



ANNUAL REPORT AND FINANCIAL STATEMENTS

For the Year Ended

June 30, 2006

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, 2006. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Respectfully yours



Edward H Ntalami

CHIEF EXECUTIVE



Vision

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

Mission

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

Core Values

Integrity
Transparency
Accountability
Responsiveness
Teamwork
Innovativeness
Efficiency
Fairness

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AUTHORITY DETAILS AND KEY ADVISERS

The present members of the Authority are:

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

CHIEF EXECUTIVE

Edward H. Ntalami

P.O. Box 74800 - 00200

Nairobi

Tel: 221910/221869

E-mail: corporate@cma.or.ke

Website: www.cma.or.ke

REGISTERED OFFICE

5th Floor, Reinsurance Plaza

Taifa Road

P.O. Box 74800 - 00200

Nairobi.

BANKERS

Commercial Bank of Africa Limited

Mama Ngina Street

P.O. Box 30437 - 00100

Nairobi.

ADVOCATES

Archer & Wilcock Advocates

Marakwet Close, Kilimani

P.O. Box 10201-00400

Nairobi

Savings and Loan Kenya Limited

Mama Ngina Street

P.O. Box 45129 - 00100

Nairobi

Oraro & Company Advocates

First Ngong Avenue

P.O. Box 51326 - 00200

Nairobi

AUDITORS

SCI Koimburi Tucker & Co.

On behalf of the Controller & Auditor General

P.O. Box 30084 - 00100

Nairobi

MEMBERS OF THE AUTHORITY



Prof Chege Waruingi



Edward H Ntلامي



Lucy G Njiru



Malachi Oddenyo



Michael Cherwon



Selest Kilinda



Simeon Ndirangu



Hon. Amos Wako
Attorney General



Joseph Kinyua
PS Treasury



Jimmy M Kitonga



Jackson Kitili
Alt. to Governor

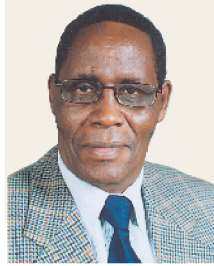


Roselyn Amadi
Alt. to Attorney General



Kamau Thugge
Alt. to PS Treasury

MANAGEMENT



Edward H Ntalami
Chief Executive



Christine Mweti
Manager, Legal Affairs



Sammy Mulanga
Manager, Research
& Market Development



Stella Kilonzo
Manager, Compliance &
Market Operations



Joachim Githinji
Manager, Finance



Michael Mechumo
Manager, Human Resource
& Administration



Angela Kariuki
Assistant Manager Legal Affairs



Edwin Kipsitet
Assistant Manager Research



Samuel Njoroge
Assistant Manager Market
Development



Wycliffe Shamia
Assistant Manager
Compliance



Esther Maiyo
Assistant Manager Finance



Prof Chege Waruingi

CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report for the Authority for the year ended June 30, 2006.

Operating Environment

A favourable economic climate contributed to an excellent year for Kenya's capital markets. For the third year running the economic performance continued to be resilient demonstrating a clear sign that the economy is firmly on the recovery path. For the first time in two decades, per capita income increased over three successive years. This growth was attributed to a stable macro-economic environment and improved performance from key sectors of the economy.

The economy registered a broad-based growth of 5.8% in 2005 from 4.8% in 2004, and 2.8% in 2003. The robust growth was supported by improved performance in various sectors of the economy particularly tourism, agriculture, transport and communication, and construction. The general macro-economic environment remained favourable, characterized by low interest rates, a strong shilling and declining inflation. Apart from the drought experienced in last quarter of 2005, the country enjoyed favourable weather conditions with adequate rains during the earlier part of 2006.

The economy is focused to maintain the upward growth momentum supported by government's commitment to continue implementing the Economic Recovery Strategy, which targets implementation of sound macro economic policies that are key to creating enabling environment for private sector-led growth, enhancing resource utilization and strengthening governance to reduce waste and losses due to corruption. Further, increased access to wider regional markets and the planned privatization of Government business in the transport, energy and communication sectors will add impetus to the growth prospects. The opportunities created following reconstruction of Southern Sudan, peace efforts in Somalia and regional integration under the EAC will also open new markets and create additional opportunities for Kenyan goods and services.

The current macro economic stability provides a conducive environment for the Government to accelerate the remaining reforms necessary to sustain the growth momentum and reduce poverty, and attain the Millennium Development Goals. The Government structural reforms will improve the business environment, facilitate private sector growth, and contribute immensely to wealth creation and poverty reduction.

Policy Environment

The government continued to show its support for the development of the capital markets. The Minister for Finance in his budget speech for 2005/2006 granted further incentives to encourage issuance of long-term debt instruments with emphasis on infrastructure development. The Government has over the years continued to create an enabling environment for the growth of the capital markets through policy interventions and fiscal incentives.

The enactment of the Privatization Bill opens new opportunities for state enterprises to transform their financial health by partnering with the private sector through listing at the Nairobi Stock Exchange. As you are aware, one of the major challenges facing our country today is the need to revamp our infrastructure. For a long time, provision of infrastructure services was perceived as a public good that was fully financed by the public sector. Today, world over, the burden of infrastructure financing and development is passing from the public to the private sector. Provision of infrastructure facilities such as electric power, telecommunication networks, airports, rail and road systems, water and sewer systems, and decent housing are essential in order to improve the standard of living and quality of life of Kenyans. These essential developments are ideal for financing through the capital markets. However, ultimately the private sector must remain the engine of economic growth and must take an active role, indeed a dominant role, in driving economic units because the pursuit of economic efficiency has shifted the driving force of economic development from the public to the private sector.

Our Role in the Economy

The strength of securities markets that make them focal points of economic growth is their ability to mobilize long-term savings for financial intermediation; improve efficiency of resource allocation; provide capital and facilitate broad ownership of firms. The capital markets redistributes capital and risk and attends to payment and settlement functions. Solid financial institutions and smoothly functioning financial and securities markets are essential if these functions are to be discharged in a satisfactory manner. For the capital markets to contribute effectively in the economic development agenda, they must facilitate capital formation and maintain fairness, order and efficiency.

The capital markets play an important role in fostering and mobilizing savings and channelling them to projects that bring the most value to the economy. A market economy like ours requires capital markets to mobilize both domestic and foreign capital to meet the increasing financing needs of our enterprises. Effective economic recovery requires savings. Indeed experience shows that only countries that save a sizeable proportion of their national income can achieve meaningful economic growth. Our country has for many years financed development from foreign institutional loans at high servicing rates. At this time of tight finance and new economic order, the inflow of capital from the developed world which characterized yester years cannot be expected to remain available unless Kenya develops itself into an attractive investment destination. By developing its capital markets, the very same nations that Kenya has grown accustomed to borrowing from in the past will be contributing to the growth of the country in a more dynamic manner. As an emerging market, Kenya has a lot to offer to local and international investors in form of investment returns, and I believe that we should capitalize on the growing interest shown by investors to attract funds into our economy.

Regulatory Mandate

Most of the activities of the Authority during the year were in pursuance of its broad mandate of regulating and facilitating the development of orderly, fair and efficient capital markets. The transformation of the securities markets during the year under review has been truly remarkable. The Authority has initiated a number of market reforms to accommodate new products, change in technology and improvement in market infrastructure while at the same time protecting investors and safeguarding market integrity.

The capital market has developed and gone through a major turnaround in support of the country's economic revival and sustained growth. Healthy capital markets grow from the real needs of the economy, especially the need for long-term financing. These markets thrive within an appropriate legal and regulatory environment and a stable economy. Establishment of a dynamic and efficient capital market is supreme in securing the investing public and market participants' confidence. Our role is to ensure that the markets and investments are encouraged to grow in a sound long-term basis if these markets are to contribute as effectively as possible to the funding of the economy and creation of wealth. We undertake this role through a consultative process that is geared towards protection of investors, building confidence and trust, ensuring fair, efficient and transparent markets, and minimizing systemic risk.

Developing strong and viable capital markets requires a systematic and integrated approach. Financial market development tends to be sensitive not only to the legal, regulatory and tax framework existing in a country, but also to the macro economic and sector policies being pursued and to economic growth. Provision of an adaptable regulatory and supervision framework which provides balance between market freedom and investor protection is essential for the development of well functioning and efficient capital markets.

Capital markets are changing rapidly driven by globalization; heightening regional and international competition; technological innovations; increasing array of market participants and new products. To remain effective and relevant, we must respond quickly and thoughtfully to new threats and opportunities in the world around us. The secondary market is recording enhanced efficiency following the implementation of the Central Depository System in 2004. We believe that one of the key benefits of operating in an automated market infrastructure is among others, the creation of greater access not only to local players but to international investors as well. The Central Depository and Automated

Trading Systems will not only enhance efficiency and reduce market risk but also enable our market to effectively compete for foreign capital.

Our economy is largely dominated by small businesses, which lack the size; assets and operating histories necessary to obtain capital from the mainstream financial sector. It is against this background that the Authority has considered it appropriate to create appropriate legal framework for venture capital companies to facilitate entrepreneurship. We believe that promoting alternative access to funding and entrepreneurial skills in this country will go a long way in expanding businesses, creating jobs, and increasing savings and investments that are critical to the vibrancy of our capital market. In the end result, this will translate to more companies seeking listing at the stock market as venture capitalists exit to exploit new opportunities.

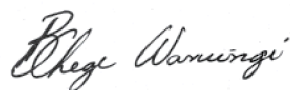
The Authority also developed regulations for asset backed securities to augment ongoing economic recovery initiatives and provide capital for infrastructure development. Securitization is a financing concept that is gaining prominence and has been used by a number of newly industrialized economies to mobilize long-term and affordable capital. Physical infrastructure is an important prerequisite in creating and supporting a business environment that facilitates private sector investment, business growth and job creation. The provision of adequate infrastructure and the services thereof, coupled with macro economic stability and a long-term development strategy, are essential preconditions for sustainable economic and social development. We believe many economic sectors will benefit from this development especially those involved in the provision of infrastructure services.

One of the key priorities of Capital Markets Authority is public and investor education. The Authority believes that an educated investor is a protected investor, and that a protected investor will be a more willing player in the market. The Authority has therefore identified investor education as a key driver of its market growth agenda. We have rolled out an all-inclusive investor education programme designed to assist potential investors and issuers of securities to have a better understanding of the capital markets and empower them to participate more fully in economic activities through the capital markets. During the year, more than twelve investor education seminars and workshops were held targeting different players and stake holders.

Future Outlook

The capital market in Kenya has evolved as a viable and critical component of the financial system, complementing the conventional money markets as a driver of economic growth and development. We must therefore position ourselves to take advantage of the opportunities that the market presents. In this regard, while a great deal has been achieved, I believe that the years ahead call for much more work and cooperative effort. We must continue to be pro active in further developing our market. We must strive to look and act beyond our frontier. With Kenya assuming an increasingly prominent role as a regional financial hub, the capital market is poised to play an increasingly important role in supporting national socio-economic goals and aspirations.

In conclusion, I wish to thank all my colleagues on the Board for their guidance and unfailing support throughout the year. The considerable achievements and strides that the capital market has witnessed in recent years is due in no small measure to their outstanding contribution, commitment and selfless service to the ideal of developing a world class capital market in Kenya. My appreciation also goes to the management and staff who have put in tremendous efforts and showed great commitment, enthusiasm and high standards in carrying out their work. I am confident that with everyone's continued support and teamwork the capital markets in Kenya is poised to scale even greater heights in the years ahead.



Professor Chege Waruingi
CHAIRMAN



Edward H Ntalami
Chief Executive

CHIEF EXECUTIVE'S REPORT

STOCK MARKET PERFORMANCE

2006 was another eventful year for the capital markets in Kenya. Both the primary and secondary equity and debt markets staged strong performance, with historic performances recorded. There were two rights issues, two Initial Public Offers (IPOs) and two listings by introduction from the equity supply side, while the debt market had three corporate bond issues, six new commercial paper programmes and two renewals. The Government issued a total of 17 Treasury bonds. Turnover soared to Kshs 60.28 billion as demand and supply of shares peaked to a new level compared to Kshs 22.03 billion for a similar period in the previous financial year, a 174% increase. The NSE index inched closer to the 5000 mark with an impressive 7.3% gain over the previous period, as a total of 860 million new shares pushed market capitalization to Kshs 623.2 billion, the highest in the bourse's fifty two year history. To crown this overall achievement, the Kenya's stock market was one of the top performing markets in Africa in 2006, with an index return in dollar terms of 44%.

The fiscal year 2005/06 saw our market recover from a quiet period of initial public offerings following the Government divestiture in KenGen that released 659 million shares to the public making it the largest offer in the history of our market. This was followed closely by the Scangroup issue of 69 million shares and the listing by introduction of Equity Bank shares. These new listings in less than six months coupled by overwhelming investor enthusiasm define a new chapter in our capital markets. The performance of these issues mark a healthy balance between the supply and demand sides of the market with a clear demonstration of the huge potential of fund mobilization through the capital market.

