

CAPITAL MARKETS AUTHORITY



2004

**Annual Report
and Accounts**

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

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 30 June 2004. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Respectively yours,



Edward H Ntalami
CHIEF EXECUTIVE

Vision

To be a trusted 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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MEMBERS OF THE AUTHORITY



Prof. Chege Waruingi



Edward H. Ntalami



Lucy G. Njiru



Malachi Oddenyo



Michael Cherwon



Selest Kilinda



Wanjohi Ndirangu



Andrew Mullei
Governor,
Central Bank of Kenya



Hon. Amos Wako
Attorney General



Joseph K Kinyua
ES Treasury



Jimmy M. Kitonga



Kakai Cheloti
Alt. to Governor,
Central Bank of Kenya



Roselyn Amadi
Alt. to Attorney General



Maurice Kanga
Alt. to ES Treasury

SENIOR MANAGEMENT



Edward H Ntalami
Chief Executive



Christine Mweti
Manager Legal Affairs



Sammy Mulang'a
Manager Research and
Market Development



Joachim Githinji
Manager Finance
and Administration



Wycliffe Shamia
Assistant Manager
Compliance



Edwin Kipsitet
Assistant Manager
Research



Esther Maiyo
Assistant Manager
Finance



Angela Kariuki
Assistant Manager
Legal Affairs



Samuel Njoroge
Assistant Manager
Investor Education

CHAIRMAN'S STATEMENT



Prof. Chege Waruingi
Chairman

Once again I am pleased to present the Authority's Annual Report for the fiscal year 2004. The year under review was an extremely busy one for the Authority, its staff and the industry we regulate. We have been faced with an array of new challenges following the continued growth and increasing complexity of national and international capital markets landscape. These developments call for more responsive and effective regulation, and policy and legislative developments will continue to be a major focus for the Authority and the industry.

Capital markets are changing rapidly driven by rapid technological innovation in such areas like electronic trading and settlement systems; globalisation of capital markets with international capital flows; greater array of market participants, new financial products and distribution channels; and heightened regional and international competition from new providers of financial services and products which is increasing pressure for improved efficiency and performance. This dynamism and interplay in an increasingly global securities market, has heightened the demand for innovation and responsiveness in our operations and policies. To remain effective and relevant, we must respond quickly and thoughtfully to the new challenges in the world around us. The market expects us to continue fulfilling our capital formation function and constructing the next generation of markets, with the capacity to provide instant price discovery, immediate execution and liquidity in an orderly and fair environment. This must be accomplished in a well-regulated and low-cost environment. The way in which we regulate the

capital markets must reflect these new realities of the financial services industry where investors are becoming more informed, have more choice in terms of the number of investment intermediaries and vehicles as well as a growing variety of investment products.

The role of the capital market in the quest for national economic goals is now widely acknowledged. A market economy like ours needs capital markets to foster economic growth by channelling savings into investment. The capital market facilitates the ability of both private enterprises and government to issue securities and raise funds for investment. They provide secondary market liquidity necessary for capital turnover, and a price discovery mechanism to ensure that capital is priced realistically and allocated efficiently. A dynamic and efficient capital market, one in which the investing public and market participants have confidence, is therefore important to the growth of Kenya's economy, and effective regulation of that market is essential to public confidence.

The Authority remains committed to the diligent enforcement of regulatory standards. Because of the important economic role that the capital market plays, it is critical that the market is fair, orderly, and efficient. The Authority will continue to maintain the integrity of the market through a regulatory structure with appropriate standards for trading, adequate clearance and settlement safeguards, and a means for achieving investor protection, all in a system that preserves free and open competition. Customer funds segregation, licensing and capitalization requirements for different kinds of licensees as well as reporting and disclosure requirements and fair trading procedures, all help to promote market integrity. Effective regulation also requires that regulatory burden is tamed and kept at a manageable level.

As our market becomes more accessible to investors, regulation becomes more important than ever. We must never forget, however, that the end of regulation is market development. There is merit, therefore, in maintaining a healthy balance between regulation and market sovereignty in order to foster market innovation and growth. Our preference is for institutional licensees like NSE to move toward the status of a fully-fledged self-regulatory organization (SRO). That way they can exercise direct oversight over the activities of their members within broad

CHAIRMAN'S STATEMENT (Cont'd)

parameters agreed with CMA. In turn, the Authority can devote more time and energy to the developmental aspects of its mandate. It is a win-win situation.

To function efficiently and play an effective role in harnessing and mobilizing domestic and foreign capital resources, our capital market needs a critical mass of products, securities, investors, issues, institutions and intermediaries. The situation we face in Kenya is that our capital market is relatively small and illiquid and lacks the capacity to meet the enormous development financing needs of Kenya.

The number of companies listed and listing is few and far between. During the last 10 years, the supply of new equities into the capital market has remained thin with privatisation programmes accounting for the bulk of new issues. Tradable securities are dominated by government paper, a few conventional equities and ever fewer corporate bonds. This is a challenge that we must address forcefully and collectively in order to move our market to the next level of prosperity. We believe that the market can only benefit from the widest consultation and collaboration on matters of mutual interest. The Authority will therefore continue to work closely with all stakeholders to promote the growth, efficiency and fairness of the market through a variety of initiatives.

- Implementing policies that encourage companies to seek long-term debt and permanent equity financing;
- Removing impediments and creating incentives to increase the demand for securities;
- Providing necessary protection for investors to bolster their confidence in the market;
- Encouraging the development of new financial products, and a robust financial services infrastructure;
- Improving corporate governance, disclosure and accounting standards to provide more reliable information to investors;
- Educating investors and creating public awareness about capital markets.

