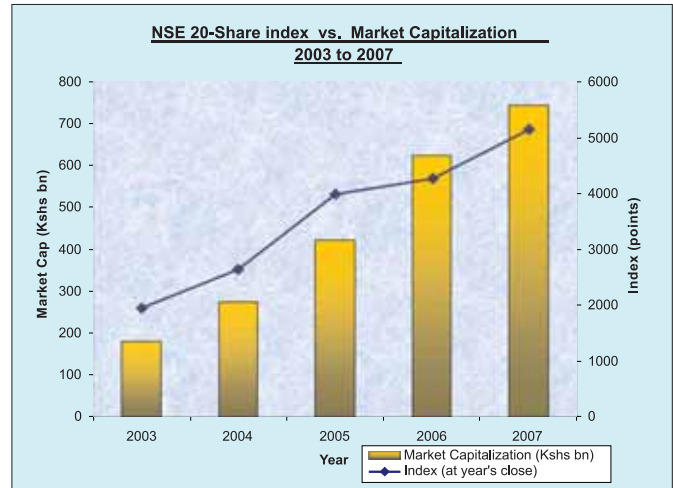
A combination of new listings, share splits, bonus issues and commencement of trading through of the Automated Trading System (ATS) resulted in improved activity in the secondary equities market, as the market performance indicators posted new historical highs.

The NSE index crossed the 5000 mark for the first time in 13 years, rising to 5146 points, a 20.8% increase over the previous period, as market capitalization soared to a new high of Kshs 743.9 billion. This is highly attributed to the increased number of new shares following a stream of new listings, share splits and increased share prices.

Average monthly turnover figure rose to Kshs 8 billion as equities turnover sprang to Kshs 100.3 billion. This reflected a 66.4 % rise over the corresponding period in 2006, a clear testimony to the fact that increased activity in the primary equities market had a direct influence on the improved performance at the NSE.

Liquidity at the NSE was also on an upward trend as turnover ratio rose by 3.5% to 13.5% as investors continued to frequently turn over their portfolio. Institutional investors especially pension funds, insurance companies and commercial banks continued to stimulate increased demand for equities.

The number of shares traded increased by 22% to 1.5 billion compared to the corresponding period last year, as the newly issued shares continued to be actively traded. Implementation of the ATS from September 2006 was one of the most important factors influencing the growth in share volume, as the system was able to handle substantial bids and offers. The system is designed to handle an infinite number of transactions; hence share volume is expected to continue increasing in the coming years, irrespective of how many new shares are listed at the NSE.



Source: CMA Research Database, NSE Monthly Statistical Bulletins

Gross Market Statistics 2003 to 2007

	2003	2004	2005	2006	2007
Share Volume (m)	198.1	525.88	579.94	1,227.82	1,497.55
Shares Turnover (Kshs bn)	7.51	20.35	22.03	60.28	100.32
Market Capitalization (Kshs bn)	180.65	274.41	420.7	623.20	743.90
Index (at year's close)	1935	2640	3972	4260	5146
Bond Turnover (Kshs bn)	36.31	48.38	14.30	43.00	60.59

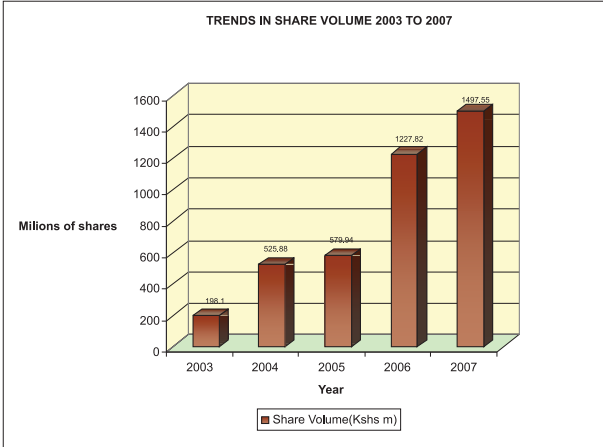
Source: CMA Research Database, NSE Monthly Statistical Bulletins

Trend in number of CDSC Accounts and immobilized shares

	Dec 2004	Dec 2005	Dec 2006
No of new CDSC Accounts	3,779	74,503	526,447
No of new immobilized shares (million)	9.40	1,390	546.4

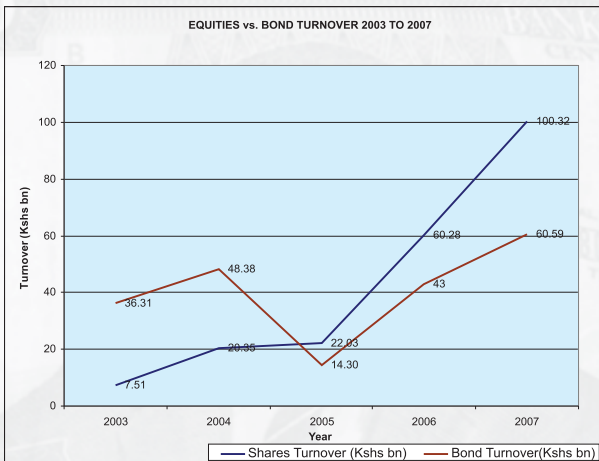
Source: CDSC

The CDS continues to draw new investors currently as more investment opportunities are made available through IPOs.



Source: CMA Research Database, NSE Monthly Statistical Bulletins

The gains that have been realized by investors in the equities market, as evidenced by the substantial increase in market capitalization, paints a rosy picture of the future of this market. The number of investors at the NSE is estimated to have grown from less than one percent to nearly two percent of the Kenyan population, creating greater demand for securities. Supply remains sufficient with continuous participation of both the Public and the Private sector in IPOs. Market infrastructure is currently state of the art, and taking all these factors into consideration, performance of this market can only get better.