COMPLIANCE AND ENFORCEMENT

A key regulatory objective of the Authority is to protect investors, ensure fair, effective and transparent operation of the market as well as to manage risk in the market. Such a structure entails the building of an effective system of market oversight that includes:

- A mechanism for monitoring compliance with regulatory requirements in the market;
- 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 requirements and obligations on a continuous basis. In addition, the Authority has oversight in disclosure of material information by listed companies.

The following activities took place during the period under review:

1. Market Surveillance

This involves the planning, monitoring and conduct of market surveillance operations on a broad range of securities transactions focusing on unfair or irregular security dealings such as manipulation of stock prices that may cause damage to shareholders rights and impair market integrity and investor confidence. This was achieved through surveillance of day-to-day stock exchange operations on the trading floor with a view to examining stock transactions showing irregular movements in price and trade volumes and to trace their causes such as public disclosure of material information or any significant news or misstatements.

During the year, the Authority attained electronic surveillance capability of the activities at the Central Depository and Settlement Corporation (CDSC). In November 2004, the CDSC successfully implemented the immobilization of equities listed at the Nairobi Stock Exchange. The second phase of the automation of market surveillance will occur

with the advent of the automated trading system at the NSE enabling electronic surveillance of secondary market trading activities by the Authority. This will serve to improve the Authority's management of risk in the stock market through early detection of market malpractices such as price manipulation.

2. Investigations

Investor protection remains a fundamental objective of the Authority. Investigations are conducted to ascertain alleged violations and the persons/entities involved. The period of 12 months to June 30, 2006 experienced high turnover levels in the stock market. Further, because of the on going immobilization of listed equities and increased new issues of shares in the primary market, several complaints were reported to the Authority, prompting investigations as shown below:

| | Nature of the Complaint | To June 30 2006 | | To June 30 2005 | |
|---|--|-----------------|--------------|-----------------|--------------|
| | | No. Received | No. Resolved | No. Received | No. Resolved |
| 1 | Financial impropriety | 2 | 2 | 1 | 1 |
| 2 | Investor complaints | 57 | 45 | 65 | 49 |
| 3 | Complaints regarding mismanagement of listed companies | 3 | 3 | 1 | 1 |
| 4 | Market operators without a license | - | - | - | - |
| 5 | Violation of Regulations | 1 | 1 | 2 | 1 |
| 6 | Fraudulent activities | 0 | 0 | 3 | 2 |
| 7 | Others | 1 | 1 | 0 | 0 |
| | Total | 64 | 52 | 72 | 54 |

Source: CMA Compliance database

3. Inspections

To confirm the level of compliance with the requirements of the Capital Markets Act and the Regulations, the Authority carried out over 112 on-site inspections involving 10 investment banks, 10 stockbrokers, 14 fund managers, 15 investment advisers and 3 collective investment schemes. The reviews focused on capital adequacy requirements, prompt submission of financial statements and compliance with record-keeping requirements.

Listed Companies

Great improvement was noted in the timeliness and disclosure content of material information required to be disclosed to public in cases of significant developments and events that may affect decision-making process of investors and prices of securities. However, a few cases were noted especially with regards to media advertisements relating to listed securities or licensed persons that were in contravention of certain requirements prompting intervention by the Authority.

Interim reporting remained mandatory as several companies have adopted quarterly reporting and investor briefings. The few companies that failed to comply with reporting obligations were dealt with in accordance with the relevant regulatory provisions.

Corporate Governance

Good corporate governance has serious economic consequences in our financial and capital markets and is critical to sustainable market growth. It facilitates capital formation, maximizes shareholders' value and protects investors' rights. Our 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. Based on the Corporate Governance Guidelines issued by the Authority, the table below summarizes listed companies' compliance status.

a) *Listed companies' Compliance with key good governance practices as at June 30 2006:*

| | Corporate Governance Guidelines | Listed Companies Meeting Guideline | Number of Listed Companies |
|---|---|---|-----------------------------------|
| 1 | Establishment of Board Committees | 36 | 53 |
| 2 | Sufficient Board Composition | 38 | 53 |
| 3 | Disclosure of a Statement on Corporate Social Responsibility in the Annual Report | 30 | 53 |
| 4 | Ownership Details of the Top Ten Shareholders in Annual Report | 49 | 53 |
| 5 | Timely Release and Submission of 2005 Audited Accounts | 47 | 53 |
| 6 | Timely Submission of Interim Reports 2005/2006 | 41 | 53 |
| 7 | Chief Finance Officers being in Good Standing with ICPA (K) | 42 | 53 |
| 8 | Company Secretary being in Good Standing with ICPS (K) | 53 | 53 |

Source: CMA Compliance database

Note: Listed equities and corporate bonds amounted to 53 companies

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

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

b) *Management of Listed Companies*

Good corporate governance practices also 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 tables below shows representation of individual directors/ chairmen on the Boards of listed companies as at 30 June 2006.

| | Aggregate Chairmanship | | |
|----------------------------|-------------------------------|--------------------------|---------------------------|
| | In One Company | In Two Companies. | In Three Companies |
| Individual Chairmen | 45 | 8 | Nil |

Source: CMA Compliance database

| | Aggregate Directorship | | | | |
|-----------------------------|-------------------------------|--------------------------|---------------------------|---------------------------|--------------------------|
| | In One Company | In Two Companies. | In Three Companies | In Four Companies. | In Five Companies |
| Individual Directors | 284 | 17 | 5 | 1 | 1 |

Source: CMA Compliance database

Financial Reporting

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

LICENCES AND APPROVALS

Licences

The Authority issued new Investment Adviser licences to Franklin Management Consultants Limited, Equilibrium Capital Limited and Winton Investment Services Limited. The Authority also renewed 57 licences for eleven (11) Investment Banks; ten (10) Stockbrokers; fifteen (15) Fund Managers; fifteen (15) Investment Advisers and six (6) Authorized Depositories.

Suspended Licensees

During the year, the suspensions of Town and Country Securities Limited and Bob Matthews Stockbrokers Limited were lifted and the firms are in the process of complying with the licensing requirements. The licence for Shah Munge and Partners Limited remained suspended during the year.

Collective Investment Schemes

Collective Investment Schemes (CIS) are now emerging as critical vehicles for mobilizing pools of funds to be invested in financial markets. As they provide an opportunity to the general public for expert investment at relatively low cost and the opportunity to maximize on economies of scale. There are currently five approved collective investment schemes, namely 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.

Public Offerings and Listings

The Authority approved the public offer and listing of the ordinary shares of Kenya Electricity Generating Company Limited (KenGen) and Scangroup Limited, and the listing of the ordinary shares of Equity Bank Limited through introduction. Approval was also granted for rights issues by Uchumi Supermarkets Limited and CFC Bank Limited. The offer and listing of three corporate bonds by Shelter Afrique, Celtel Kenya Limited and Athi River Mining Company Limited were also approved during the year. The Authority also gave its approval for the issue of fifteen Treasury Bond issues and six commercial paper programmes.

Takeovers and Private Transfers

The Authority approved the takeover of Tourism Promotion Services Limited by TPS Eastern Africa Limited. Numerous applications for transfers of securities outside the securities exchange mostly in the settlement of estates of deceased persons were processed.

MARKET DEVELOPMENT

Asset-Backed Securities & Venture Capital Companies

During the period under review, the Authority completed drafting regulations for asset backed securities and venture capital companies. The regulations have already been submitted to the Minister for Finance for approval and gazettment. It is hoped that when gazetted the regulations will serve to facilitate the growth of securitization and venture capital financing and go along way in mobilizing long term resources. Asset backed securities and venture capital companies are the first in a series of new products and services that the Authority proposes to introduce to the market to improve its liquidity.

Fiscal incentives

During the year under review the government granted a number of tax incentives as part of the measures to create an enabling environment for the growth of capital markets.

1. Exemption from income tax on interest income accruing from the cash flows of securitized assets. Further, the interest income accruing to holders of asset-backed securities is also tax exempt.
2. Exemption from income tax on interest income accruing from all listed bonds with at least a maturity period of three years. This fiscal incentive targets institutions that are involved in the provision of infrastructure services such as roads, water, power, telecommunication, schools hospitals, etc.

3. In order to encourage employers to set up Employee Share Ownership Plans and to make such schemes attractive to employees, only the difference between the subscription price and the market value of securities in ESOP schemes will be subject to tax.
4. Expenditure of capital nature incurred by a company on legal costs, and other incidental expenses associated with listing by introduction at the Nairobi Stock Exchange will be tax deductible.

Market Infrastructure

To fully enhance the efficiency of our secondary markets, the major preoccupation going forward is the planned implementation of the Automated Trading System (ATS). The operationalization of the Central Depository and Settlement Corporation has been a huge success with more than 300,000 accounts opened by investors as at the end of June 2006. The combined use of both central depository system (CDS) and Automated Trading System (ATS) will benchmark our capital market to globally acceptable world standards and competitively position it as preferred financial hub in Africa, thus increasing the fund raising capacity of our market.

Regional Integration

Efforts have been made consistently through various fora, particularly through Capital Market Development Committee (CMDC) and East African Securities Regulatory Authorities (EASRA) in the year to harmonize the policy environment in pursuit of integration of the East African capital markets. A lot has been achieved in policy harmonization and initiatives towards cross-listing and cross-border trading are recording good progress. A third Kenyan company, Jubilee Insurance, was cross-listed in Uganda this year and is in the process of seeking listing in Tanzania. This allows the citizens of the three-partner states (Kenya, Uganda and Tanzania) easier access to the shares of the companies and thus enhancing shareholder value for these companies.

HUMAN RESOURCE DEVELOPMENT

During the year, the Authority modified its organization structure to align it to the requirements of the strategic plan and objectives. This action increased the Authority's functional departments to six. However, the staff approved remained at 46.

| DEPARTMENTS/ POSITIONS | CEO's Office | Legal Affairs | Compliance & Market Operations | Research & Market Development | Finance | Human & 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 expose its staff members to both short term and medium term courses to enhance their knowledge, skills and abilities. Professional staff members were facilitated to pursue short term professional courses, seminars and workshops at the local, regional and international levels.

FINANCIAL HIGHLIGHTS

The Authority's financial statements are presented in detail in the audited accounts for the financial year ended 30 June 2006. Overall, the Authority's financial position continued to strengthen. A surplus of income over expenditure by Shs. 160 million was realised for the year. The balance sheet shows a strong liquid asset base due to the fact that surplus funds are invested short-term in government securities.

Total income for the year was just over Shs. 286 million, an increase of 103% over the previous year, (Shs. 139 million). The increase is mostly on account of heightened market activity during the year. Government maintained its bond programme during the whole year.

Total expenditure at Shs. 126 million is nearly Shs. 16 million higher than previous year due to staff numbers expansion following the restructuring exercise, and resumption of investor education programmes.

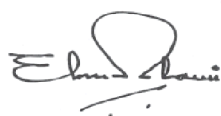
| INCOME & EXPENDITURE SUMMARY: | 30.06.2006 | 30.06.2005 |
|--|-------------------|-------------------|
| | Sh' 000 | Sh' 000 |
| INCOME | | |
| Government Bonds and Capitalisation fees | 108,192 | 55,447 |
| NSE Transaction fees | 146,043 | 56,277 |
| Others | 28,184 | 27,273 |
| TOTAL OPERATING INCOME | 282,419 | 138,997 |
| Donor Funding | 4,321 | 0 |
| | 286,740 | 138,997 |
| EXPENDITURE | | |
| Salaries and staff costs | 67,865 | 64,608 |
| Rent and maintenance | 8,684 | 8,061 |
| Training and Conferences | 2,767 | 3,376 |
| Investor Education | 3,304 | 2,218 |
| Authority Members' Allowances | 8,238 | 7,457 |
| Professional and Market Development | 11,919 | 7,354 |
| Depreciation of Cars and Equipment | 4,348 | 4,567 |
| Others | 19,249 | 11,971 |
| TOTAL EXPENDITURE | 126,374 | 109,612 |

LOOKING AHEAD

Going by the recent success in both the primary and secondary equities and bond markets, we expect the coming year to maintain the same momentum. With a number of state corporations lined up for privatization in the 2006/7 fiscal year, the stage is set for another busy year. This will be in tandem with the expected economic growth of 5.8% that is likely to translate into more expansion and profitability of listed companies, thus making securities a viable alternative investment option to investors.

The expected commissioning of the ATS following successful implementation of the CDS is widely expected to transform our capital markets to globally accepted financial market standards and competitively position it as a robust, safe and preferred investment destination. I hope that the coming years will bring to the market participants as many reasons for satisfaction as the year just ended.

Our successful year's work has only been achieved through the continued guidance of a dedicated and insightful Board. I thank all the members for their sacrifice and valuable contribution in shaping the policy direction of the Authority. I also wish to express my appreciation to all the staff whose professionalism, enthusiasm and commitment to duty greatly contributed to the realization of our goals in fulfilment of the responsibility entrusted to us.