During the year, the Authority devoted a substantial amount of time to issues connected with development

and implementation of the Central Depository and Settlement System (CDSS). I am happy to report that the long awaited CDSS project was finally commissioned in November 2004. This marks a milestone in evolution of capital markets in Kenya after a long journey that began in the 1990s. Its satisfactory implementation remains one of the highest priorities of the Authority. Its success is fundamental to increasing market efficiency and competitiveness, reducing risk and improving risk management mechanisms, and supporting other market development initiatives. With the maturation of CDS, another very important project for the development of our market and the improvement of investor protection is the upgrading of our trading system and the introduction of automatic matching and execution of transactions. One key feature of the automated trading system (ATS) will be immediate on-line trading and price reporting. Apart from further enhancing market transparency, ATS is considered a pre-requisite to the development of derivatives market. The establishment of ATS will also position our market competitively in line with international best practices and create a platform for markets integration.

The Authority commenced review of its corporate strategy for the next strategic horizon 2005-2010. The strategic plan is intended to chart the strategic direction of the Authority for the next five years, and to ensure strategic alignment throughout the capital markets. It seeks to provide stakeholders with strategic clarity as to the vision and objectives of the Authority, to ensure that the market is well positioned to play its part in supporting national socio-economic goals and aspirations.

I am grateful to my colleagues on the Board for their consistent commitment, professionalism and support, and for their valuable contribution to the Authority and the capital markets at large. I would also like to take this opportunity to thank management and staff for their hard work and dedication throughout the year. Through teamwork and a strong desire to excel, I have no doubt that we will ensure our position as a pre-eminent regulator in the securities market.



Professor Chege Waruingi
CHAIRMAN

CHIEF EXECUTIVE'S REPORT



Edward H. Ntalami
Chief Executive

Kenya's economic health has significant domino effect on the performance of the capital markets. Due to its low domestic savings and investment ratios, Kenya will increasingly depend on private capital flows to support its national development goals. And because Kenya operates in the global economy it is in competition for capital from all over the world, and especially those in the region. The competitive ability of Kenya to attract capital flows depends critically on how well we stand to the scrutiny of our economic fundamentals.

In the last decade, Kenya's economy has been under-performing with real gross domestic product lagging behind that in the region. The poor economic performance has culminated in declining income per head and resulted in many Kenyans living below the poverty line. As well as being a disincentive to investors, this seriously constrains disposable incomes and reduces the level of investments through the capital markets.

During 2004, the domestic economy continued to show signs of recovery despite numerous headwinds. Gross domestic product improved marginally by 2.4% compared to 1.8% in 2003, driven mainly by growth in key sectors including agriculture, transport and communications, financial services, building and construction, government services and tourism. This growth was achieved against a backdrop of poor

state of infrastructure, high cost of production, low foreign investment inflows, delayed donor support, high cost of fuel prices and adverse travel advisories. Transport and communications expanded by 4%, while financial services and agriculture grew by approximately 3% and 2.4% respectively. Building and construction sector registered a growth of 2.4% suggesting a general upturn in the economy. The tourism sector withstood the effects of negative travel advisories issued by western governments to return an average annualised growth of 18% during the year. The manufacturing sector, however, continued to lag behind with growth of 1.7% due to subdued demand.

The growth is attributed primarily to the government's astute management of its economic policies and resources and strict maintenance of financial discipline. In an attempt to jumpstart the economy, the government in 2003 embarked on a wide range of macroeconomic reforms aimed at creating employment, improving governance and reducing poverty levels. A low interest regime prevailed throughout the year leading to expansion of credit to the private sector, which had positive impact on the economy. However, the 91-day Treasury bill rate increased from a low of 1.3% in June 2003 to 2.4% at close of June 2004. The increase was necessitated by the need to manage and tame money supply through open market operations and investors' expectations of future better returns that culminated into higher bids at the auction market. Overall inflation continued to decline through the first six months of 2004 with the twelve months annual inflation declining from 9.1% in January to 5.9% in June, while annual average inflation declined from 10.0% in January to 8.2% in June 2004.

Expectations are that economic growth will accelerate over the next few years, and the economy is forecast to continue its growth momentum. The expectation is in view of resumption of donor support, the award by the IMF of a three-year poverty reduction and growth facility, the on-going macro-economic reforms, the anti-corruption crusade, and increasing participation of the private sector in economic reform initiatives.

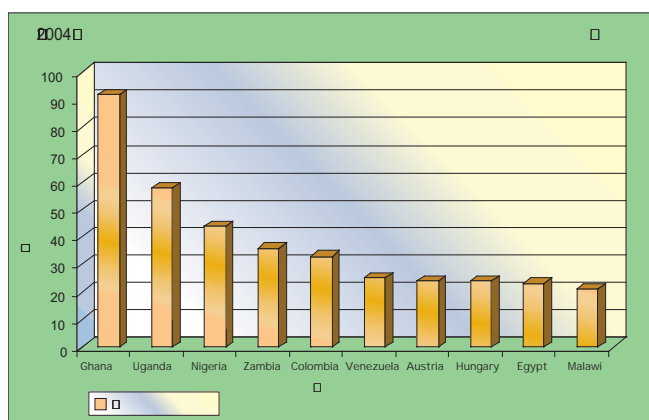
STOCK MARKET PERFORMANCE

Emerging Markets

In 2004 African stock markets, contrary to expectations, were firmly perched up at the upper echelons of global performance rankings. In the half-year ended June 2004, index returns in Africa outside Zimbabwe averaged 19.2%. This compares favourably to an average index return of 7.9% in Latin America, 6.4% in Europe, 5.6% in North America, and a global average of 7.9%. Out of the top ten best performing markets in the world, six were from Africa, two from Latin America and two from Europe.