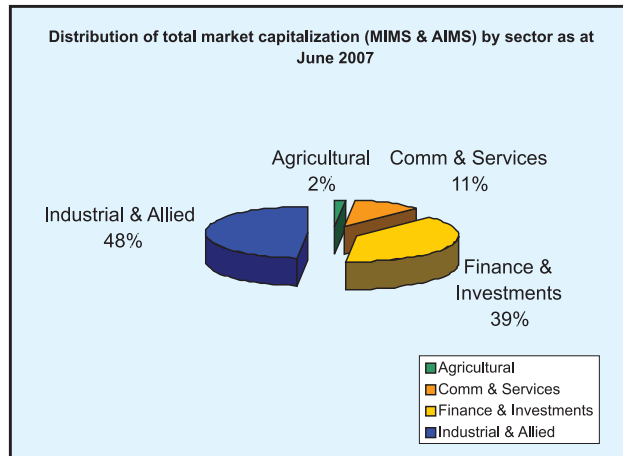
Source: CMA Research Database, NSE Monthly Statistical Bulletins

Sector analysis of the secondary equities market

Market capitalization

Market capitalization by sector as at June 2007

Agricultural Mkt Cap (Kshs bn)	Comm & Services Mkt Cap (Kshs bn)	Finance & Investments Mkt Cap (Kshs bn)	Industrial & Allied Mkt Cap (Kshs bn)
11.41	82.28	289.52	360.07



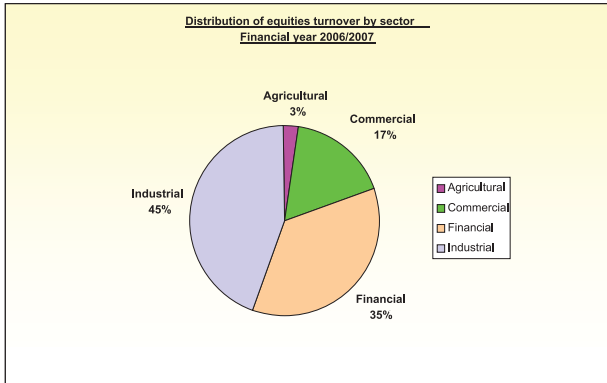
Source: CMA Research Database

The Industrial and Allied sector continued to dominate in terms of market capitalization despite a 9% drop in its market share compared to the previous financial year. The best performing sector was the Finance and Investments which gained 11% last year largely as a result of bonus issues, splits and general increase in prices of shares falling into this category. The entry of Kenya Reinsurance Company in the next financial year is likely to sustain the improved performance. Lack of new issues from the Agricultural sector continued to affect its performance adversely, although its share of market capitalization increased marginally to 2% as a result of increased prices, as the Commercial Sector posted a declined market share of 11%

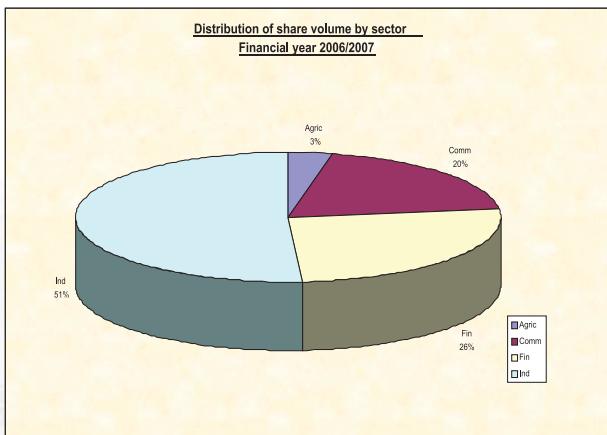
2.2. Secondary Treasury bond Market

The first half of the financial year witnessed a decline in secondary Treasury bond trading with an average monthly turnover of Kshs 1.8 billion. The second half saw a steady increase in trading with the last two months of the year experiencing record turnovers of more than Kshs 9 billion as total turnover for the year rose by 41% to Kshs 60.5 billion, the highest in the NSE's history.

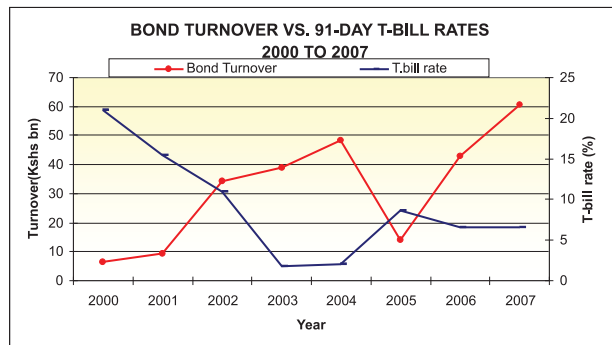
The secondary bond market is expected to improve further in the coming year following the success of the 15-Year primary bond issues as the longer-dated instruments will be largely instrumental in the development of a stable Treasury yield curve. As the coming financial year is an election year, the Central Bank will be expected to remain prudent in its monetary policy to sustain a stable interest rates regime.



Source: CMA Research Database



Source: CMA Research Database



Source: CMA Research Database, CBK Website

The Industrial and Allied sector again dominated yet again in 2007 in terms of share volume and turnover distribution with ratios of 51% and 45% respectively. The Finance and Investments sector made substantial gains in terms of market share compared with the previous financial year, with corresponding increases in turnover and share volume of 15% and 11%. The Commercial and Services Sector declined by 7% and 14% respectively in turnover and share volume market shares as the Agricultural sector made marginal gains.

The Government not only maintained its policy of issuing longer dated instruments in general but successfully tested the market by issuing two 12-Year and two 15-Year bonds with higher yields. The level of confidence of investors was manifested in the liquidity of these instruments as turnover increased to a historical high. Activity is expected to be sustained at the current high levels since the Government will continue to issue this instrument to meet its budget deficits and retire matured debts.

Report of Members of the Authority

The members of the Authority have pleasure in presenting their report and the audited financial statements for the year ended 30 June 2007

INCORPORATION

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

PRINCIPAL ACTIVITY

The Authority promotes and facilitates the development of an orderly, fair and efficient capital markets in Kenya.