Edward H Ntalami
CHIEF EXECUTIVE

- **Lucy Njiru**

An advocate of the High Court of Kenya. She has previously worked as a State Counsel and is currently partner in the firm of Lucy Njiru & Company, Advocates.

- **Malachi Oddenyo**

An Economist by training and holder of a Masters degree in Monetary Economics from Makerere University and in Public Finance from Waterloo University, Ontario, Canada. Mr. Oddenyo is currently a consultant in economic and financial management.

Responsibilities

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

- Reviewing the values, vision and mission and developing strategy;
- Putting in place management structures [organization, systems and people] to achieve those objectives;
- Setting targets and monitoring performance;
- Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- The review and adoption of annual budgets for the financial performance of the Authority and monitoring the Authority's performance and results;
- Management of risk, overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards; and
- Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to stakeholders.

Board Committees

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

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

Finance, Tender and Procurement 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 four times during this period.

Audit Committee

This committee consists of four members, all of whom are non-executive members of the Board. 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 three times during the period.

Human Resources Committee

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

Technical Committee

The committee consists of four members all of whom are non-executive members of the Authority. It is responsible for considering technical matters of the Authority's operations, including licensing and approval applications. The Committee met once during the year.

SUPPLY OF INFORMATION

Directors have unlimited access to management and 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 stake holders.

DEVELOPMENT OF DIRECTORS

The Authority continues to support the training and development of directors trustees through retreats and training courses. This year, the directors attended training on performance contracts and the proposed automated trading system (ATS) of the Nairobi Stock Exchange (NSE).

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

I. PRIMARY MARKET

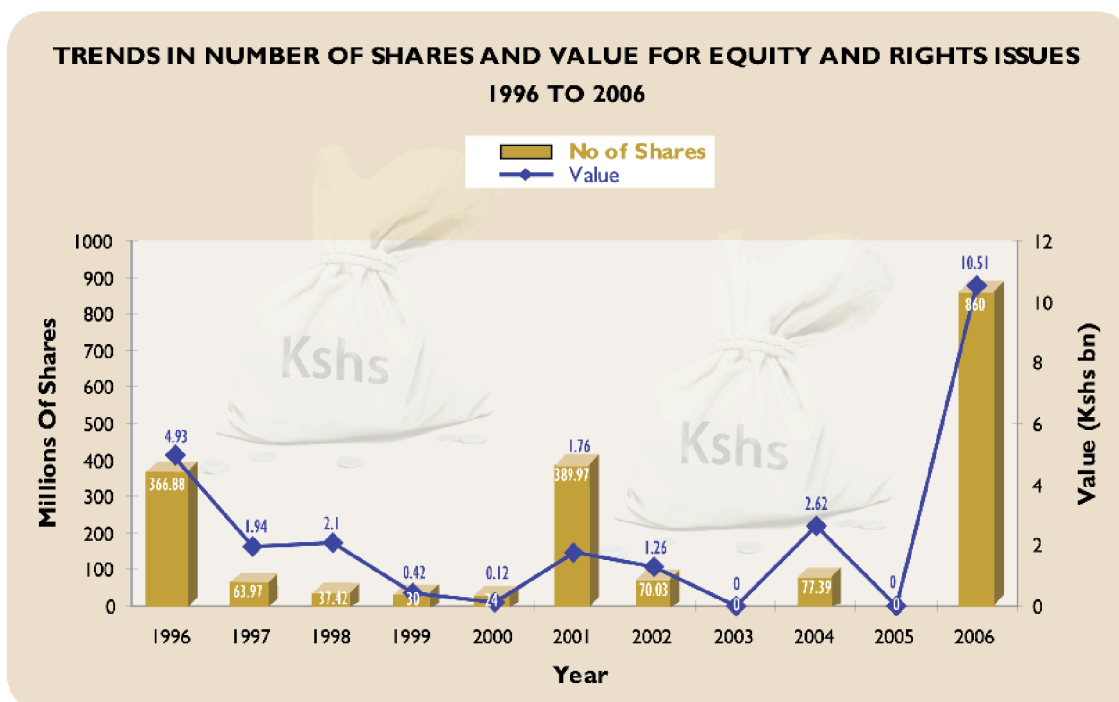
I.1 Equity

There was a resurgence of activity in the primary equity markets in the period under review with two rights issues, two Initial Public Offers (IPOs) and a listing by introduction. The CFC rights issue of 12 million ordinary shares, which raised Kshs 744 million, came immediately after the Uchumi Supermarkets rights issue that raised Kshs 1.2 billion. The shares were oversubscribed by 5.32% and 5.75% respectively.

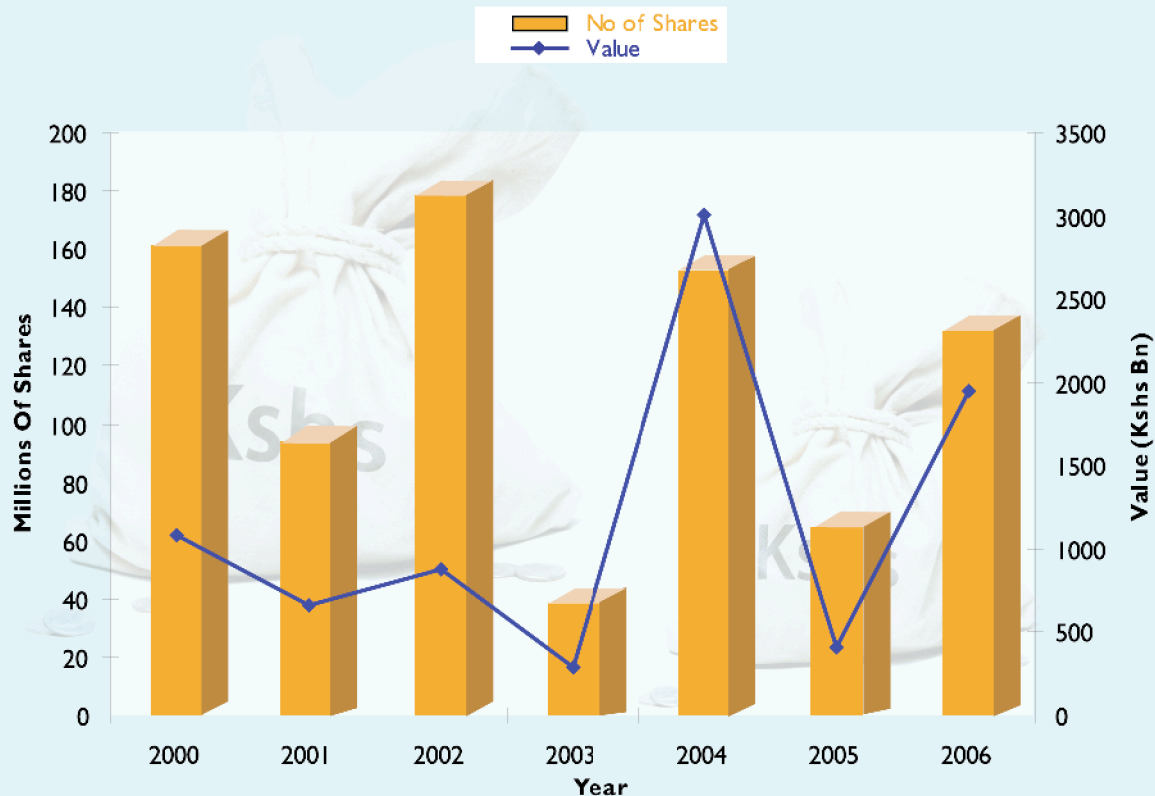
The offer for sale of 658.9 ordinary shares in Kenya Electricity Generating Company (KENGEN) was oversubscribed by 337%. The Government raised Kshs. 7.84 billion from the biggest Initial Public Offering (IPO) in the country's history. KenGen was the first privatization in five years to be facilitated through the capital markets. The KenGen IPO was followed in quick succession by Scangroup Limited offering of 69 million ordinary shares at Kshs. 10.45 per share made up of an Offer for subscription of 9 million Ordinary Shares and an offer for sale of 60 million ordinary shares, comprising 43.4 percent of the issued share capital of the company. Equity Bank Limited on the other hand listed 90.5 million shares through introduction and without raising any capital, thereby giving an opportunity to the bank's 2,500 shareholders to buy or sell their shares through the Exchange and benefit from an efficient price discovery system.

During the year TPS East Africa Limited (formerly TPS Holdings Ltd.), listed a total of 89.9 million ordinary shares of one shilling each, following a successful group restructuring to create a single regional tourism services company for Eastern Africa with a primary listing on the Nairobi Stock Exchange and future listings in Dar es Salaam and Kampala. The restructuring involved the takeover of Tourism Promotion Services Limited by Tourism Promotion Services East Africa Limited through a share swap, and subsequent delisting of Tourism Promotion Services Ltd.

There were no bonus issues during the financial year. However there were a total of 54 interim and final dividend announcements by various companies listed at the NSE from which a total of Kshs.14.71 billion was paid out to shareholders in the form of dividends, equivalent to 2% of the total market capitalization of the NSE, compared to 38 announcements of Kshs.10.65 billion worth of dividends in 2005.



Source: CMA Research Database

BONUS AND RIGHTS ISSUES 2000 TO 2006


Source: CMA Research Database

1.2. DEBT INSTRUMENTS

(a) Treasury Bonds

During the year, the Government successfully implemented its policy of favouring longer-dated Treasury bonds to shorter term paper by issuing a total of 13 bonds of three year maturity and above, accounting for 76.5% of total number of issues and 75.5% of total amount raised compared to 7 issues in the preceding year. As interest rates stabilized a total of 17 issues raised Kshs. 77.64 billion during the year. This was a very strong performance in spite of the cancellation of the Kshs. 5 billion 4-year issue in August, due to an increase in Government deposit with the Central bank. No treasury bonds of one-year tenor were issued during this period.

Bond yields varied from 10.25% on two-year bonds to 13.25% on ten-year bonds, a marked improvement from the previous year where yields were between 4% for one-year bonds and 12% for four-year bonds.

Treasury Bond Issue by Tenor; 2003 - 2006

| TENOR | 2003 | | 2004 | | 2005 | | 2006 | |
|------------------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|
| | NO OF ISSUES | VALUE (KSHS BN) | NO OF ISSUES | VALUE (KSHS BN) | NO OF ISSUES | VALUE (KSHS BN) | NO OF ISSUES | VALUE (KSHS BN) |
| 1 year | 4 | 10.36 | 3 | 10.00 | 8 | 26.97 | - | - |
| 1 ^{1/2} years | - | - | - | - | - | - | - | - |
| 2 years | 6 | 14.64 | 4 | 14.91 | 3 | 12.33 | 4 | 18.96 |
| 3 years | 4 | 16.32 | 5 | 17.14 | 3 | 10.81 | 2 | 12.80 |
| 4 years | 3 | 12 | 2 | 6.49 | 1 | 3.63 | 3 | 9.55 |
| 5 years | 4 | 14.31 | 1 | 3.56 | 1 | 6.09 | 2 | 7.91 |
| 6 years | 3 | 15 | 3 | 10.95 | 1 | 4.74 | 2 | 14.00 |
| 7 years | 1 | 3 | 2 | 4.87 | 1 | 3.88 | 1 | 3.18 |
| 8 years | 1 | 4 | 1 | 1.52 | - | - | 1 | 3.20 |
| 9 years | 1 | 4 | - | 7.19 | - | - | 1 | 2.95 |
| 10 year | 1 | 2.7 | 1 | 5.93 | - | - | 1 | 5.09 |
| Total | 28 | 96.33 | 22 | 82.56 | 18 | 68.45 | 17 | 77.64 |

Source: CMA Research Database

(b) *Corporate Bonds*

The primary corporate bond market experienced its most buoyant season in any given year in the history of the capital markets with a total of three successful issues during the year 2006, which raised a total of Kshs.5.8 billion. Athi River Mining 5-Year corporate bond issue of Kshs. 800 million in September 2005 was oversubscribed by 25 per cent, reflecting the potential and absorptive capacity of the Kenyan capital markets as well as investors growing confidence in the corporate debt market. The bond issue was priced at an attractive 1.75 per cent margin above the 91-day Treasury bill rate.

In November 2005, Celtel Kenya Limited issued a corporate bond of Kshs 4.5 billion which was oversubscribed. The funds raised are expected to enable the company to continue with its expansion programme. This issue was a landmark in developing Kenya's capital markets in that it was the largest corporate bond issued on the Nairobi Stock Exchange which also attracted strong interest from international investors, with 30 per cent of the issue placed offshore.