Top Ten Performing Stock Markets Half-Year ended June 30, 2004	Index returns (%)
Ghana	92
Uganda	58
Nigeria	44
Zambia	36
Colombia	33
Venezuela	25
Austria	24
Hungary	24
Egypt	23
Malawi	21

Ghana which topped the world performance rankings in 2003 remained in the number one spot at the end of the first half of 2004, driven by strong corporate results, declining inflation, falling interest rates and an overall improvement in the macroeconomic environment.



Strong corporate earnings, stable exchange rates, low inflation and interest rates were the factors behind the good performing capital markets. These factors are critical in determining investor returns and demand for securities leading to increased share prices. However, some markets also experienced increased demand against limited supply of securities resulting in increased share prices.

PERFORMANCE OF THE KENYAN MARKET

Primary Equity Market

The primary equity market has been inactive for almost a decade and remains a major challenge to the Authority. There have been no initial public offerings for a long time despite the many policy and fiscal incentives granted by the government. Majority of recent listings have been through privatisation of state enterprises. The Authority is carrying out a study on the slow pace of new listings aimed at removing impediments and encouraging private companies to seek listing at the Nairobi Stock Exchange.

Although there were no initial public offerings during the year, there was renewed optimism in the primary equities market following rights issues by Express Kenya Limited and Kenya Commercial Bank (KCB) Limited towards the end of the financial year. Express Kenya rights issue of eight new shares for every one share held raised a total of Kshs 0.18 billion and was fully subscribed. KCB issue of one share for every three shares held raised Kshs 2.45 billion and was oversubscribed by 12.25%. The two rights issues introduced an additional 87 million new shares valued at Kshs 2.63 billion into the market. The additional shares in the market significantly boosted trading volume, turnover and market capitalization at the NSE.

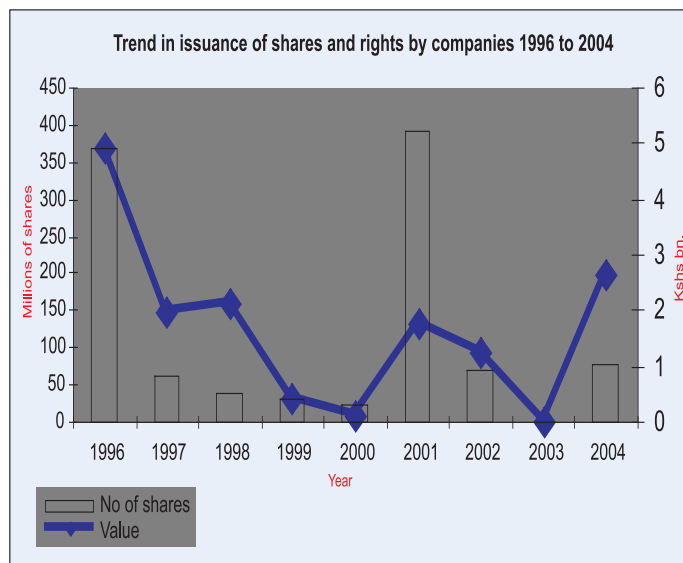
Government privatization programme targeting a number of state enterprises did not materialize as expected. Privatization of non-strategic state enterprises through the capital markets not only mobilizes much needed financial resources for

CHIEF EXECUTIVE'S REPORT (Cont'd)

development, but also ensures that ordinary Kenyans participate in the economic growth of their country. The rollout of privatization programme is expected to revitalize the primary market segment.

Statistics for new issues and rights (1998-2004)

Year	No of Issues	No of shares (Millions)	Value of issues (Kshs Billions)
1996	5	366.88	4.93
1997	3	63.97	1.94
1998	2	37.42	2.1
1999	1	30	0.42
2000	1	24	0.12
2001	3	389.97	1.76
2002	1	70.03	1.26
2003	-	-	-
2004	2	77.39	2.62



Capitalization Issues 1996 - June 2004

Company	Ordinary Shares	Par Value	Type of Issue	Date of issue	Issue Price	Sum Raised (Kshs mn)*1	Rate of (%) Subscription
Rea Vipingo	8,000,000	5	IPO	Mar-96	10.50	84	180
Kenya Airways	235,000,000	5	OFS	Mar-96	11.25	2,644	194
EAPC	72,000,000	5	RI	Mar-96	14.00	1,008	100
NBK	40,000,000	5	OFS	May-96	15.00	600	220
KCB	11,880,000	10	OFS	Sep-96	50.00	594	180
TPS Serena	12,893,000	5	OFS	Mar-97	13.00	168	430
Athi River Mining	23,000,000	5	IPO	July-97	12.25	282	143
EA Breweries	28,080,675	10	RI	Dec-97	53.00	1,488	100
KCB	28,000,000	10	OFS	May-98	65.00	1,820	170
ICDC Inv. Co.	9,419,476	5	RI	Nov-98	30.00	283	100
HFCK	30,000,000	5	OFS	Mar-99	14.00	420	90
Pan African Insurance	24,000,000	5	RI	Jan-00	5.00	120	58
Mumias Sugar	300,000,000	5	OFS	Sep-01	6.25	1,124	60
ICDC Inv. Co.	13,968,709	5	OFS	Oct-01	37.00	331	64
Standard Newspapers.	76,000,000	5	RI	Dec-01	5.85	306	68
Total (Kenya)	70,030,000	5	RI	Jan-02	18.00	1,260	100
Express Kenya	27,385,264	5	RI	Dec-03	6.50	178	100
KCB Limited	50,000,000	5	RI	June-04	59.00	2,450	112
Total	1,059,657,124					15,159	