RESULTS

The results for the year are summarised below:-

	2007 Kshs	2006 Kshs
Total income for the year	393,829,793	286,740,799
Total operating expenditure for the year	(196,542,481)	(126,373,994)
Surplus for the year transferred to the general fund	197,287,312	160,366,805

FINANCIAL STATEMENTS

At the date of this report, the members of the Authority were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

MEMBERS OF THE AUTHORITY

The present members of the Authority are shown on page 5

MEMBERS' BENEFITS

Since the last board meeting of the Authority to the date of this report, no member has received or become entitled to receive any benefit other than members' allowances and amounts received under employment contracts for the Chief Executive.

The aggregate amount of emoluments for members services rendered in the financial year is disclosed on page 67.

AUDITOR

The Controller & Auditor General is responsible for the statutory audit of the Authority's books of account in accordance with Sections 14 and 39 (1) of the Public Audit Act 2003, which empowers the Controller & Auditor General to appoint other auditors to carry out the audit on his/her behalf. SCI Koimhuri Tucker & Co were appointed by Controller & Auditor General to carry out the audit for the year ended 30 June 2007.

BY ORDER OF THE BOARD

Chief Executive

Nairobi

25 October 2007

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 the year. It also requires the members to ensure that the Authority keeps proper accounting records, which disclose, with reasonable accuracy, 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 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 the next twelve months from the date of this statement.

The statement was approved by the members of the Authority on 25 October 2007 and signed on its behalf by:-

Chairman

Chief Executive

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2007

The financial statements of Capital Markets Authority set out on pages 51 to 68 which comprise the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by SCI Koimburi Tucker and Company auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanation which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

The Authority's Responsibility for the Financial Statements

The Authority is responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Authority and of its operating results in accordance with the international Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion based on the audit. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

OPINION

In my Opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30 June 2007 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Capital Markets Act Cap 485A.

P.N. KOMORA

CONTROLLER AND AUDITOR GENERAL

Nairobi 23 November 2007

Income and Expenditure Account

for the Year ended June 30, 2007

	Note	2007 Kshs	2006 Kshs
FEE INCOME	4	354,031,167	270,622,655
OTHER INCOME	5	39,798,626	16,118,144
TOTAL INCOME		393,829,793	286,740,799
EXPENDITURE	6	(161,542,481)	(126,373,994)
GROSS SURPLUS FOR THE YEAR		232,287,312	160,366,805
SURPLUS TO EXCHEQUER	7	(35,000,000)	-
NET SURPLUS FOR THE YEAR	8	197,287,312	160,366,805

Balance Sheet

as at June 30, 2007

	Note	2007 Kshs	2006 Kshs
ASSETS			
NON CURRENT ASSETS			
Property, plant & Equipment	9	14,477,597	10,320,342
Intangible assets	10	1633	2,330,067
Staff loans and advances	11	9,125,546	7,772,491
Investors' compensation fund's investment in the CDSC	12	7,000,000	7,000,000
Investors' compensation fund's investment in the treasury bonds	12	125,124,497	51,761,862
Investment in government securities	13	320,281,086	185,199,506
		<u>478,007,359</u>	<u>264,384,268</u>
CURRENT ASSETS			
Staff loans and advances	11	1,623,724	1,638,482
Investors' compensation fund	12	33,055,113	65,915,406
Investment in government securities	13	58,850,000	70,648,505
Trade and other receivables	14	34,968,452	40,855,209
Staff benevolent fund	15	3,910,753	3,460,263
Cash and cash equivalents	16	117,819,623	34,053,601
		<u>250,227,665</u>	<u>216,571,466</u>
		<u>728,235,024</u>	<u>480,955,734</u>
TOTAL ASSETS			
FUNDS AND LIABILITIES			
FUNDS			
Capital fund	17	27,885,508	27,885,508
General fund	18	487,459,533	290,172,221
		<u>515,345,041</u>	<u>318,057,729</u>
CURRENT LIABILITIES			
Investors' compensation fund	12	165,179,611	124,677,267
Staff benevolent fund	15	3,910,753	3,460,263
Trade and other payables	19	23,214,962	15,954,766
Provisions	20	20,177,464	18,398,516
Millennium staff savings scheme	21	407,193	407,193
		<u>212,889,983</u>	<u>162,898,005</u>
		<u>728,235,024</u>	<u>480,955,734</u>
TOTAL FUNDS AND LIABILITIES			

The financial statements on pages 34 to 36 were approved for issue by the Members of the Authority on 25 October 2007 and signed on their behalf by:

CHAIRMAN

CHIEF EXECUTIVE

Statement of Changes in Fund Balances

for the Year ended June 30, 2007

	Capital fund Kshs	General fund Kshs	Total Kshs
At 1 July 2005	27,885,508	129,805,416	157,690,924
Surplus for the year	-	160,366,805	160,366,805
At 30 June 2006	<u>27,885,508</u>	<u>290,172,221</u>	<u>318,057,729</u>
At 1 July 2006	27,885,508	290,172,221	318,057,729
Surplus for the year	-	197,287,312	197,287,312
At 30 June 2007	<u>27,885,508</u>	<u>487,459,533</u>	<u>515,345,041</u>

Cash Flow Statement

for the Year ended June 30, 2007

	Note	2007 Kshs	2006 Kshs
Operating activities			
Cash generated from operations	22	225,722,179	216,455,168
Interest received		29,948,489	10,921,174
Net cash generated from operating activities		255,670,668	227,376,342
Cash flows from investing activities:			
Purchase of property, plant and equipment		(7,852,093)	(2,182,610)
Purchase of intangible assets		(626,650)	(2,621,325)
Proceeds from disposal of property, plant and equipment		810,000	-
Purchase of treasury bonds from the investors' Compensation Fund		(20,135,372)	(72,753,265)
Purchase of treasury bonds from the investors' Compensation Fund		(9,692,129)	
Purchase of treasury bonds		(113,544,865)	(131,568,168)
Purchase of treasury bills		(9,738,310)	-
Benevolent fund		(7,849)	(17,715)
Net cash used in investing activities		(160,787,268)	(209,143,083)
Net increase in cash and cash equivalents		94,883,400	18,233,259
Movement in cash and cash equivalents:-			
At the start of the year		38,662,152	20,428,893
Increase		94,883,400	18,233,259
At the end of the year	16	133,545,552	38,662,152

Notes To The Financial Statements

for the Year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied over the years presented unless otherwise stated:

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost basis of accounting as modified by the revaluation of certain investments to fair value and are presented in the functional currency, Kenya shillings (Kshs) rounded to the nearest shilling.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgement and complexity, or where assumptions and estimates are significant to the financial statements are disclosed in note 3.

b) Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income and expenditure account in the financial period in which they are incurred.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the property, plant and equipment over their expected useful life.