To crown a successful year for the corporate debt market, Shelter Afrique's Kshs 500 million 3-Year million medium term floating rate note was approved in December 2005. The first tranche of Kshs 200 million was issued in January 2006, and the second tranche of Kshs 300 million in April 2006.

| Corporate Bond Approvals | | | | | |
|---------------------------------|-------------------------|-------------------------|-----------------|------------------------------|------------------------------------|
| ISSUER | AMOUNT (KSHS MN) | DATE OF APPROVAL | MATURITY | OUTSTANDING (KSHS MN) | YIELD (%) |
| E.A. Development Bank | 1,500 | June-04 | July-11 | 782 | 7-Year Fixed T-Bond + 0.75% |
| *Mabati Rolling Mills Limited | 1,000 | Sep-02 | Sep-06 | 1,000 | 91 Day T-Bill + 1.25% |
| *Faulu (K) Limited | 500 | Feb-05 | Mar-10 | 500 | ¹ 91 Day T-Bill + 1.0% |
| PTA Bank | 1,600 | June-05 | July-12 | 800 | ² 91 Day T-Bill + 1.0% |
| Athi River Mining | 800 | Sep-05 | Oct-10 | 800 | ¹ 91 Day T-Bill + 1.75% |
| Celtel Kenya | 4,500 | Nov-05 | Dec-09 | 4,500 | ² 91 Day T-Bill + 1.0% |
| Shelter Afrique | 500 | Dec-05 | May-09 | 200 | ¹ 91 Day T-Bill + 1.0% |
| Total approved | 10,400 | | | 8,582 | |

Source: CMA Research Database

* 75% guaranteed

¹Most recent t-bill yield prior to the issue

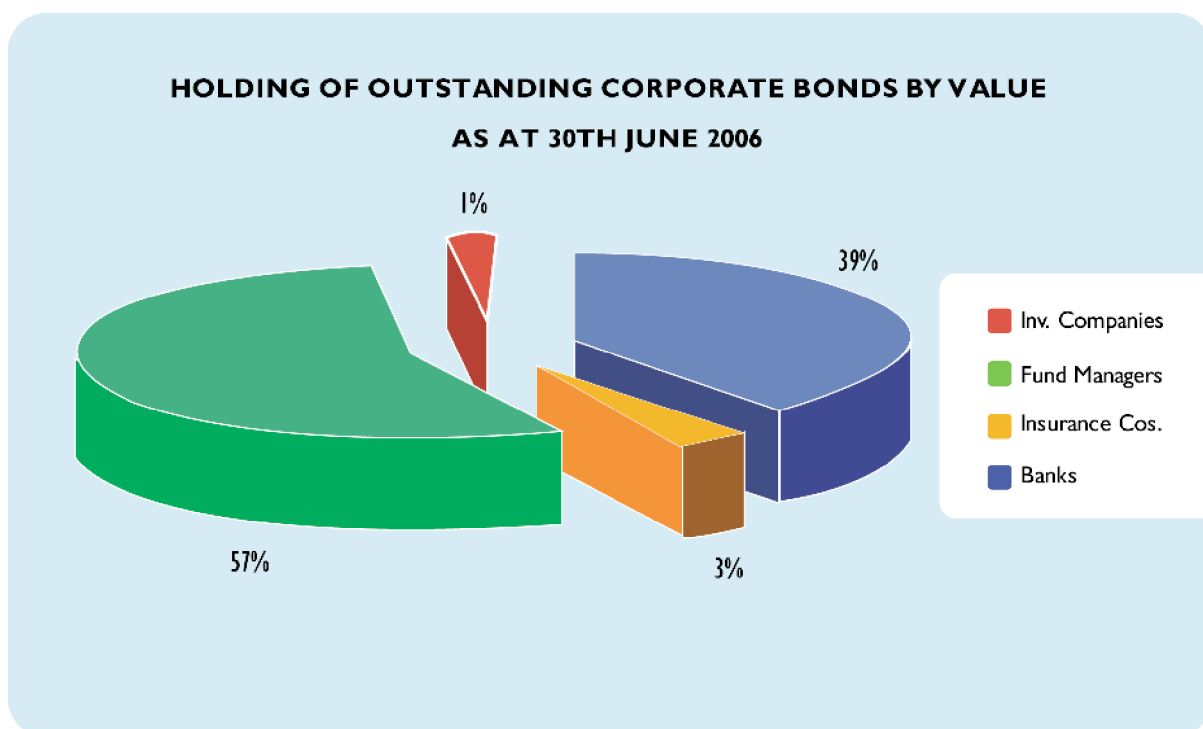
²Weighted t-bill yield at the beginning of each interest payment period

| Holding Of Corporate Bonds By Class Of Investors As At June 30, 2006 | | | | |
|---|------------------|--------------------------------|--------------------------|---------------------------------|
| 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 | 26.38 | 0.00 | 73.63 | 0.00 |
| Celtel Kenya | 63.87 | 0.56 | 35.58 | 0.00 |
| Athi River Mining | 19.50 | 10.50 | 70.00 | 0.00 |
| Shelter Afrique | 60.00 | 0.00 | 37.50 | 2.50 |

Source: CMA Research Database

* 75% guaranteed

Fund managers and commercial banks continued to dominate investments in corporate bonds, with combined holdings of 96% as Safaricom Limited and East African Development Bank redeemed their notes of Kshs 4 billion and Kshs 2 billion respectively. Individuals had no holding in any of the 7 corporate bonds as at the end of the financial year.



Source: CMA Research Database

(c) Commercial Paper Programme

A total of six new Commercial Paper (CP) issues and two renewals raised Kshs 2.87 billion during the financial year. This was a marked improvement compared to the previous year, where one new issue and five renewals were approved raising Kshs.1.87 billion. At the close of June 2006, Kshs. 2.13 billion worth of commercial paper was outstanding against Kshs.1.64 billion in 2005. Due to its flexibility, companies continue to access working capital through issuance of commercial paper.

| Commercial Paper Approvals | | | | | | | |
|----------------------------|-------------------------|------------------|------------------|-------------|---------------------|-----------------------|--------------------------------|
| | ISSUER | AMOUNT (KSHS MN) | DATE OF APPROVAL | EXPIRY DATE | STATUS OF PROGRAMME | OUTSTANDING (KSHS MN) | AVERAGE ¹ YIELD (%) |
| 1 | Kenya Oil Company Ltd | 1,500 | 01-06-06 | 01-06-07 | 2nd Renewal | 1,094 | 9.30 |
| 2 | *Kenya Hotel Properties | 400 | 15-02-06 | 15-02-07 | New issue | 400 | 8.57 |
| 3 | *Ecta (Kenya) | 70 | 10-02-06 | 10-02-07 | New issue | 45 | 8.80 |
| 4 | Cooper Kenya Limited | 100 | 27-03-06 | 26-03-07 | New issue | 100 | 8.31 |
| 5 | TPS Serena | 300 | 01-07-05 | 01-07-07 | New issue | 11.34 | 6.83 |
| 6 | Athi River Mining | 200 | 25-11-05 | 25-11-06 | 1st Renewal | 200 | 8.72 |
| 7 | Crown Berger | 200 | 01-12-05 | 01-12-06 | New issue | 199.09 | 8.85 |
| 8 | Synergy Industrial | 100 | 11-08-05 | 11-08-06 | New issue | 82.99 | 8.55 |
| | Total approved | 2,870 | | | | 2,132.42 | |

Source: CMA Research Database

*Bank guaranteed

¹ Average yield over the quarter ending June 2006

Holding of Commercial Paper by Class of Investors as at June 30, 2006

| | ISSUER | BANKS (%) | INSURANCE COMPANIES (%) | FUND MANAGERS (%) | INVESTMENT COMPANIES (%) | INDIVIDUALS (%) |
|---|-------------------------|-----------|-------------------------|-------------------|--------------------------|-----------------|
| 1 | *Kenya Hotel Properties | 17.50 | 17.75 | 63.50 | 0.00 | 1.25 |
| 2 | Crown Berger | 20.09 | 34.16 | 29.17 | 14.32 | 2.26 |
| 3 | Kenya Oil Company | 11.88 | 5.48 | 81.54 | 0.41 | 0.69 |
| 4 | *Ecta (Kenya) Limited | 77.88 | 0.00 | 11.11 | 0.00 | 11.11 |
| 5 | *Cooper Kenya Ltd | 50.00 | 9.50 | 30.50 | 10.00 | 0.00 |
| 6 | CMC Holdings Limited | 13.33 | 41.07 | 0.00 | 31.47 | 14.13 |
| 7 | TPS Limited | 0.00 | 0.00 | 0.00 | 100.00 | 0.00 |
| 8 | Synergy Industrial | 30.12 | 0.00 | 33.74 | 30.11 | 6.03 |

Source: CMA Research Database

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

2. SECONDARY MARKET

2.1. Secondary Equity Market

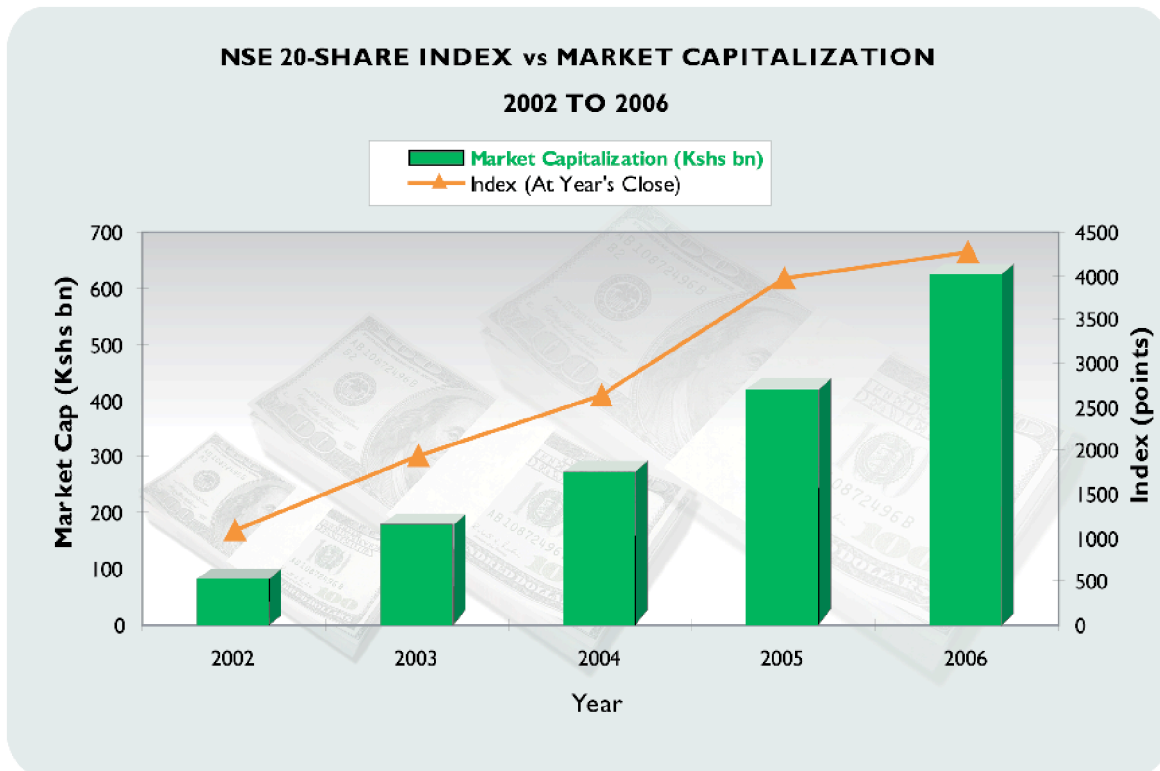
A surge in investor confidence, driven by a booming primary equity market, followed by substantial capital gains in the secondary market, extended the bullish run experienced in the preceding financial year into 2006, as the secondary equity markets continued to flourish.

The NSE index inched closer to the 5000 mark with an impressive 7.3% gain over the previous period, as a total of 860 million new shares pushed market capitalization to Kshs 623.2 billion, the highest in the exchange's fifty two year history. Kenya's stock market was rated one of the top performing markets in Africa in 2006, with an index return in dollar terms of 44%.

Boosted by two rights issues and two IPOs, turnover soared to Kshs 60.28 billion as demand and supply of shares peaked to a level hitherto unrecorded in our market. The listing of KenGen shares in the secondary market was the single most influential factor in turnover performance as monthly turnover exceeded Kshs 11 billion in May 2006.

Generous dividend payout of more than Kshs. 14 billion by listed equity companies occasioned by accelerated growth of the economy saw the year 2006 outperform the previous year in all market parameters, as the Central Depository and Settlement System (CDS) attracted more than 300,000 shareholders as at the end of June 2006

Turnover ratio doubled to 10% meaning that investors were able to turn over their portfolio more frequently than in previous years. Institutional investors especially pension funds and commercial banks were once again instrumental in the rise in demand for equities.