*1 Rounded off to nearest million

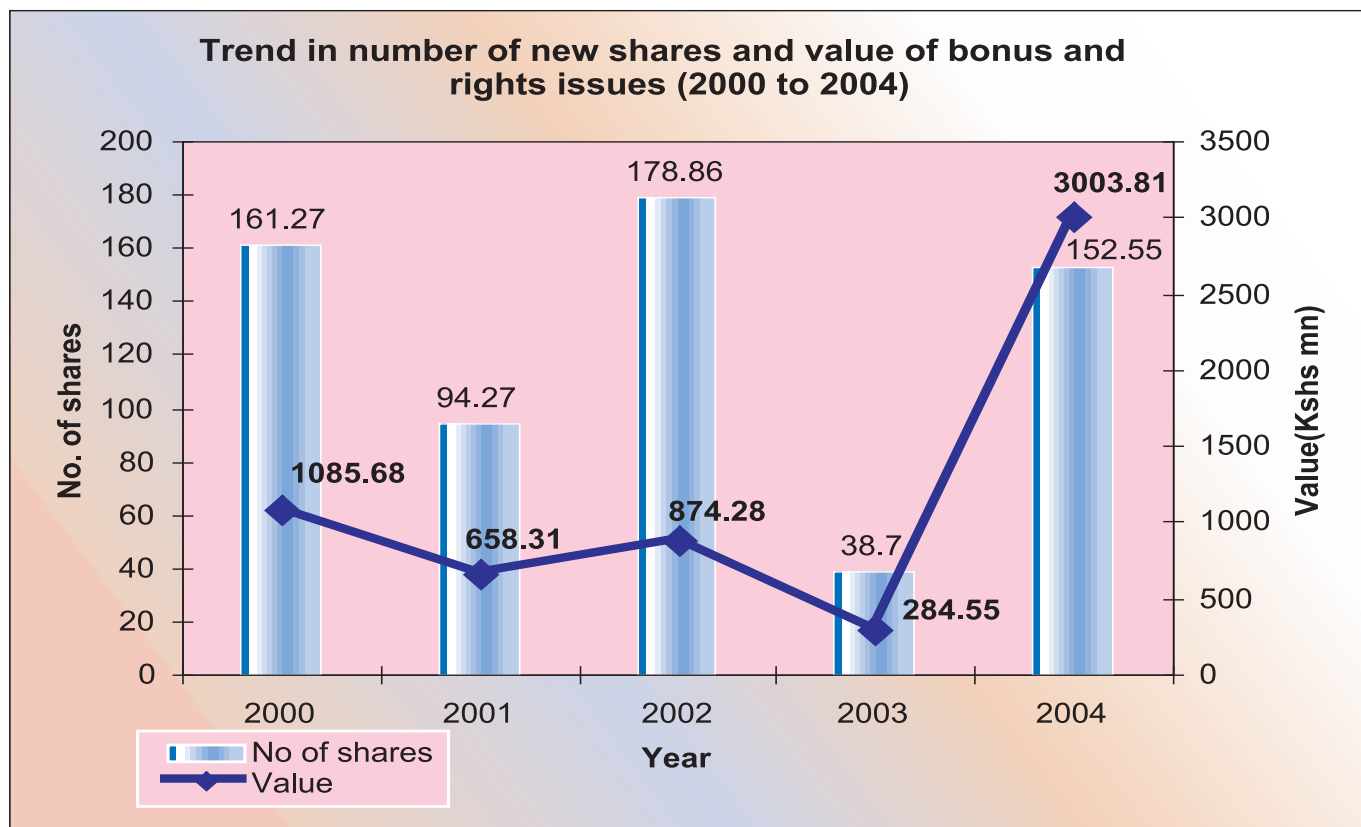
Note

- OFS- Offer for Sale
- RI-Rights Issue
- PI- Initial Public Offer

CHIEF EXECUTIVE'S REPORT (Cont'd)

Bonus and rights issue; 2000 - 2004

Year	Company	Type of Issue	Rate	No of new shares (Mn)	Value (Kshs Mn)
2000	Pan Africa Insurance	Bonus	1:2	3.00	15.00
	Barclays Bank	Bonus	1:5	30.86	308.61
	Standard Chartered Bank	Bonus	1:2	82.41	412.07
	British American Tobacco	Bonus	1:3	25.00	250.00
	CFC Bank	Bonus	1:5	20.00	100.00
2001	Carbacid	Bonus	1:5	1.89	9.44
	Eaagads	Bonus	1:4	1.61	2.01
2002	Standard Newspapers	Rights	6:1	91.00	455.00
	Total Kenya	Rights	2:3	70.03	330.15
	Nation Media Group	Bonus	1:2	17.83	89.13
2003	Barclays Bank	Bonus	1:10	18.52	185.17
	Diamond Trust	Bonus	1:4	19.88	99.38
2004	Express Kenya	Rights	8:1	27.39	178.00
	CMC Holdings	Bonus	1:1	24.28	121.40
	CFC Bank	Bonus	1:5	24.00	120.00
	Stan chart Bank	Bonus	1:10	24.72	123.62
	Crown Berger	Bonus	1:10	2.16	10.79
	Kenya Commercial Bank	Rights Issue	3:1	50.00	2450.00



CHIEF EXECUTIVE'S REPORT (Cont'd)

Bonus Shares

There was improved activity in the number of new shares listed with announcements of four bonus issues and two rights issues in 2004, resulting in supply of 153 million new shares. In addition, a total of 43 dividend announcements including interim and final were declared by various companies listed at the NSE. The total number of bonus issues announced from 2000 to 2004 stood at 19. In the last five years to June 2004, a total of 626 million shares valued at Kshs 5.74 billion have been issued by listed companies by way of bonus and rights issues.