The rates in use are:

Motor vehicles	25.00%
Computer equipment	25.00%
Office equipment	20.00%
Furniture and fittings	12.50%

The carrying values of property, plant and equipment are reviewed for impairment when events indicate that the carrying values may not be recoverable and are adjusted for impairment where it is considered necessary.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus/ (deficit). On disposal of revalued assets, amounts in the revaluation surplus relating to the asset are transferred to retained earnings.

c) Financial instruments

Financial instruments carried on the balance sheet include cash on hand and bank, investments, trade and other receivables and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

d) Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Long term investments that are to be held to maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method.

e) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured.

Fees, interest and other income.

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

f) Intangible assets

The costs incurred to acquire and bring to use specific computer software licences are capitalized. The costs are amortized on a straight line basis over the expected useful lives, not exceeding three years. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

g) Foreign currency transactions

Transactions during the year are converted into Kenya shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income and expenditure account in the period in which they arise.

h) Employment benefits**i) Pension obligations**

The Authority operates an in-house defined benefits pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Authority and employees.

The Authority also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200 per employee per month, with the Authority contributing a similar amount.

The Authority's contributions to the above schemes are charged to the income and expenditure account in the year to which they relate.

ii) Gratuity obligations

The Authority pays service gratuity to staff on contract under their terms of employment. Employee entitlements to gratuity are recognized when they accrue to employees. A provision for gratuity payable is made in the balance sheet. The gratuity is not subject to actuarial valuation.

i) Other employee entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

j) Leases

Leases where the lessor does not retain substantially all the risks and benefits of ownership of assets are classified as operating leases. Operating lease payments are recognized as an expense in the income and expenditure account on a straight line basis over the lease term.

k) Trade and other receivables

Trade and other receivables are recognized at anticipated realizable value less an allowance for any uncollectible amounts. An estimate/specific provision is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have been taken without success.

l) Trade and other payables

Trade and other payables are stated at their nominal value.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, the cash and cash equivalents comprise of cash and cash equivalents as defined above and include; the Investors' Compensation and Staff Benevolent funds.

n) Provisions

A provision is recognized in the balance sheet when the Authority has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and it can be reliably estimated.

o) Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured.

p) Related parties

In the normal course of business the Authority enters into transactions with related parties. The related party transactions are at arms length.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Authority's activities expose it to a variety of financial risks, including credit risks and the effects of changes in interest rates. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances:

- i) Critical accounting estimates and assumptions.

Property, plant and equipment

Critical estimates are made by the Authority members in determining depreciation rates for the property, plant and equipment. The rates are set out in note 1 (b) above.

- ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Authority's accounting policies, management has made judgements in determining:

- Whether assets are impaired
- The classification of financial assets and leases
- Provisions and contingent liabilities

	2007 Kshs	2006 Kshs
4. FEES INCOME		
Capitalisation, rights and new issue fees	93,989,178	108,191,958
NSE - transaction fees	242,007,389	146,043,593
Application and licensing fees	10,215,307	9,121,893
Market development fees	7,819,293	7,265,211
	354,031,167	270,622,655
5. OTHER INCOME		
Interest income on investments	29,948,489	10,921,174
Donor funding	7,707,429	4,321,440
Gain on disposal of property, plant and equipment	810,000	-
Miscellaneous income	1,332,708	875,530
	39,798,626	16,118,144
6. EXPENDITURE		
Personnel costs (note 25)	79,415,695	64,460,471
Rent and maintenance	9,926,254	8,684,390
Equipment maintenance and stationery	5,015,400	4,097,248
Telephone, postage and Utilities	4,829,401	3,680,130
Entertainment and public relations	3,215,526	3,573,615
Medical schemes and insurance expenses	4,501,867	3,404,427
Training and conferences	7,769,563	2,767,651
Motor vehicle and running expenses	1,347,184	1,216,701
Subscriptions and IOSCO membership	1,785,967	2,888,471
Authority members emoluments-other allowances	10,330,024	8,237,616
Professional and market development services	19,061,330	11,919,461
Staff uniforms and miscellaneous expenses	237,914	1,160
Depreciation of property, plant and equipment	3,694,833	4,347,869
Amortisation of intangible assets	958,085	291,258
Auditor's remuneration	540,157	417,700
Investors' education and awareness programme	6,020,727	3,304,010
Tribunal expenses	5,892,584	3,081,816
	161,542,481	126,373,994

Tribunal expenses represent sitting and other expenses incurred by the Capital Markets Tribunal in relation to hearings on matters involving the Authority and other parties aggrieved by its pronouncements.

7. SURPLUS TO EXCHEQUER

This relates to amount paid to the Exchequer out of the surplus for the year as per section 16(3) of the State Corporations Act.