Source: NSE, CMA Research Database

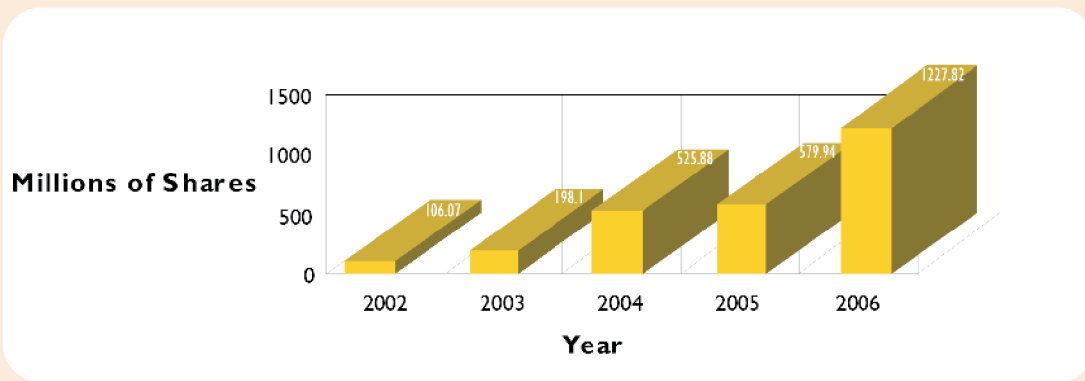
| Gross Market Statistics 2002 to 2006 | | | | | |
|--------------------------------------|--------|--------|--------|--------|----------|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Share Volume (m) | 106.07 | 198.1 | 525.88 | 579.94 | 1,227.82 |
| Shares Turnover (Kshs bn) | 2.02 | 7.51 | 20.35 | 22.03 | 60.28 |
| Market Capitalization (Kshs bn) | 83.3 | 180.65 | 274.41 | 420.7 | 623.20 |
| Index (at year's close) | 1087 | 1935 | 2640 | 3972 | 4260 |
| Bond Turnover (Kshs bn) | 33.21 | 36.31 | 48.38 | 14.30 | 43.00 |

Source: NSE, CMA Research Database

Share volume more than doubled during the year to cross the 1 billion mark for the first time in the history of the stock exchange as the newly issued shares were actively traded, especially during second half of the year. There was however a period of relative lull during the final month of the year as investor confidence took a slight dip, following the suspension of Uchumi Supermarkets from trading, notably reflected by corresponding declines of 26 % and 22 % in turnover and shares traded, compared to the figures recorded in May 2006.

Overall the implementation of the CDS that commenced in November 2004 played a major role in ensuring larger volume of transactions.

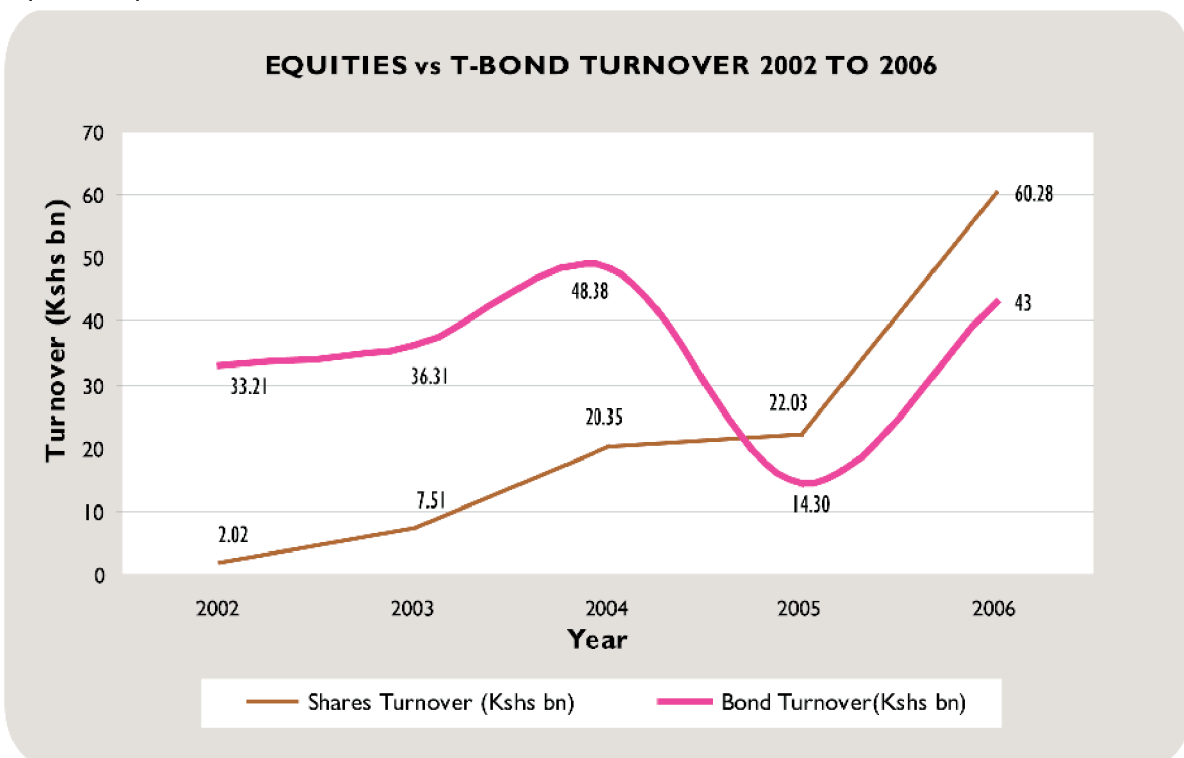
TRENDS IN SHARE VOLUME 2002 TO 2006



Source: NSE, CMA Research Database

Expectations remain high for the equities market, with economic growth forecast at 5.8% during the 2006/2007 fiscal year, likely to spur activity in all sectors of the economy, in concert with the continued development of capital market infrastructure through the expected automated trading system and the central depository system. A number of state corporations are set to privatize through the stock market in the coming financial year and this is expected to further deepen the capital markets.

EQUITIES vs T-BOND TURNOVER 2002 TO 2006



Source: NSE, CMA Research Database

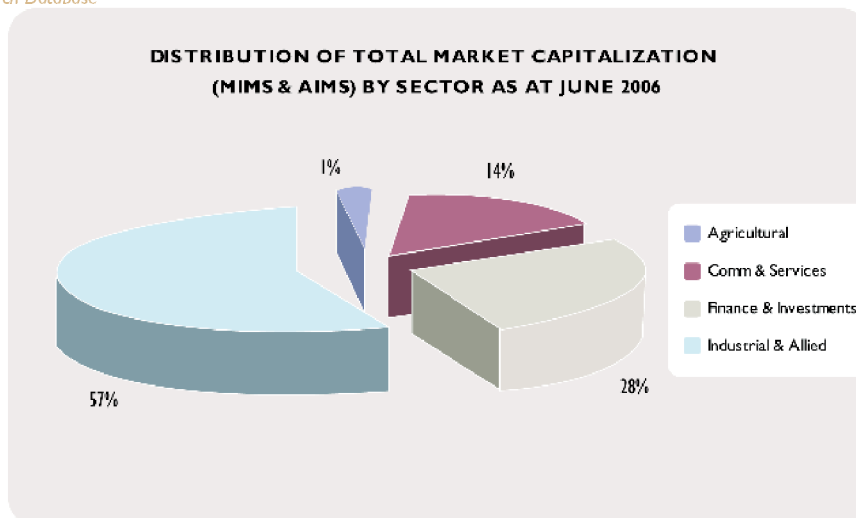
The equities and bond turnover have been increasing at nearly the same rate as evidenced by the slope of both graphs above, although the equities market has a slight edge. This is mainly because the bond turnover started performing well, only during the second half of the year as opposed to equities, which have been consistently performing well.

SECTOR ANALYSIS OF SECONDARY EQUITIES MARKET

Market Capitalization

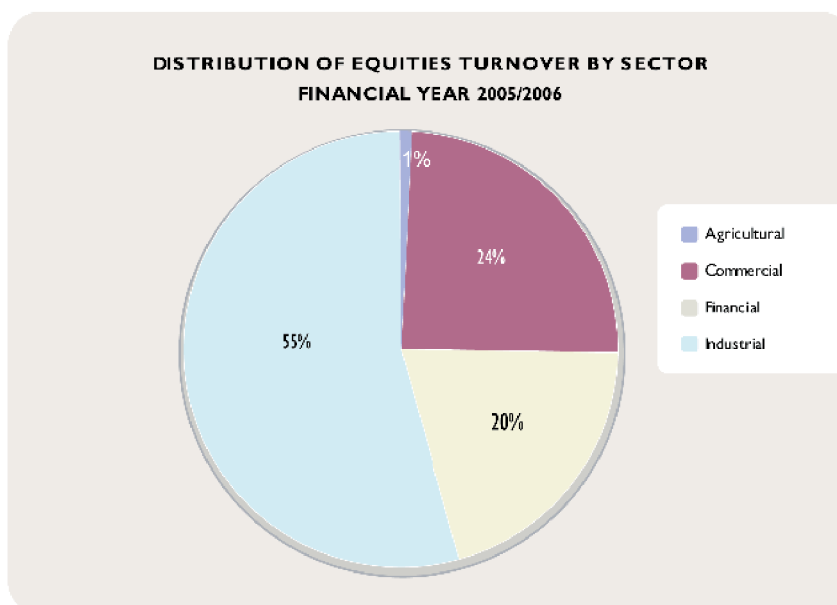
| Market Capitalization By Sector As At June 2006 | | | | |
|--|--------------------------|----------------------------|----------------------------------|--------------------------------|
| | AGRICULTURAL | COMM & SERVICES | FINANCE & INVESTMENTS | INDUSTRIAL & ALLIED |
| | MKT CAP (KSHS BN) | MKT CAP (KSHS BN) | MKT CAP (KSHS BN) | MKT CAP (KSHS BN) |
| Main Investment Market Segment | 6.89 | 85.66 | 176.24 | 349.45 |
| Alternative Investment Market Segment | 1.35 | 3.28 | 0.24 | 0.06 |
| TOTAL | 8.24 | 88.94 | 176.48 | 349.51 |

Source: CMA Research Database

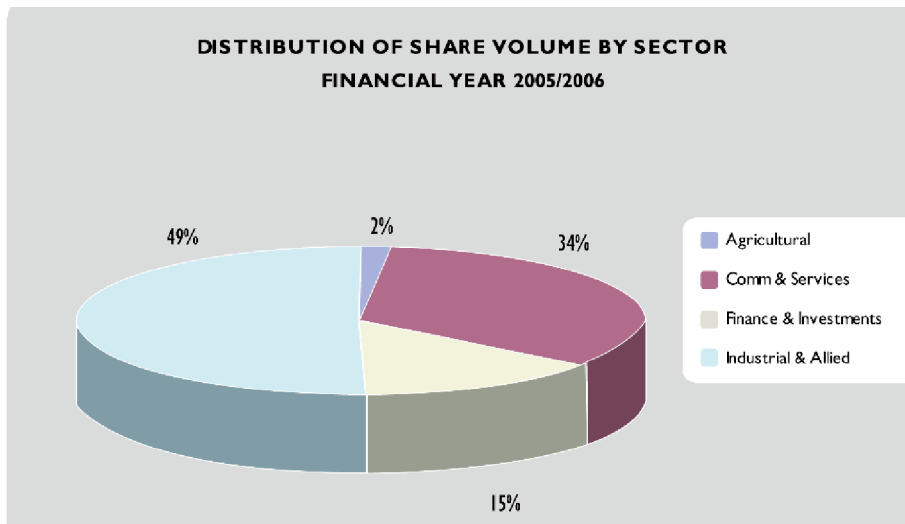


Source: CMA Research Database

Lack of new primary issues in the Agricultural sector resulted in its share of total market capitalization declining to 1% from 3% in 2005. The Industrial and Allied and the Commercial and Services sectors' contributions improved by 3% and 2% respectively due to new issues. The CFC rights issue was not sufficient to have any significant effect on the financial sector whose share of market capitalization declined to 28%.



Source: CMA Research Database



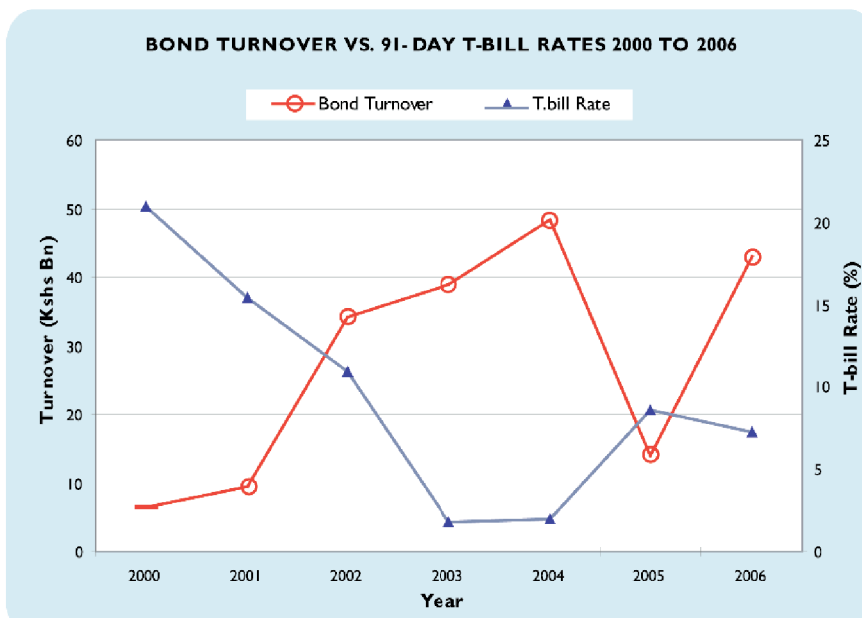
Source: CMA Research Database

The Industrial and Allied sector continued to dominate the market in 2006 in terms of share volume and turnover distribution with ratios of 49% and 55% respectively. The Commercial and Services sector was however the most improved counter, as it gained a significant proportion of both parameters, with the Agricultural sector slumping to a proportion of only 1% of the two variables.