Secondary Equity Market

2004 witnessed considerable activity in the secondary market, especially in the second half of the year, as well as shifting investors' interest from debt securities to shares. The year was also notable for increase of institutional investors, which resulted in change of market shape from retail to mixed wholesale and retail. Systematic inflow of capital to investment funds and open pension funds is important factor in market development, ensuring real demand for new, large issues of securities, which largely explained the growing demand for investment opportunities by the fund managers.

The secondary market continued to record improved trading activity, with the notable resurgence of the equities market that began in 2003 continuing throughout 2004. A combination of bullish trend and good corporate profits by listed companies pushed share volumes and turnover to historic highs. The NSE

index increased by 705 points or 36%, moving from 1935 points in June 2003 to reach a peak of 2640 points at the end of June 2004. This increased activity was fuelled by investors' preference for and shift to equity investments in reaction to the continued depressed yields from fixed income securities and strong corporate announcements. The heightened demand for equity investments pushed market capitalization to Kshs. 274 billion at the end of June 2004, an increase of 51% over Kshs.181 billion in 2003. The volume of shares traded increased substantially to 526 million reflecting a rise of 166 % compared to the previous year's level of 198 million. Turnover also improved, increasing by 171% to a high of Kshs 20.4 billion, the highest in Kenya's history.

Despite overall good aggregate performance of the market during the year, the performance was not uniformly distributed when analyzed on month-by-month basis. The second half of the year recorded relative declines in both the NSE index and market capitalization compared to the first half. Both variables however remained decently higher than the closing figures for 2003. The decline in both parameters is largely attributed to high profit takings following the bullish run experienced between January 2003 and January 2004.

The equities market is expected to continue to perform well during the next financial year as the economy is expected to maintain its momentum propped up by the on-going macro-economic reforms, the crusade against corruption and the resumption of donor funding.

Gross Market Statistics: 2001 to 2004

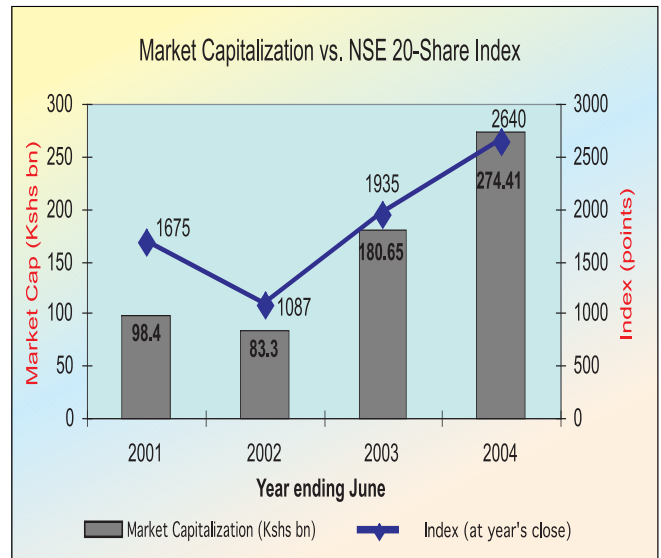
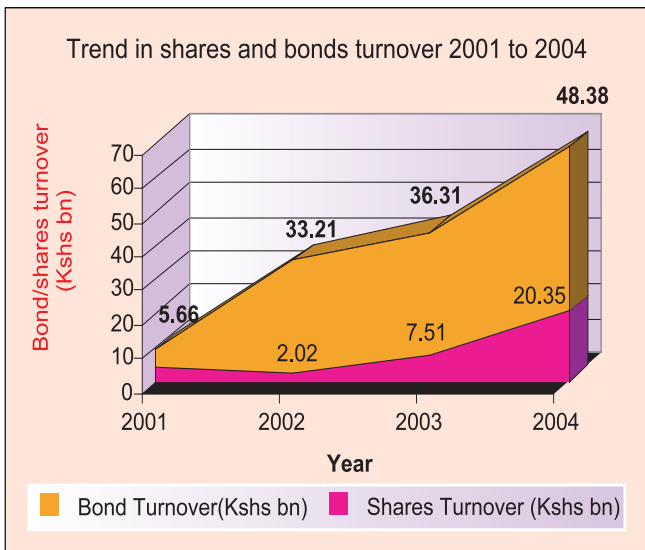
	2001	2002	2003	2004
Shares Volume (Kshs m)	126.64	106.07	198.1	525.88
Shares Turnover (Kshs bn)	3.8	2.02	7.51	20.35
Market Capitalization (Kshs bn)	98.4	83.3	180.65	274.41
Index (at year's close)	1675	1087	1935	2640
Bond Turnover (Kshs bn)	5.66	33.21	36.31	48.38

CHIEF EXECUTIVE'S REPORT (Cont'd)

There was a gradual decline in market capitalization and the NSE index towards the end of the first half of 2004 with the bullish trend in the market subsiding following profit takings by investors. The two market indicators however rose steadily in the second half of the year. There were strong indications that the equities and bond markets were moving in the same direction but if interest rates continue to rise the shift by investors to the bond market cannot be ruled out.