8. NET SURPLUS FOR THE YEAR

	2007 Kshs	2006 Kshs
The surplus for the year is stated after charging:-		
Depreciation of property, plant and equipment	3,694,833	4,347,869
Amortization of intangibles	958,085	291,258
Authority members' emoluments and other allowances	10,330,024	8,2237,616
Auditor's remuneration	540,157	417,700
Employees' benefits expense (Note 24)	<u>5,017,107</u>	<u>3,870,998</u>
And after crediting:		
Interest income on investments:	29,948,489	10,921,174
Gain on disposal of property, plant and equipment	810,000	-
Donor funding	<u>7,707,429</u>	<u>4,321,440</u>

9. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles Kshs	Computer Equipment Kshs	Office Equipment Kshs	Furniture & Fittings Kshs	Total Kshs
COST					
At 1 July 2005	14,361,285	8,518,423	5,901,121	22,248,787	51,029,616
Addition	-	1,874,253	50,047	258,310	2,182,610
At 30 June 2006	14,361,285	10,392,676	5,951,168	22,507,097	53,212,226
DEPRECIATION					
At 1 July 2005	12,707,498	6,071,812	4,174,514	15,590,191	38,554,015
Charge for the year	1,343,858	1,174,249	570,114	1,259,648	4,347,869
At 30 June 2006	14,051,356	7,246,061	4,744,628	16,849,839	42,891,884
COST					
At 1 July 2006	14,361,285	10,392,676	5,951,168	22,507,097	53,212,226
Additions	4,296,084	2,255,052	283,416	1,017,534	7,852,086
Disposal	(4,407,800)	-	-	-	(4,407,800)
At 30 June 2007	14,249,569	12,647,728	6,234,584	23,524,632	56,656,512
DEPRECIATION					
At 1 July 2006	14,051,356	7,246,061	4,744,628	16,849,839	42,891,884
Charges for the year on disposal	397,245 (4,407,800)	1,411,675 -	541,111 -	1,344,802 -	3,694,833 (4,407,800)
At 30 June 2007	10,040,801	8,657,736	5,285,739	18,194,641	42,178,917
NET BOOK VALUE					
At 30 June 2007	4,208,767	3,989,996	948,845	5,329,989	14,477,597
At 30 June 2006	309,929	3,146,615	1,206,540	6,657,258	10,320,342

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property, plant and equipment with a cost of Kshs 32,048,600 (2006: Kshs 33,540,805) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Kshs 6,728,911 (2006: Kshs 5,786,397)

10. INTANGIBLE ASSETS

	2007 Kshs
COST	
At 1 July 2005	-
Purchases	<u>2,621,325</u>
At 30 June 2006	2,621,325
AMORTIZATION	
Charge for the year	<u>291,258</u>
NET BOOK AMOUNT	
At 30 June 2006	<u><u>2,330,367</u></u>
COST	
At 1 July 2007	2,621,325
Additions	<u>626,650</u>
At 30 June 2007	<u>3,247,975</u>
AMORTIZATION	
At July 1 2007	291,258
Charge for the year	<u>958,084</u>
At 30 June 2007	<u>1,249,342</u>
NET BOOK AMOUNT	
At 30 June 2007	<u><u>1,998,633</u></u>
At 30 June 2006	<u><u>2,330,067</u></u>

11. STAFF LOANS AND ADVANCES

	Short term Kshs	long term Kshs	Total 2007 Kshs	Total 2006 Kshs
Car Loans	1,275,122	5,826,594	7,101,716	5,337,716
House Loans	-	1,920,452	1,920,452	1,920,452
Other loans and advances	348,602	3,300,517	3,649,119	4,074,822
Provision for bad and doubtful debts	-	(1,922,017)	(1,922,017)	(1,922,017)
	<u>1,623,724</u>	<u>9,125,546</u>	<u>10,749,270</u>	<u>9,410,973</u>

12. 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 Investors' 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.

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 Capital Markets Authority Rules and Regulations.

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

	2007 Kshs	2006 Kshs
At beginning of the year	124,677,267	50,786,034
Nairobi Stock Exchange transactions fees	20,167,281	12,170,230
Interest on investments	10,126,297	2,431,719
Financial penalties	258,000	-
Management fees	(500,000)	(500,000)
Public issue fees	10,450,766	62,471,249
Previous year's overprovision	-	(2,681,965)
At end of the year	<u>165,179,611</u>	<u>124,677,267</u>

The Investors' Compensation Fund balance is represented by the following assets:

Non-current

	2007 Kshs	2006 Kshs
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% per annum)	-	2,037,247
Treasury bonds maturing after three years		
(effective interest rate – 11.25% per annum)	108,124,189	-
	<u>108,124,189</u>	<u>2,037,247</u>

12. INVESTORS' COMPENSATION FUND (Cont)

	2007 Kshs	2006 Kshs
Non-current(continued)		
Treasury bonds maturing after four years (effective interest rate – 11.25% per annum)	8,003,773	40,731,679
Treasury bonds maturing after five years (effective interest rate – 11.75% per annum)	8,996,535	8,992,936
	<u>17,000,308</u>	<u>49,724,615</u>
	<u>125,124,497</u>	<u>51,761,862</u>
Current		
Treasury bonds – maturing within 1 year (effective interest rate – 6.38% per annum)	11,736,842	-
Transaction fees receivable	131,041	291,401
Bank balance	14,876,150	4,201,229
Public issue fees receivable	6,311,080	61,422,776
	<u>33,055,113</u>	<u>65,915,406</u>
	<u>165,179,611</u>	<u>124,677,267</u>

13. INVESTMENT IN GOVERNMENT SECURITIES

	2007 Kshs	2006 Kshs
(a) Treasury bonds		
Maturing after 1 year	314,691,084	182,708,441
Accrued interest	5,590,002	2,491,065
	<u>320,281,086</u>	<u>185,199,506</u>
(b) Treasury bonds		
Maturing within 1 year	57,653,701	69,949,177
Accrued interest	1,196,299	699,328
	<u>58,850,000</u>	<u>70,648,505</u>
	<u>379,131,086</u>	<u>255,848,011</u>

The average interest rate earned on Treasury bonds during the year was 9.5% (2006:8.55%).