2.2. Secondary Treasury Bond Market

The secondary bonds market started on a sluggish note during the first half of the year, bouncing back in the second half to record a turnover of Kshs 43 billion, 201% more than the preceding year, as interest rates stabilized. A major contributor to this scenario was the success of the primary bond market and the shift by the Government to issuance of longer-dated bonds of higher yields.

The secondary bond market is expected to perform well in the coming year if the momentum so far created trickles into 2007, although this will largely depend upon the way the Central Bank manages its monetary policy during the year.



Source: CMA Research Database, CBK Statistical Bulletin 2006

The Government achieved its objective of extending the maturity profile of treasury bonds further ensuring the improved activity in both the primary and secondary market and making it more practical to price other debt instruments based on a long-term yield curve.

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 2006.

INCORPORATION

Capital Markets Authority is a body corporate established under the Capital Markets Authority Act, Cap 485A, 1989, which became operational on 15 December 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:-

| | 2006 Kshs | 2005 Kshs |
|---|---------------------------|--------------------------|
| Total Income for the Year | 286,740,799 | 138,997,042 |
| Total Operating expenditure for the Year | <u>(126,373,994)</u> | <u>(109,611,506)</u> |
| Surplus for the Year Transferred to the General Fund | <u>160,366,805</u> | <u>29,385,536</u> |

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 6

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 chief executive.

The aggregate amount of allowances for members services rendered in the financial year is disclosed on page 47.

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 2006.

BY ORDER OF THE BOARD



CHIEF EXECUTIVE
Nairobi

22 December 2006

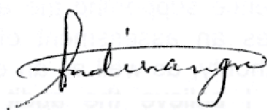
STATEMENT OF AUTHORITY MEMBERS' RESPONSIBILITIES

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.

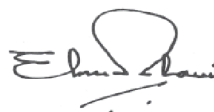
The members accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Capital 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 22 December 2006 and signed on its behalf by:-



MEMBER



CHIEF EXECUTIVE

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
Email: cag@kenyaweb.com



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2006**

The financial statements on pages 32 to 48 for the year ended 30 June, 2006 have been audited on my behalf by the 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 financial statements are in agreement with the books of account.

Respective Responsibilities Of The Authority And The Controller And Auditor General

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. My responsibility is to express an independent opinion on the financial statements based on the audit.

Basis of Opinion

The audit was conducted in accordance with Internal Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of accounting policies used and significant estimates made by the Authority, as well as an evaluation of 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 financial statements, give a true and fair view of the financial state of affairs of the Authority as at 30 June, 2006, and of its surplus and cash flows for the year then ended, and comply with international financial reporting standards and the Capital Markets Authority Act, Cap 485A.

P.N. Komora
CONTROLLER AND AUDITOR GENERAL

Nairobi
08 January 2007

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2006

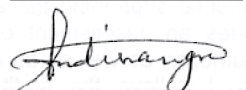
| | Note | 2006 Kshs | 2005 Kshs |
|-----------------------------|------|---------------------------|--------------------------|
| FEE INCOME | 4 | 270,622,655 | 127,982,575 |
| OTHER INCOME | 5 | <u>16,118,144</u> | <u>11,014,467</u> |
| TOTAL INCOME | | <u>286,740,799</u> | <u>138,997,042</u> |
| TOTAL EXPENDITURE | 6 | <u>126,373,994</u> | <u>109,611,506</u> |
| SURPLUS FOR THE YEAR | 7 | <u>160,366,805</u> | <u>29,385,536</u> |

BALANCE SHEET

AS AT 30 JUNE 2006

| | Note | 2006 Kshs | 2005 Kshs |
|---|------|---------------------------|---------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, Plant & Equipment | 8 | 10,320,342 | 12,485,601 |
| Intangible Assets | 9 | 2,330,067 | - |
| Staff Loans And Advances | 10 | 7,772,491 | 4,144,759 |
| Investors' Compensation Fund Investment in CDSC | 11 | 7,000,000 | 7,000,000 |
| Investors' Compensation Fund Investment In Treasury Bonds | 11 | 51,761,862 | 2,029,574 |
| Investment in Government Securities | 12 | 185,199,506 | 99,078,356 |
| | | <u>264,384,268</u> | <u>124,738,290</u> |
| CURRENT ASSETS | | | |
| Staff Loans and Advances | 10 | 1,638,482 | 2,091,244 |
| Investors' Compensation Fund | 11 | 65,915,406 | 41,756,460 |
| Investment in Government Securities | 12 | 70,648,505 | 25,201,487 |
| Trade and Other Receivables | 13 | 40,855,209 | 20,500,837 |
| Staff Benevolent Fund | 14 | 3,460,263 | 3,157,229 |
| Cash and Cash Equivalents | 15 | 34,053,601 | 17,243,630 |
| | | <u>216,571,466</u> | <u>109,950,887</u> |
| TOTAL ASSETS | | <u>480,955,734</u> | <u>234,689,177</u> |
| FUNDS AND LIABILITIES | | | |
| FUNDS | | | |
| Capital Fund | 16 | 27,885,508 | 27,885,508 |
| General Fund | 17 | 290,172,221 | 129,805,416 |
| | | <u>318,057,729</u> | <u>157,690,924</u> |
| CURRENT LIABILITIES | | | |
| Investors' Compensation Fund | 11 | 124,677,267 | 50,786,034 |
| Staff Benevolent Fund | 14 | 3,460,263 | 3,157,229 |
| Trade and Other Payables | 18 | 15,954,766 | 13,505,364 |
| Provisions | 19 | 18,398,516 | 9,142,433 |
| Millennium Staff Savings Scheme | 20 | 407,193 | 407,193 |
| | | <u>162,898,005</u> | <u>76,998,253</u> |
| TOTAL FUNDS AND LIABILITIES | | <u>480,955,734</u> | <u>234,689,177</u> |

The financial statements on pages 32 to 48 were approved for issue by the Members of the Authority on 22 December 2006 and signed on their behalf by:


MEMBER


CHIEF EXECUTIVE

STATEMENT OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED 30 JUNE 2006

| | Capital Fund Kshs | General Fund Kshs | Total Kshs |
|------------------------|----------------------------------|----------------------------------|---------------------------|
| At 1 July 2004 | 27,885,508 | 100,419,880 | 128,305,388 |
| Surplus For The Year | - | 29,385,536 | 29,385,536 |
| At 30 June 2005 | <u>27,885,508</u> | <u>129,805,416</u> | <u>157,690,924</u> |
| 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> |

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

| | Note | 2006 Kshs | 2005 Kshs |
|--|------|--------------------------|--------------------------|
| <i>Operating Activities:</i> | | | |
| Cash Generated from Operations | 21 | 216,455,168 | 24,861,332 |
| Interest Received | | 10,921,174 | 5,195,353 |
| Net Cash Generated from Operating Activities | | <u>227,376,342</u> | <u>30,056,685</u> |
| <i>Cash Flows From Investing Activities:</i> | | | |
| Purchase of Property, Plant And Equipment | | (2,182,610) | (4,273,650) |
| Purchase of Intangible Assets | | (2,621,325) | |
| Proceeds of Disposal of Property, Plant and Equipment | | - | 150,000 |
| Cash Used in Investing Activities | | <u>(4,803,935)</u> | <u>(4,123,650)</u> |
| <i>Cash Flows From Financing Activities:</i> | | | |
| Maturity of Treasury Bills by the Investors' Compensation Fund | | - | 4,959,900 |
| Purchase of Treasury Bonds By The Investors' Compensation Fund | | (72,753,265) | (15,835,188) |
| Purchase of Treasury Bonds Benevolent Fund | | (131,568,168) | (79,175,066) |
| | | (17,715) | (3,035,226) |
| Net Cash Used in Financing Activities | | <u>(204,339,148)</u> | <u>(93,085,580)</u> |
| Net Increase/(Decrease) In Cash And Cash Equivalents | | <u>18,233,259</u> | <u>(67,152,545)</u> |
| <i>Movement In Cash And Cash Equivalents:-</i> | | | |
| At The Start of The Year | | 20,428,893 | 87,581,438 |
| Increase/ (Decrease) | | <u>18,233,259</u> | <u>(67,152,545)</u> |
| At End of Year | 15 | <u><u>38,662,152</u></u> | <u><u>20,428,893</u></u> |

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

I. 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 (IFRS). 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 IFRS 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.

In 2005 several new and revised standards became effective for the first time and have been adopted by the Authority where relevant. The adoption of these new and revised standards had no material effect on the Authority's accounting policies or disclosures except as follows:-

IAS 1 has required the disclosure of critical accounting estimates and judgements;

IAS 16 requires the disclosure of comparative figures for movements in property, plant and equipment;

IAS 19 has required additional disclosures on the nature of benefits accorded to staff;

IAS 24 has affected the identification of related parties and some other related party disclosures.

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 lives.

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 and 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).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Financial Instruments*

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables and 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 retains 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 profit and loss 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.

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 and for the purpose of the cash flow statement, the cash and cash equivalents 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 experience 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 I (b) above.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 for Contingent Liabilities
- Provision for Bad and Doubtful Debts

4. FEE INCOME

| | 2006 | 2005 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Capitalisation, Rights and New Issue Fees | 108,191,958 | 55,447,160 |
| NSE - Transaction Fees | 146,043,593 | 56,277,158 |
| Application and Licensing Fees | 9,121,893 | 9,469,200 |
| Market Development Fees | 7,265,211 | 6,789,057 |
| | <u>270,622,655</u> | <u>127,982,575</u> |

5. OTHER INCOME

| | 2006 | 2005 |
|--------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Interest Income on Investments | 10,921,174 | 5,195,353 |
| Donor Funding | 4,321,440 | - |
| Miscellaneous Income | 875,530 | 5,819,114 |
| | <u>16,118,144</u> | <u>11,014,467</u> |

Donor funding was received from United Nations Development Programmes (UNDP) for purchase of electronic surveillance software, development of regulations for Asset Backed Securities and Venture Capital Companies as well as support for some Investor Education programmes.

6. EXPENDITURE

| | 2006 | 2005 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Personnel Costs (Note 25) | 64,460,471 | 61,963,433 |
| Rent and Maintenance | 8,684,390 | 8,060,687 |
| Equipment Maintenance and Stationery | 4,097,248 | 4,119,132 |
| Telephone, Postage and Utilities | 3,680,130 | 2,657,045 |
| Donations | 1,000,000 | 1,500,000 |
| Entertainment and Public Relations | 2,573,615 | 1,817,930 |
| Medical Scheme and Insurance Expenses | 3,404,427 | 2,644,677 |
| Training and Conferences | 2,767,651 | 1,875,496 |
| Motor Vehicle Running Expenses | 1,216,701 | 1,140,243 |
| Subscriptions and Isosco Membership | 2,888,471 | 1,380,955 |
| Authority Members' Emoluments - other Allowances | 8,237,616 | 7,456,840 |
| Professional and Market Development Services | 11,919,461 | 5,560,910 |
| | <u>114,930,181</u> | <u>100,177,348</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. EXPENDITURE (Continued)

| | 2006 | 2005 |
|---|---------------------------|---------------------------|
| | Kshs | Kshs |
| Balance Brought Forward | 114,930,181 | 100,177,348 |
| Staff Uniforms & Miscellaneous Expenses | 1,160 | 217,023 |
| Depreciation of Property, Plant And Equipment | 4,347,869 | 4,566,854 |
| Amortisation of Intangible Assets | 291,258 | - |
| Audit Fees | 417,700 | 412,500 |
| Investors' Education and Awareness Programme | 3,304,010 | 2,218,491 |
| Tribunal Expenses | 3,081,816 | 2,019,290 |
| | <u>126,373,994</u> | <u>109,611,506</u> |