NSE 20 Share Index

The NSE 20-Share index rose by 36.4% in 2004. The net worth of investors increased by Kshs 93.8 billion as market capitalization rose by 51.9% to Kshs 274.4 billion compared to the previous figure of Kshs 180.7 billion, although both variables increased at a lower rate than the previous financial year.

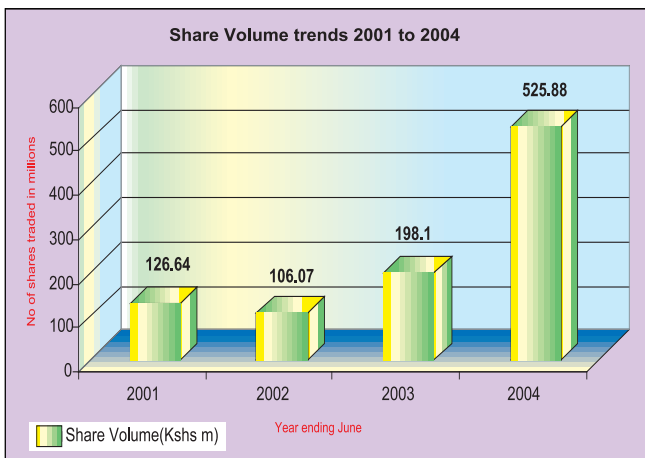


During the period under review the supply of shares increased as the bullish trend subsided and many speculators caught out in the bull-run desperately offered their shares at lower prices in the market without matching bids. This explains the index decline during the first half of the year, which only increased at a low rate during the second half.

Primary Bond Market

Treasury bonds

At the onset of 2004, it was widely expected that bonds would experience a difficult year due to prevailing low interest rates and surplus liquidity in the banking sector. The low interest rate regime which prevailed throughout 2003 reached its lowest rate of 0.85% in September 2003, before climbing consistently to close the year at 1.72% in June 2004. Bond yields moved in sympathy with the Treasury bill trends with a clear preference by investors for short-dated bonds, in both the primary and secondary markets. Bond yields averaged between 3% on one-year paper to 8% on ten-year bonds. The number and value of new Treasury bonds also declined in 2004 with total of 22 Treasury bond issues valued at Kshs 82.56 billion listed compared to the 28 issues valued at Kshs 96.33 billion recorded in 2003. (see table over leaf)



CHIEF EXECUTIVE'S REPORT (Cont'd)

Treasury Bond Issue by tenor; 2001 - 2004

Tenor	2001 No of Issues	Value (Kshs bn)	2002 No of Issues	Value (Kshs bn)	2003 No of Issues	Value (Kshs bn)	2004 No of Issues	Value (Kshs bn)
1 year	17	30.02	4	13.07	4	10.36	3	10.00
1 1/2 years	-	-	1	4	-	-	-	-
2 years	15	14.3	5	22.91	6	14.64	4	14.91
3 years	9	2.8	6	22.86	4	16.32	5	17.14
4 years	-	-	2	10	3	12	2	6.49
5 years	-	-	1	7	4	14.31	1	3.56
6 years	-	-	1	3	3	15	3	10.95
7 years	-	-	-	-	1	3	2	4.87
8 years	-	-	-	-	1	4	1	1.52
9 years	-	-	-	-	1	4	-	7.19
10 year	-	-	-	-	1	2.7	1	5.93
Total	41	47.12	20	82.84	28	96.33	22	82.56

Commercial paper programme

There were two new commercial paper (CP) programmes during the financial year valued at Kshs 0.45 billion issued by Crown Berger and Cooper Kenya Limited. These together with four renewals increased to Kshs 1.82 billion the value of commercial paper issued in the market. The outstanding commercial papers at the end June 2004 were worth Kshs 1.21 billion.

Commercial Paper approvals

	Issuer	Amount (Kshs mn)	Date of approval	Expiry date	Status of programme	Outstanding (Kshs mn)	Average Yield (%)
1	*Kenya Hotel Properties	200	Nov 4, 2003	Nov 4, 2004	2nd Renewal	200	4.42
2	Crown Berger	200	Nov 19, 2003	Nov 19, 2004	1st Issue	39	4.33
3	Kenya Oil Company Ltd	1,000	Feb 1, 2004	Feb 1, 2005	1st Renewal	574	4.71
4	*Ecta (Kenya) Limited	70	Feb 1, 2004	Feb 1, 2005	2nd Renewal	70	4.47
5	*Cooper Kenya Ltd	100	Mar 1, 2004	Mar 1, 2005	1st Issue	100	4.55
6	CMC Holdings Limited	250	Mar 27, 2003	May 1, 2005	3rd Renewal	222	4.41
	Total approved	1,820				1,206	

* Bank guaranteed

Holding of Commercial paper by class of investors as at June 30, 2004

	Issuer	Banks (%)	Insurance companies (%)	Fund managers (%)	Investment Companies (%)	Individuals (%)
1	Kenya Hotel Properties	28.00	54.00	3.00	6.00	9.00
2	Crown Berger	0.00	0.00	0.00	73.13	26.87
3	Kenya Oil Company Ltd	20.00	19.15	60.86	0.00	0.00
4	Ecta (Kenya) Limited	35.71	21.43	7.14	28.57	7.14
5	Cooper Kenya Ltd	40.00	0.00	45.00	10.00	5.00
6	CMC Holdings Limited	0.00	27.65	44.95	18.43	8.97

CHIEF EXECUTIVE'S REPORT (Cont'd)

CORPORATE BONDS

There were four issues of medium term notes worth Kshs 7.35 billion outstanding at the end of 2004. Shelter Afrique (Kshs 350 million), East African Development Bank (Kshs 2 billion), Safaricom (Kshs 4 billion) and Mabati Rolling Mills (Kshs 1 billion) issued these notes. In addition, East African Development Bank launched a 7-Year corporate bond issue on June 30, 2004 valued at Kshs 1.5 billion. The investment is expected to deepen the debt market further by providing an alternative investment product whose yield is pegged to the 7-Year fixed treasury bond. Fund managers and banks together held 95% of the total value of corporate bonds in the market. Insurance companies and investment firms accounted for the balance of 5%.