14. TRADE AND OTHER RECEIVABLES

	2007 Kshs	2006 Kshs
Trade receivables	31,770,928	26,919,486
Prepayments	2,081,080	69,600
Other fees receivable	-	13,433,517
Sundry reivables	1,116,444	432,606
	<u>34,968,452</u>	<u>40,855,209</u>

15. STAFF BENEVOLENT FUND

Investment in treasury bonds	2,991,147	2,991,147
Interest on investment	69,827	61,794
Cash and cash equivalents	849,779	407,322
	<u>3,910,753</u>	<u>3,460,263</u>

16. CASH AND CASH EQUIVALENTS

Cash at Hand	27,551	47,780
Cash at bank	11,031,524	19,003,725
Call deposit	106,760,548	15,002,096
	<u>117,819,623</u>	<u>34,053,601</u>

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following at 30 June 2007.

	2007 Kshs	2006 Kshs
Cash at Hand	27,551	47,780
Cash at bank	11,031,524	19,003,725
Call deposit	106,760,548	15,002,096
Staff benevolent fund bank balance	849,779	407,322
Investors' compensation fund bank balance	14,876,150	4,201,229
	<u>133,545,552</u>	<u>38,662,152</u>

17. CAPITAL FUND

	2007 Kshs	2006 Kshs
At 1 July and at 30 June	27,885,508	27,885,508

Capital fund represents the initial contribution by the government of Kenya towards the establishment of the Capital Markets Authority.

18. GENERAL FUND

	2007 Kshs	2006 Kshs
At 1 July	290,172,221	129,805,416
Surplus for the year	197,287,312	160,366,805
At 30 June	487,459,533	290,172,221

General fund represents accumulated surpluses over the years

19. TRADE AND OTHER PAYABLES

	2007 Kshs	2006 Kshs
Trade payables	2,962,858	5,277,824
Accruals	19,719,159	10,259,242
Audit fees accrual	532,945	417,700
	23,214,962	15,954,766

20. PROVISIONS

Provisions for the pending lawsuits (Note 27)	14,500,000	12,466,000
Service gratuity	5,677,464	5,932,516
	20,177,464	18,398,516

21. MILLENNIUM STAFF SAVINGS SCHEME

At 1 July and 30 June	407,193	407,193
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This relates to amounts payable to former staff which is a subject of court cases. The amounts are being held until a ruling is made.

22. CASH GENERATED FROM OPERATIONS

	2007 Kshs	2006 Kshs
Reconciliation of surplus for the year to cash generated from operations:-		
Surplus for the year	232,287,312	160,366,805
Depreciation of property, plant and equipment	3,694,833	4,347,869
Amortisation of intangible assets	958,085	291,258
Interest on investments	(29,948,489)	(10,921,174)
Surplus to the ministry of finance	(35,000,000)	-
Gain on disposal of property, plant and equipment	(810,000)	-
Operating surplus before working capital changes	171,181,741	154,084,758
Trade and other receivables	5,886,757	(20,354,372)
Staff loans and advances	(1,338,297)	(3,174,970)
Trade and other payables	8,260,196	2,449,402
Provisions	778,948	9,256,083
Investors' compensation fund	40,502,344	73,891,233
Staff benevolent fund	450,490	303,034
Cash generated from operations	225,722,179	216,455,168

23. OPERATING LEASE COMMITMENTS

Operating lease commitments represent rentals payable by the Authority for its office property. Property rental expenses during the year amounted to Kshs 9,299,854 (2006:Kshs 8,684,396). At the balance sheet date, the Authority had outstanding commitments under operating leases, which fall due as follows:

	2007 Kshs	2006 Kshs
Within one year	9,699,424	8,856,524
Between 2-5 years	38,401,877	10,434,515
	48,101,301	19,291,039

24. EMPLOYEE BENEFITS EXPENSE

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 Kshs 38,506,000 at 1 July 2004, and that the value of scheme's assets exceeded the liabilities by Kshs 275,000 at that date.

The following items are included within employee benefits expense:

	2007 Kshs	2006 Kshs
Retirement benefits costs		
Defined benefit scheme	4,935,507	3,799,198
National Social Security Fund	81,600	71,800
	5,017,107	3,870,998

25. RELATED PARTY TRANSACTIONS

i)	Key management compensation:	24,800,944	23,224,394
	Salaries and other short term benefits	1,229,318	793,634
		26,030,262	24,018,028
ii)	Members' emoluments		

A listing of the members of the Authority is shown on page 4 of the annual report. In 2007 the total remuneration of the members excluding the Chief Executive amounted to Kshs 10,330,024 (2006: Kshs 8,237,616).

Notes To The Financial Statements Cont'
for the Year ended June 30, 2007

26. PERSONNEL COSTS

	2007 Kshs	2006 Kshs
Consolidated pay, leave pay and passages	68,731,965	57,871,689
Staff retirement benefits and gratuity	7,479,730	6,409,282
Benevolent fund contributions	122,400	107,700
National Social Security Fund (NSSF)	81,600	71,800
	76,415,695	64,460,471
Average number of employees during the year	33	34

27. CONTINGENT LIABILITY

Pending law suits	61,722,700	61,722,700
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Former employees of the Authority have filed suits against the Authority for wrongful dismissal and are seeking damages to the extent of Kshs 61,722,700. Based on the advice of legal counsel, the Authority members have estimated that a liability of Kshs 14,500,000 (2006: Kshs.12, 466,000) will arise from these suits. The estimated liability has been recognised in these financial statements (note 20).

28. CAPITAL COMMITMENTS

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

	2007 Kshs	2006 Kshs
Authorised but not contracted for	33,400,000	13,100,000

29. CURRENCY RISK

The Authority operates wholly within Kenya and its assets and liabilities are reported in the local currency. It therefore held no significant foreign currency exposure at 30 June 2007

30. COMPARATIVES

Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.

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.

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

vii) The Central Depositories (Regulation of Central Depositories) Rules, 2004

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.