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

7. SURPLUS FOR THE YEAR

| | 2006 | 2005 |
|--|-------------------------|-------------------------|
| | Kshs | Kshs |
| <i>The Surplus for the Year is Stated after Charging:-</i> | | |
| Depreciation of Property, Plant and Equipment | 4,347,869 | 4,566,854 |
| Amortization of Intangibles | 291,258 | - |
| Members' Emoluments | 8,237,616 | 7,456,840 |
| Auditor's Remuneration | 417,700 | 412,500 |
| Employees Benefits Expense (Note 23) | <u>3,870,998</u> | <u>3,287,125</u> |
| <i>And After Crediting:</i> | | |
| Income From Investments: | 10,921,174 | 5,195,353 |
| Gain on Disposal of Property, Plant And Equipment | - | 150,000 |
| Donor Funding | <u>4,321,440</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. PROPERTY, PLANT AND EQUIPMENT

| | MOTOR VEHICLES | COMPUTER EQUIPMENT | OFFICE EQUIPMENT | FURNITURE & FITTINGS | TOTAL |
|------------------------|-------------------|-----------------------|---------------------|-------------------------|-------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| COST | | | | | |
| At 1 July 2004 | 14,361,285 | 7,134,098 | 5,866,836 | 20,239,427 | 47,601,646 |
| Additions | - | 1,384,325 | 879,965 | 2,009,360 | 4,273,650 |
| Disposals | - | - | (845,680) | - | (845,680) |
| At 30 June 2005 | 14,361,285 | 8,518,423 | 5,901,121 | 22,248,787 | 51,029,616 |
| DEPRECIATION | | | | | |
| At 1 July 2004 | 10,638,708 | 5,126,747 | 4,580,896 | 14,476,490 | 34,822,841 |
| Charge for the Year | 2,068,790 | 945,065 | 439,298 | 1,113,701 | 4,566,854 |
| Eliminated on Disposal | - | - | (845,680) | - | (845,680) |
| At 30 June 2005 | 12,707,498 | 6,071,812 | 4,174,514 | 15,590,191 | 38,544,015 |
| 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 | 38,544,015 |
| 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 |
| NET BOOK VALUE | | | | | |
| At 30 June 2006 | 309,929 | 3,146,615 | 1,206,540 | 5,657,258 | 10,320,342 |
| At 30 June 2005 | 1,653,787 | 2,446,611 | 1,726,607 | 6,658,596 | 12,485,601 |

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 33,540,805 (2005: Kshs 25,288,242), 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 5,786,397 (2005: Kshs 4,622,385)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. INTANGIBLE ASSETS

| | 2006 Kshs Software |
|------------------------|--------------------------|
| COST | |
| Purchases | <u>2,621,325</u> |
| AMORTIZATION | |
| Charge for the Year | <u>291,258</u> |
| NET BOOK AMOUNT | |
| At 30 June 2006 | <u>2,330,067</u> |

10. STAFF LOANS AND ADVANCES

| | SHORT TERM Kshs | LONG TERM Kshs | TOTAL 2006 Kshs | TOTAL 2005 Kshs |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Car Loans | 1,246,141 | 4,091,575 | 5,337,716 | 1,311,943 |
| House Loans | - | 1,920,452 | 1,920,452 | 1,920,452 |
| Other Loans And Advances | 392,341 | 3,682,481 | 4,074,822 | 4,925,625 |
| Provision For Bad And Doubtful Debts | - | (1,922,017) | (1,922,017) | (1,922,017) |
| | <u>1,638,482</u> | <u>7,772,491</u> | <u>9,410,973</u> | <u>6,236,003</u> |

11. 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 CMA Rules and Regulations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. INVESTORS' COMPENSATION FUND (Continued)

The Movement In The Fund Balance During The Year Is As Shown Below:

| | 2006 Kshs | 2005 Kshs |
|--|---------------------------|--------------------------|
| At Beginning of the Year | 50,786,034 | 37,176,754 |
| Nairobi Stock Exchange Transactions Fees | 12,170,230 | 4,466,685 |
| Interest on Investments | 2,431,719 | 1,596,701 |
| Management Fees | (500,000) | (500,000) |
| Public Issue Fees | 62,471,249 | 8,045,894 |
| Previous Year's Overprovision | (2,681,965) | - |
| At End of the Year | <u>124,677,267</u> | <u>50,786,034</u> |

The Investors' Compensation Fund Balance is Represented by the Following Assets:

NON-CURRENT

| | | |
|--|-------------------|------------------|
| Equity Investment in the CDSC (At Cost) | 7,000,000 | 7,000,000 |
| Treasury Bonds Maturing after One Year (Effective Interest Rate — 5.25% Per Annum) | 2,037,247 | 2,029,574 |
| Treasury Bonds Maturing after Four Years (Effective Interest Rate — 11.25% Per Annum) | 40,731,679 | - |
| Treasury Bonds Maturing after Six Years (Effective Interest Rate — 11.75% Per Annum) | 8,992,936 | - |
| | <u>51,761,862</u> | <u>2,029,574</u> |

CURRENT

| | | |
|--|---------------------------|--------------------------|
| Treasury Bonds — Maturing within 1 Year (Effective Interest Rate — 6.45% Per Annum) | - | 30,122,181 |
| Transaction Fees Receivable | 291,401 | 525,125 |
| Bank Balance | 4,201,229 | 3,063,260 |
| Public Issue Fees Receivable | 61,422,775 | 8,045,894 |
| | <u>65,915,405</u> | <u>41,756,460</u> |
| | <u>124,677,267</u> | <u>50,786,034</u> |

12. INVESTMENT IN GOVERNMENT SECURITIES

(a) Treasury Bonds

| | | |
|-----------------------|--------------------|-------------------|
| Maturing After 1 Year | 182,708,441 | 97,854,519 |
| Accrued Interest | 2,491,065 | 1,223,837 |
| | <u>185,199,506</u> | <u>99,078,356</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

12. INVESTMENT IN GOVERNMENT SECURITIES *(Continued)*

| | 2006 Kshs | 2005 Kshs |
|------------------------|---------------------------|---------------------------|
| (b) Treasury Bonds | | |
| Maturing within 1 year | 69,949,177 | 24,945,982 |
| Accrued interest | <u>699,328</u> | <u>255,505</u> |
| | <u>70,648,505</u> | <u>25,201,487</u> |
| | <u>255,848,011</u> | <u>124,279,843</u> |

The average interest rate earned on Treasury bonds during the year was 8.55% (2005: 4.5%).

13. TRADE AND OTHER RECEIVABLES

| | | |
|-----------------------|--------------------------|--------------------------|
| Trade Receivables | 26,919,486 | 14,532,087 |
| Prepayments | 69,600 | 40,600 |
| Other Fees Receivable | 13,433,517 | 4,472,829 |
| Sundry Receivables | <u>432,606</u> | <u>1,455,321</u> |
| | <u>40,855,209</u> | <u>20,500,837</u> |

14. STAFF BENEVOLENT FUND

| | | |
|------------------------------|-------------------------|-------------------------|
| Investment in Treasury Bonds | 2,991,147 | 2,980,960 |
| Interest on Investment | 61,794 | 54,266 |
| Cash at Bank | <u>407,322</u> | <u>122,003</u> |
| | <u>3,460,263</u> | <u>3,157,229</u> |

15. CASH AND CASH EQUIVALENTS

| | | |
|--------------|--------------------------|--------------------------|
| Cash in Hand | 47,780 | 4,493 |
| Cash at Bank | 19,003,725 | 7,054,297 |
| Call Deposit | <u>15,002,096</u> | <u>10,184,840</u> |
| | <u>34,053,601</u> | <u>17,243,630</u> |

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following at 30 June 2006.

| | 2006 Kshs | 2005 Kshs |
|---|--------------------------|--------------------------|
| Cash in Hand | 47,780 | 4,493 |
| Cash at Bank | 19,003,725 | 7,054,297 |
| Call Deposit | 15,002,096 | 10,184,840 |
| Staff Benevolent Fund Bank Balance | 407,322 | 122,003 |
| Investors' Compensation Fund Bank Balance | <u>4,201,229</u> | <u>3,063,260</u> |
| | <u>38,662,152</u> | <u>20,428,893</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | | |
|---|--|---|
| <p>16. CAPITAL FUND</p> <p>At 1 January and at 31 December</p> <p>Capital fund represents the initial contribution by the government of Kenya towards the establishment of the Capital Markets Authority.</p> | <p>2006 Kshs</p> <p><u>27,885,508</u></p> | <p>2005 Kshs</p> <p><u>27,885,508</u></p> |
| <p>17. GENERAL FUND</p> <p>At 1 July Surplus for the Year</p> <p>At 30 June</p> <p>General fund represents accumulated surpluses over the years.</p> | <p>2006 Kshs</p> <p>129,805,416 <u>160,366,805</u></p> <p><u>290,172,221</u></p> | <p>2005 Kshs</p> <p>100,419,880 <u>29,385,536</u></p> <p><u>129,805,416</u></p> |
| <p>18. TRADE AND OTHER PAYABLES</p> <p>Trade Payables Accruals Audit Fees Accrual</p> | <p>2006 Kshs</p> <p>5,277,824 10,259,242 <u>417,700</u></p> <p><u>15,954,766</u></p> | <p>2005 Kshs</p> <p>4,181,300 8,911,564 <u>412,500</u></p> <p><u>13,505,364</u></p> |
| <p>19. PROVISIONS</p> <p>Provisions for Pending Lawsuits (Note 26) Service Gratuity</p> | <p>12,466,000 <u>5,932,516</u></p> <p><u>18,398,516</u></p> | <p>5,820,000 <u>3,322,433</u></p> <p><u>9,142,433</u></p> |
| <p>20. MILLENNIUM STAFF SAVINGS SCHEME</p> <p>At 1 July and 30 June</p> <p>This relates to amounts payable to former staff which is a subject of court cases. The money is being held until a judgement is made.</p> | <p><u>407,193</u></p> | <p><u>407,193</u></p> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

21. CASH GENERATED FROM OPERATIONS

| | 2006 Kshs | 2005 Kshs |
|---|---------------------|---------------------|
| <i>Reconciliation of Surplus for the Year to Cash Generated from Operations:-</i> | | |
| Surplus for the Year | 160,366,805 | 29,385,536 |
| Depreciation of Property, Plant And Equipment | 4,347,869 | 4,566,854 |
| Amortisation of Intangible Assets | 291,258 | - |
| Interest on Investments | (10,921,174) | (5,195,353) |
| Gain on Disposal of Equipment | - | (150,000) |
| | <u>154,084,758</u> | <u>28,607,037</u> |
| <i>Operating Cash Flow before Working Capital Changes</i> | | |
| Trade and other Receivables | (20,354,372) | (15,843,972) |
| Staff Loans and Advances | (3,174,970) | 4,968,536 |
| Trade and other Payables | 2,449,402 | (15,727,699) |
| Provisions | 9,256,083 | 9,142,433 |
| Investors' Compensation Fund | 73,891,233 | 13,609,280 |
| Staff Benevolent Fund | 303,034 | 105,717 |
| | <u>216,455,168</u> | <u>24,861,332</u> |
| Cash Generated From Operations | | |

22. 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 8,684,396 (2005: Kshs 8,680,687). At the balance sheet date, the Authority had outstanding commitments under operating leases, which fall due as follows:

| | 2006 Kshs | 2005 Kshs |
|-------------------|---------------------|---------------------|
| Within One Year | 8,856,524 | 8,299,401 |
| Between 2-5 years | <u>10,434,515</u> | <u>10,937,015</u> |
| | <u>19,291,039</u> | <u>19,236,416</u> |

23. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. EMPLOYEE BENEFITS EXPENSE (Continued)

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:

| | 2006 Kshs | 2005 Kshs |
|-----------------------------------|-------------------------|-------------------------|
| <i>Retirement benefits costs;</i> | | |
| Defined Benefit Scheme | 3,799,198 | 3,212,725 |
| National Social Security Fund | <u>71,800</u> | <u>74,400</u> |
| | <u>3,870,998</u> | <u>3,287,125</u> |

24. RELATED PARTY TRANSACTIONS

| | 2006 Kshs | 2005 Kshs |
|--|--------------------------|--------------------------|
| i) <i>Key Management Compensation:</i> | | |
| Salaries and other short term benefits | 23,224,394 | 15,651,472 |
| Post employment benefits | <u>793,634</u> | <u>359,154</u> |
| | <u>24,018,028</u> | <u>16,010,626</u> |
| ii) <i>Members' Allowances</i> | | |

A listing of the members of the Authority is found on page 6 of the annual report. In 2006 the total allowances of the members excluding the Chief Executive amounted to **Kshs 8,237,616 (2005: Kshs 7,456,840)**.

25. PERSONNEL COSTS

| | 2006 Kshs | 2005 Kshs |
|---|--------------------------|--------------------------|
| Consolidated Pay, Leave Pay and Passages | 57,871,689 | 49,775,299 |
| Staff Retirement Benefits and Gratuity | 6,409,282 | 12,002,134 |
| Benevolent Fund Contributions | 107,700 | 111,600 |
| National Social Security Fund (NSSF) | <u>71,800</u> | <u>74,400</u> |
| | <u>64,460,471</u> | <u>61,963,433</u> |
| Average Number of Employees during the Year | <u>34</u> | <u>31</u> |

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

26. CONTINGENT LIABILITY

| | 2006 Kshs | 2005 Kshs |
|-------------------|-------------------|-------------------|
| Pending Law Suits | <u>61,722,700</u> | <u>58,722,695</u> |

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 12,466,000 (2005: Kshs.5,820,000) will arise from these suits. The estimated liability has been recognised in these financial statements (note 19).