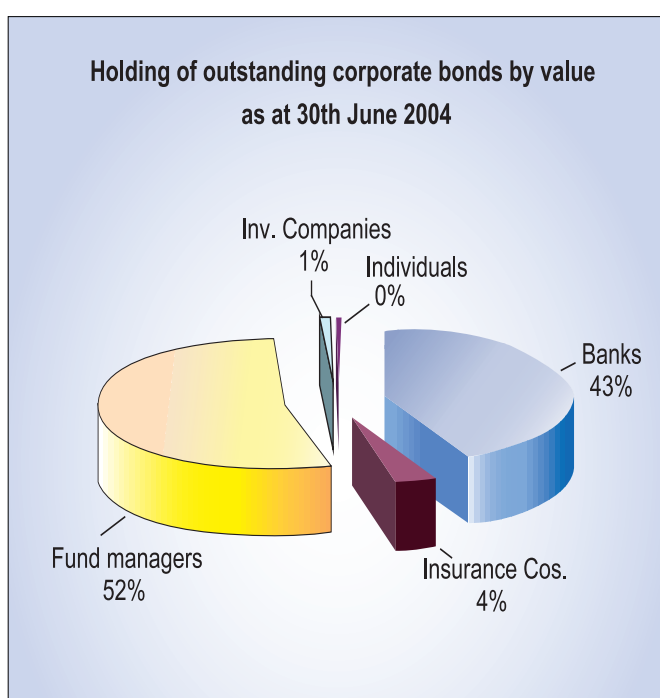
Corporate Bond approvals

Issuer	Amount (Kshs mn)	Date of approval	Expiry date	Outstanding (Kshs mn)	Yield (%)
E.A. Development Bank	2,000	Mar 28, 2001	April 25, 2006	1,000	91 Day T-Bill + 0.75%
Shelter Afrique	350	Nov 29, 2000	Oct 22, 2004	50	91 Day T-Bill + 0.75%
Mabati Rolling Mills Limited	1,000	Sept 19, 2002	Sept 30, 2006	1,000	91 Day T-Bill + 1.25%
Safaricom	4,000	May 17, 2001	Sept 30, 2005	3,200	91 Day T-Bill + 1.0%
Total approved	7,350			5,250	

* Bank guaranteed

Holding of corporate bonds by class of investors as at June 30, 2004

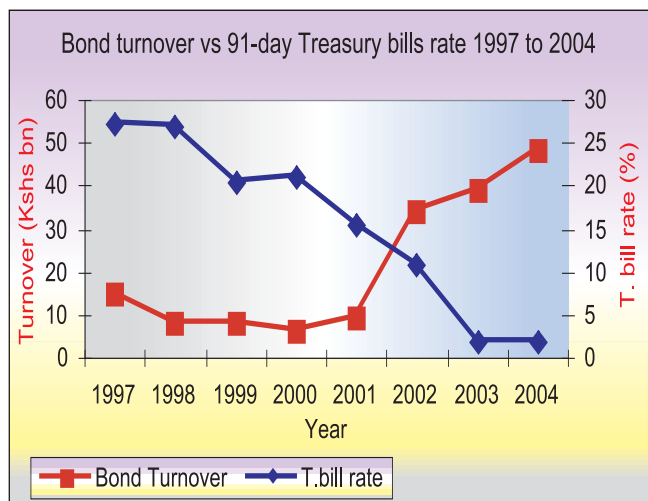
Issuer	Banks (%)	Insurance companies (%)	Fund Managers (%)	Investment Companies (%)	Individuals (%)
Shelter Afrique	16.50	9.00	74.50	0.00	0.00
E.A. Development Bank (2001 issue)	42.65	6.05	48.20	3.10	0.00
Mabati Rolling Mills Limited	36.42	3.00	59.95	0.63	0.00
Safaricom	45.48	2.78	50.88	0.50	0.38



Secondary Bond Market

There was vibrant activity on the bonds market with Kshs 48.4 billion turnover recorded compared to Kshs 38.9 billion in 2003. This 24.4% growth confirms the growing importance of the Fixed Income Securities Market Segment as an alternative window for investors in the capital markets and further demonstrates that the debt market can be just as liquid as the equities market. The subscription levels averaging 98% for treasury bonds auction also reflected the popularity and acceptability of government paper by investors. Bond turnover rose substantially between 2000 and 2004. The declining 91-day Treasury bill rates over the same period led to increased demand for this product by investors in the secondary market.

CHIEF EXECUTIVE'S REPORT (Cont'd)



COMPLIANCE AND ENFORCEMENT

The Authority's regulatory structure entails the building of an effective system of market oversight, including a mechanism for monitoring compliance with specific regulatory requirements. It also includes a strong enforcement programme, all of which are aimed at safeguarding the integrity of the market. The regulatory framework also entails an annual review of all market licensees in order to ensure they continue to comply with the oversight regulations. The following activities took place during the period under review.