APPROVED INSTITUTIONS

SECURITIES EXCHANGE

Nairobi Stock Exchange Ltd.
Kimathi Street, Nation Centre, 1st Floor
P.O. Box 43633-00100
Nairobi
Tel: 254 20 2831000
Fax: 254 20 224200
Email: info@nse.co.ke
Website: www.nse.co.ke

DEPOSITORY AND SETTLEMENT SYSTEM

Central Depository and Settlement Corporation Ltd
Nation Centre, Kimathi Street, 10th Floor
P. O. Box 43633-00100
Nairobi
Tel: 254 20 253078/230692 ext 248
Fax: 254 20 253077
Email: helpdesk@cdskenya.com

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

Dyer & Blair Investment Bank Ltd

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

Standard Investment Bank

ICEA Building, 17th floor
PO Box 13714 – 00800
Nairobi
Tel: 220225/227004
Fax: 240297
Email: info@standardstocks.com
Website: www.standardstocks.com

Drummond Investment Bank 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

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 Ltd.

International House
Ground Floor
PO Box 30437 - 00100
Nairobi
Fax: 335827
Email: cbacapital@cba.co.ke
Website: www.cba.co.ke

Kestrel Capital (EA) Limited

ICEA Building, 5th Floor
Kenyatta Avenue
P.O Box 40005 - 00100
Nairobi
Tel: 251758/251893
Fax: 243264
Email: info@kestrelcapital.com

Barclays Financial Services Limited

Barclays Plaza M6
Loita Street
P.O. Box 30120-00100
Nairobi
Tel: 313364

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

Ngenye Kariuki & Co. Ltd.

Corner House, 15th floor
P O Box 12185 - 00400
Nairobi
Tel: 220052/220141/224333
Fax: 241825
E-mail: ngenyekari@wananchi.com

Ashbhu Securities Ltd.

Finance House, 13th floor
P.O Box 41684 - 00100
Nairobi
Tel: 210178/212989
Fax: 210500
Email: ashbhu@africaonline.co.ke
faidastocks@wananchi.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

Reliable Securities Limited

IPS Building, 6th Floor
Kimathi Street
P O Box 50338 - 00200
Nairobi
Tel: 241350/54/79
Fax: 241392
E-mail: reliable@gt.co.ke

Crossfield Securities Ltd

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

Sterling Securities Limited

Finance House, 10th Floor, Loita St.
P.O. Box 45080 - 00100
Nairobi
Tel: 213914/224077
E-mail: info@sterlingstocks.com

Faida securities Ltd.

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

Bob Mathews Stockbrokers Ltd

Pan African Insurance House, 3rd Floor
Kenyatta Avenue
Nairobi
Tel. 311898,341867
Fax :341867
bobmathews@bobmathewsstocks.com

Solid Investment Securities Ltd

Kimathi House, 1st Floor
Kimathi Street
P O Box 43046-00200
Nairobi
Tel: 244272/9
Fax: 244280
E-mail: sisl@solidkenya.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

AIG Global Investment Co. (EA) Ltd

Africa Re- Centre 5th Floor
Hospital Road
P.O Box 67262 - 00200
Nairobi
Tel: 2733400/8
Fax: 2733410
E-mail: aigeainfo@aig.com

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

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

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.aureos.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: 3276100

Standard Chartered Investment Services Ltd.

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

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

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

Genesis (K) Management Ltd

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

Amana Capital Limited

Barclays Plaza, Mezanine, Loita St.
.O.Box 9480 - 00100
Nairobi
Tel:313356/312144
hardy@amanacapital.co.ke
Website: amanacapital.co.ke

British-American Asset Managers Limited

Britak Centre Upperhill
P.O. Box 46143 - 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
Email: omam@omamkenya.com

Zimele Asset Management Co. Ltd.

Fedha Towers, 7th Floor
City Hall Way
P.O. Box 76528 - 00508
Nairobi
Tel: 2729078/2722953
Fax: 2722953
E-mail: zimele@africaonline.co.ke

Bridges Capital Ltd.

No. 209/362 Lenana Road
P.O. Box 62341 – 00200
P.O. Box 9000-00100
Nairobi
Tel: 2714372/3
Fax: 2714657
E-mail: bcap@africaonline.co.ke
Website: www.bridgescapital.com

Inter-Alliance International (K) Ltd

6 Longonot Place
PO 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.citinri.com
Email: nri.africa@citigroup.com

V F S International (K) Limited

Village Market
P.O.Box 400621
Nairobi
Tel: 7120361
Email : info@vfsint.com
Website www.vfsint.com

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

Equilibrium Capital Limited

Transnational Plaza
Tel. 248261
Nairobi
Email : enquiries@equilibriumcapital.co.ke
Website : www.equilibriumcapital.co.ke

Executive and Corporate Advisory

Services (K) Ltd
Mvuli Road Westlands
P.O.Box 72216-00200
Tel: 4444913/6
Fax: 4444897
E-mail: huma@execorp.co.ke

Covenant International Ltd

Sarit Centre
PO Box 931- 00600
Nairobi
Tel:513532
Fax: 513532
Email:covenant@nbi.ifbkenya.com

Cooperative Consult. Serv. Ltd

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

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 (E.A.) Ltd.

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

Iroko Securities Kenya Ltd

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

J.W. Seagon

Mobil Plaza, 1st Floor
Muthaiga Shopping Centre
PO Box 63420-00619
Nairobi
Tel: 513600-6
E-mail : info@jwseagon.com
Website : www.jwseagon.com

Jani Consultancy Services Limited

Shimmer's Plaza, 4th Floor
Westlands Road
P.O.Box 40583,
Nairobi
Tel: 3740640/1004
Fax: 3748838
E-mail: mbo@janiassociates.com

Winton Investment Services Ltd.

Village Market, Limuru Road
P.O. Box 607-00621,
Nairobi
Tel: 7121771
Fax: 7121742
Cell: 0722 509 269/ 0733 339047
E-mail: info@winton-investments.com

Franklin Mgt. Consultants Ltd

Viking House, Old Wing, 1st Floor
P.O. Box 61843-00200
Nairobi
Tel: 4441123/2285
Fax: 4441832
E-mail: franklin@wananchi.com

licensees Authorised Depositories

As at June 30, 2007

Barclays Bank of Kenya Ltd.