27. CAPITAL COMMITMENTS

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

| | 2006 Kshs | 2005 Kshs |
|-----------------------------------|-------------------|-------------------|
| Authorised but not contracted for | <u>13,100,000</u> | <u>24,360,000</u> |

28. 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 2006

29. COMPARATIVES

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

APPENDICES

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.

LICENSEES AS AT 30 JUNE 2006

APPROVED INSTITUTIONS

SECURITIES EXCHANGE

Nairobi Stock Exchange Ltd.

Kimathi Street, Nation Centre, 1st Floor
P.O. Box 43633-00100
Nairobi
Tel: 254 2 230692
Fax: 254 2 224200
Email: info@nse.co.ke
Home page: www.nse.co.ke

DEPOSITORY AND SETTLEMENT SYSTEM

Central Depository and Settlement Corporation

Nation Centre, Kimathi Street, 10th Floor
P. O. Box 43633, 00100
Nairobi
Tel: 254 2 253078/230692 ext 248
Fax: 254 2 253077
Email: helpdesk@cdskenya.com

INVESTMENT BANKS

African Alliance Kenya Ltd.

4th Floor, Kenya Re Towers, Upper Hill
P.O. Box 27639 - 00506 Nairobi
Tel. 2710978/2718720
Fax. 2710247
Email: enquiries@africanalliance.co.ke

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

Apex Africa Investment Bank Ltd

Rehani House (HFCK), 4th Floor
Corner of Kenyatta Av. and Koinange St. Ground Flr.
P O Box 43676 - 00100
NAIROBI
Tel: 254 2 242170
Fax: 254 2 215554
Email: hak@insightkenya.com

CBA Capital

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

Dyer & Blair Investment Bank Ltd

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

Kestrel Capital (EA) Limited

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

Standard Investment Bank

Hazina Towers, 17th floor
PO Box 13714 — 00800
Nairobi
Fax: 240297
Tel: 313364
Email: info@standardstocks.com
Website: www.standardstocks.com

Barclays Financial Services

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

Drummond Investment Bank Limited

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

Suntra Investment Bank Ltd

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

STOCKBROKERS

Ngenye Kariuki & Co. Ltd.

Travel (UTC) House, 5th floor
P O Box 12185 - 00400
Nairobi
Tel: 220052/220141/224333
Fax: 241825
E-mail: ngenyekari@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 41684 - 00100
Nairobi
Tel: 243811/2/3
Fax: 243814
E-mail: info@faidastocks.com, faidastocks@wananchi.com

Ashbhu Securities

Finance House, 13th floor
P O Box 45236 - 00100
Nairobi
Tel: 210178/212989
Fax: 210500
Email: ashbhu@africaonline.co.ke

Francis Thuo & Partners Ltd.

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

Nyaga Stockbrokers Ltd.

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

Reliable Securities Limited

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

Solid Investment Securities Ltd

Contrust Building, 6th Floor
P O Box 43046-00200
Nairobi
Tel: 244272/9
Fax: 244280
E-mail: sis@solidkenya.com

Crossfield Securities Ltd

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

Discount Securities Ltd.

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

FUND MANAGERS

AIG Global Investment Co. (EA) Ltd

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

African Alliance (K) Management Ltd.

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

Old Mutual Asset Managers (K) Ltd

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

Stanbic Investment Management Services Ltd

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

Old Mutual Investment Services Ltd

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

Genesis (K) Management Ltd

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

Aureos Kenya Managers

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

Royal Investment Management Services Limited

Barclays Plaza, Ground Floor, Loita St.
P.O. Box 9480 - 00100
Nairobi
Fax: 330120/219744
Tel: 313356/312144

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

British-American Asset Managers Limited

Britak Centre, Upperhill
P.O. Box 30375-001001
Nairobi
Tel: 2710927
Fax: 2717626
E-mail: Britak@Britak.co.ke
Website: www.britak.com

Co-op Trust Investment Services Ltd.

Co-operative Hse Mezzanine I
P.O. Box 48231 - 00100
Nairobi
Tel: 3276100

Old Mutual Asset Managers (EA) Ltd

Hospital Road
P.O. Box 30059-00100
Nairobi
Tel: 2829333

Standard Chartered Investment Services Ltd.

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

Zimele Asset Management Co. Ltd.

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

INVESTMENT ADVISORS**Bridges Capital Ltd.**

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

Equilibrium Capital Limited

Transnational Plaza
P.O. Box 9000-00100
Nairobi

Inter-Alliance International (K) Ltd

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

Executive and Corporate Advisory Services (K) Ltd

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

Cititrust (K) Limited

Citibank House,
P.O. Box 30711 - 00100
Nairobi
Tel: 2711221/222248
Fax: 513532
Website: www.citigroup.co.ke

Covenant International Ltd

Sarit Centre
PO Box 931- 00600
Nairobi
Tel:513532
Fax: 2714811
Email:covenant@nbi.ifbkenya.com

Veritas Financial Services

Village Market
P.O.Box 4-00621
Nairobi
Tel: 7120361
Nairobi

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

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

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

J.W. Seagon

Muthaiga Shopping Centre
PO Box 63420-00619
Nairobi
Email:bafinance@exchange.uk.com
Tel: 513600-6

BA Financial Management (K) Ltd.

P.O. Box 555 Sarit Center 00606
Nairobi
Tel: 86820800

Iroko Securities Kenya Ltd

2nd Floor, Fedha Towers
Muindi Mbingu Street
P.O. Box 66249-00800
Nairobi
Tel: 2729078/2722953
Fax: 2722953

Zimele Asset Management Co. Ltd.

Unipen House
Hurlingham Shopping Centre
P.O. Box 76528 - 00508
Nairobi
Tel: 3740497-8
Fax:3740497
E-mail: zimele@africaonline.co.ke

Franklin Mngmnt. Consultants Ltd

Viking House, Old Wing, 1st Floor
P.O. Box 61843-00200

Jani Consultancy Services Limited

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

Interglobal Investments Limited

C/o B.M. Musau Advocates
Reinsurance Plaza, Taifa Road
P.O. Box 16393-00100
Nairobi.
Tel: 242860
Fax: 250561
E-mail: Ben@bmmusau.co.ke
Website: www.bmmusau.co.ke

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

AUTHORIZED DEPOSITORIES**Barclays Bank of Kenya Ltd.**

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

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

Kenya Commercial Bank Ltd.

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

National Bank of Kenya Ltd

National Bank Building
P.O. Box 72866
Nairobi
Tel: 254 2 339690
Fax: 254 2 330784
H.Page: www.nationalbank.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

Cooperative Bank of Kenya

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

CREDIT RATING AGENCIES**Global Credit Rating Company**

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

REGISTERED VENTURE CAPITAL FUND**Acacia Fund**

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

Aureous East Africa Fund

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

FUND MANAGERS APPROVED COLLECTIVE INVESTMENT SCHEMES

1. *African Alliance Unit Trust Scheme*
 - (i) African Alliance Kenya Shilling Fund
 - (ii) African Alliance Kenya Fixed Income Fund
 - (iii) African Alliance Kenya Managed Fund

2. *Old Mutual Unit Trust Scheme*
 - (i) Old Mutual Equity Fund
 - (ii) Old Mutual Money Market Fund

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

4. *Old Mutual CBA Unit Trust Funds*
 - (i) Commercial Bank of Africa Equity Fund
 - (ii) Commercial Bank of Africa Money Market Fund

5. *British American Unit Trust Funds*
 - (i) British American Equity Fund
 - (ii) British American Money Market Fund
 - (iii) British American Income Fund
 - (iv) British American Balanced Fund
 - (v) British American Managed Retirement Fund

LISTED COMPANIES AND MARKET CAPITALIZATION AT JUNE 30 2006

| | SECURITY | ISSUED SHARES (M) | CLOSING PRICE (KSHS) | MARKET CAP (KSHS B) |
|----|---|----------------------|-------------------------|------------------------|
| | MAIN INVESTMENT MARKET SECTOR | | | |
| | Agricultural Sector | | | |
| 1 | Unilever Tea (Kenya) Ltd | 48.88 | 80 | 3.91 |
| 2 | Kakuzi Ltd. | 19.60 | 37 | 0.73 |
| 3 | Rea Vipingo Ltd. | 60 | 20.25 | 1.22 |
| 4 | Sasini Tea & Coffee Ltd. | 38.01 | 27.25 | 1.04 |
| | Commercial and Services Sector | | | |
| 5 | CMC Holdings Ltd. | 48.56 | 70 | 3.40 |
| 6 | Car & General (K) Ltd. | 22.28 | 30 | 0.67 |
| 7 | Hutchings Biemer Ltd.(s) | 0.36 | 20.25 | 0.01 |
| 8 | Kenya Airways Ltd | 461.62 | 116 | 53.55 |
| 9 | Marshalls (EA) Ltd. | 14.39 | 31.25 | 0.45 |
| 10 | Nation Media Group Ltd. | 71.31 | 203 | 10.51 |
| 11 | Tourism Promotion Services (East Africa) Ltd. | 89.87 | 117 | 3.37 |
| 12 | Uchumi Supermarkets Ltd. | 180.00 | 14.50 | 2.61 |
| | Finance & Investment Sector | | | |
| 13 | Barclays Bank (K) Ltd. | 203.68 | 270 | 54.99 |
| 14 | CFC Bank Ltd. | 156 | 67.50 | 10.53 |
| 15 | Diamond Trust Bank of Kenya Ltd. | 124.22 | 52 | 6.46 |
| 16 | ICDC Investment Co. Ltd. | 55.00 | 99.50 | 5.47 |
| 17 | Housing Finance Co. Ltd | 115 | 27.75 | 3.19 |
| 18 | Jubilee Insurance Co. Ltd. | 36 | 125 | 4.50 |
| 19 | Kenya Commercial Bank Ltd. | 199.6 | 165 | 32.93 |
| 20 | National Bank of Kenya Ltd. | 200 | 47.25 | 9.45 |
| 21 | NIC Bank Ltd. | 82.41 | 71 | 5.85 |
| 22 | Pan Africa Insurance Holdings Ltd. | 48 | 43 | 2.06 |
| 23 | Standard Chartered Bank Ltd. | 271.97 | 150 | 40.80 |
| | Industrial & Allied Sector | | | |
| 24 | Athi River Mining Ltd | 93 | 67 | 6.23 |
| 25 | British American Tobacco (K) Ltd. | 100 | 190 | 19.00 |
| 26 | Bamburi Cement Ltd. | 362.96 | 146 | 52.99 |
| 27 | BOC Kenya Ltd. | 19.53 | 160 | 3.12 |
| 28 | Carbacid Investments Ltd. | 11.33 | 137 | 1.55 |
| 29 | Crown Berger Ltd. | 23.73 | 36 | 0.85 |
| 30 | Olympia Capital Holdings Ltd. | 10 | 16 | 0.16 |
| 31 | E.A.Cables Ltd. | 20.25 | 270 | 5.47 |
| 32 | E.A. Portland Cement Ltd. | 90 | 132 | 11.88 |
| 33 | East African Breweries Ltd. | 658.98 | 139 | 91.60 |
| 34 | Sameer Africa Ltd. | 278.34 | 17.50 | 4.87 |
| 35 | Kenya Oil Co. Ltd. | 100.80 | 126 | 13.37 |
| 36 | Kenya Power & Lighting Ltd. | 79.13 | 169 | 8.78 |
| 37 | KenGen Co. Ltd. | 2,198.36 | 39.25 | 86.29 |
| 38 | Mumias Sugar Co. Ltd. | 510 | 62 | 31.62 |
| 39 | Total Kenya Ltd. | 175.06 | 37.75 | 6.61 |
| 40 | Unga Group Ltd. | 63.09 | 17.95 | 1.13 |
| | Alternative Investment Market Segment | | | |
| 41 | A. Baumann & Co. Ltd. | 3.84 | 12.35 | 0.05 |
| 42 | City Trust Ltd. | 4.17 | 57.50 | 0.24 |
| 43 | Eaagads | 8.04 | 17.60 | 0.14 |
| 44 | Express Kenya Ltd. | 32.19 | 27.25 | 0.89 |
| 45 | Kapchorua Tea Co. Ltd. | 3.91 | 98 | 0.38 |
| 46 | Kenya Orchards Ltd. | 12.87 | 5 | 0.06 |
| 47 | Limuru Tea Co. Ltd. | 0.60 | 345 | 0.21 |
| 48 | Standard Newspapers Group Ltd. | 65.13 | 36 | 2.34 |
| 49 | Williamson Tea Kenya Ltd | 8.76 | 70 | 0.62 |
| | Preference Shares | | | |
| 1 | Kenya Power & Lighting Ltd. Pref. 4% | 1.80 | 8 | 0.01 |
| 2 | Kenya Power & Lighting Ltd. Pref. 7% | 0.35 | 10 | 0.004 |