Barclays Plaza, Loita Street
P.O. Box 30120
Nairobi
Tel: 332230/313405/313364
Fax: 312392
Website: 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
Website: 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
Website : www.stanbic.co.ke

National Bank of Kenya Ltd

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

Cooperative Bank of Kenya

Coop House
Haile Selassie Avenue
P.O. Box 48231-00100
Nairobi
Tel: 32076000/32076100
Website : www.co-opbank.co.ke

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
Website: www.kcpafrica.com

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. Stanbic Unit Trust Funds
 - (i) Stanbic Money Market Fund
 - (ii) Stanbic Flexible Income Fund
 - (iii) Stanbic Managed Prudential Fund

 4. 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

 6. Zimele Unit Trust Scheme:
 - a) Zimele Balanced Fund
 - b) Zimele Money Market Fund

 7. Suntra Unit Trust Scheme:
 - a) Suntra Balanced Fund
 - b) Suntra Money Market Fund
 - c) Suntra Equity Fund

 8. ICEA Unit Trust Scheme:
 - a) ICEA Equity Fund
 - b) ICEA Money Market Fund
 - c) ICEA Growth Fund
- Approved Employee Share Ownership Plans (ESOPs):**
- 1) East African Breweries Limited Employee Share Ownership Plan
 - 2) Kenya Oil Company Limited Employee Share Ownership Plan
 - 3) Athi River Mining Limited Employee Share Ownership Plan
 - 4) Access Kenya Employee Share Ownership Plan

Listed Companies And Market Capitalization

As at June 30, 2007

	Security	Issued Shares (M)	Closing Price Shares Kshs	Market Cap Shares Kshs (B)
	MAIN INVESTMENT MARKET SECTOR			
	Agricultural sector			
1	Unilever Tea (Kenya) Ltd	48.88	74.00	3.62
2	Kakuzi Ltd.	19.60	42.25	0.83
3	Rea Vipingo Ltd.	60.00	19.75	1.19
4	Sasini Tea & Coffee Ltd.	190.05	18.70	3.55
	Commercial and services sector			
5	Access Kenya Ltd	199.89	13.05	2.61
6	CMC Holdings Ltd.	485.59	14.00	6.80
7	Car & General (K) Ltd.	22.28	50.00	1.11
8	Hutchings Biemer Ltd.(s)	0.36	20.25	0.01
9	Kenya Airways Ltd	461.62	77.00	35.54
10	Marshalls (EA) Ltd.	14.39	38.00	0.55
11	Nation Media Group Ltd.	71.31	248.00	17.68
12	Scangroup Ltd.	159.00	25.75	4.09
13	Standard Group Ltd.	65.13	56.50	3.68
14	Tourism Promotion Services (East Africa) Ltd.	89.87	75.00	6.74
15	Uchumi Supermarkets Ltd.	180.00	14.50	2.61
	Finance & investment sector			
16	Barclays Bank (K) Ltd.	1357.88	72.50	98.45
17	CFC Bank Ltd.	156.00	115.00	17.94
18	Diamond Trust Bank of Kenya Ltd.	139.75	80.50	11.25
19	Equity Bank Ltd.	90.56	145.00	13.13
20	Housing Finance Co. Ltd	115.00	38.50	4.43
21	ICDC Investment Co. Ltd.	549.95	26.75	14.71
22	Jubilee Insurance Co. Ltd.	36.00	210.00	7.56
23	Kenya Commercial Bank Ltd.	1996.00	23.50	46.91
24	National Bank of Kenya Ltd.	200.00	47.50	9.50
25	NIC Bank Ltd.	82.41	104.00	8.57
26	Pan Africa Insurance Holdings Ltd.	48.00	94.00	4.51
27	Standard Chartered Bank Ltd.	271.97	191.00	51.95

Listed Companies And Market Capitalization

As at June 30, 2007

	Security	Issued Shares (M)	Closing Price Shares Kshs	Market Cap Shares Kshs (B)
	Industrial & Allied sector			
28	Athi River Mining Ltd	93.00	74.00	6.88
29	British American Tobacco (K) Ltd.	100.00	184.00	18.40
30	Bamburi Cement Ltd.	362.96	190.00	68.96
31	BOC Kenya Ltd.	19.53	160.00	3.12
32	Carbacid Investments Ltd.	11.33	137.00	1.55
33	Crown Berger Ltd.	23.73	43.00	1.02
34	E.A.Cables Ltd.	202.50	47.50	9.62
35	E.A. Portland Cement Ltd.	90.00	110.00	9.90
36	East African Breweries Ltd.	658.98	154.00	101.48
37	Eveready East Africa Ltd.	210.00	7.90	1.66
38	Kenya Oil Co. Ltd.	101.70	99.00	10.07
39	Kenya Power & Lighting Ltd.	79.13	209.00	16.54
40	KenGen Co. Ltd.	2198.36	26.00	57.16
41	Mumias Sugar Co. Ltd.	510.00	29.00	14.79
42	Olympia Capital Holdings Ltd.	10.00	18.45	0.18
43	Sameer Africa Ltd.	278.34	13.00	3.62
44	Total Kenya Ltd.	175.06	29.25	5.12
45	Unga Group Ltd.	63.09	14.65	0.92
	ALTERNATIVE INVESTMENT MARKET SEGMENT			
46	A. Baumann & Co. Ltd.	3.84	27.00	0.10
47	City Trust Ltd.	4.17	145.00	0.60
48	Eaagads	8.04	52.00	0.42
49	Express Kenya Ltd.	35.43	21.25	0.75
50	Kapchorua Tea Co. Ltd.	3.91	112.00	0.44
51	Kenya Orchards Ltd.	12.87	5.00	0.06
52	Limuru Tea Co. Ltd.	0.60	400.00	0.24
53	Williamson Tea Kenya Ltd	8.76	129.00	1.13
	Preference shares			
1	Kenya Power & Lighting Ltd. Pref. 4%	1.80	8.00	0.01
2	Kenya Power & Lighting Ltd. Pref. 7%	0.35	10.00	0.00



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Capital Markets Authority

ANNUAL REPORT

& FINANCIAL STATEMENTS