Market Surveillance

Market surveillance is a continuous exercise that plays a key role in ensuring safety and integrity of the market. The Authority's market surveillance essentially focuses on:

- Formulation of surveillance systems and risk containment measures for the Authority aimed at bolstering integrity, safety and stability in the capital markets;
- Overseeing trading activities in the secondary markets;
- Receiving any other relevant information from the market and taking appropriate action where necessary.

Market surveillance enhances the level of intelligence

information on market operations hence acting as an early warning system. The Authority therefore keeps a proactive oversight on market movements and trends with the view to preventing market malpractices or abuses such as market manipulation and/or insider dealing. To make supervisory initiatives and policies more transparent, the Authority developed a monograph setting out our supervisory and regulatory approach. New assessment models were also developed and implemented.

Investigations

Investor protection remains a fundamental objective of the Authority. The year 2004 was a period of growth for the stock market. Volumes of trade at the stock exchange soared to unprecedented levels putting a lot of pressure on market intermediaries, the stock exchange and stockbrokers to cope with the increased activity. There were challenges associated with this, especially in the timely registration and transfer of title of shares to ensure that investors received their entitlements to dividends and bonuses.

The Authority carried out a variety of investigations with a view to resolving market complaints. The main issues investigated during the year included, inter alia:

- Financial impropriety by agents of licensees and others;
- Investor complaints related to secondary market trading;
- Complaints on mismanagement of listed companies;
- Fraudulent activities; and
- Violation of regulations.

Cases investigated during the year ended June 2004 are shown in the table overleaf.

Inspections

To ensure that there is strong institutional framework geared towards reducing risk exposure in the market, the Authority carried out over eighty inspections involving fifty licensees aimed at confirming

CHIEF EXECUTIVE'S REPORT (Cont'd)

	Nature	No. Received	No. Resolved
1	Financial impropriety	3	2
2	Investor complaints	33	28
3	Complaints on mismanagement of listed companies	1	1
4	Market operators without a license	2	2
5	Violation of Regulations	1	1
6	Fraudulent activities	5	5
	Total	45	39

Source: CMA Compliance database

compliance with the requirements of the Capital markets (Licensing Requirements)(General) Regulations, 2002, together with the provisions of the Capital Markets Act. Regulatory concerns arising from this exercise included failure to meet working capital requirements, capital adequacy tests, failure to submit financial statements on time and incomplete records. Many of these transgressions were corrected as a result of inspections carried out and communication on the areas of non-compliance directly to the affected licensees.

In addition, four listed companies were inspected following various complaints from shareholders touching on their operations. Most of the issues raised have since been addressed.

Disclosures by Listed Companies

Reporting standards of most listed companies greatly improved during the year. Interim reporting remained mandatory and a number of companies voluntarily adopted quarterly reporting. On secondary market

activities, sensitive price information was released to the public on time as required. A number of companies are however experiencing delays in the preparation of annual reports and accounts within the required time and making them available so that investors can make informed investment decisions.

Corporate Governance

Corporate governance is the system of accountability, transparency and responsibility among shareholders, directors and management of a company. Good corporate governance facilitates capital formation, maximizes shareholders' value and protects investors' rights. The full disclosure system is designed to provide investors with material information, foster investor confidence, contribute to the maintenance of a fair and orderly market and inhibit fraud. Compliance with Corporate Governance Guidelines is summarized in the table below.

- a) Compliance by listed companies with key good governance practices as at June 30, 2004.

	Corporate governance guideline	Companies in compliance	Number of Listed companies
1	Establishment of board committees	48	52
2	Sufficient board composition	42	52
3	Disclosure of a statement on directors' remuneration in annual report	22	52
4	Ownership details of the top ten shareholders in annual report	35	52
5	Timely release and submission of 2003 audited accounts	43	52
6	Timely submission of interim reports 2003/2004	49	52
7	Chief finance officers in good standing with ICPA (K)	24	52
8	Company secretary in good standing with ICPS (K)	52	52

Source: CMA Compliance database

Note: Listed equities and corporate bonds are 52 companies
 ICPA (K) – Institute of Certified Public Accountants (Kenya)
 ICPS (K) – Institute of Certified Public Secretaries (Kenya)

CHIEF EXECUTIVE'S REPORT (Cont'd)

b) Management of listed companies

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

Aggregate individual chairmanship in listed companies' boards by December 31 2003

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

Source: CMA Compliance database

Aggregate individual chairmanship in listed companies' boards by December 31 2003

	Aggregate chairmanship				
	in one company	in two companies.	in three companies	in four companies	in five companies
Individual Directors	234	22	15	2	1

Source: CMA Compliance database

Suspended Licencees

Four licencees remained suspended in 2004. These were Town and Country Securities limited, Sterling Securities limited, Bob Mathews Limited and Shah Munge and Partners Limited. The Capital Markets Tribunal completed hearing the appeal by Shah Munge and Partners, a licensed stockbroker suspended for a period of three years for mismanagement of clients' funds. In its ruling delivered on November 18, 2003, the Tribunal upheld the decision of the Authority. The appellants have appealed the decision of the Tribunal and the matter is now before the High Court.

Financial Reporting (FiRe) Award

The Authority jointly with the Institute of Certified Public Accountants of Kenya (ICPAK) and the Nairobi Stock Exchange (NSE) co-sponsored the Financial

Reporting (FiRe) award for excellence. The award scheme is aimed at recognizing and encouraging listed and non-listed public and private companies to prepare financial statements in full compliance with International Financial Reporting Standards, the Companies Act, good corporate governance practices and social responsibility accounting.

REGULATORY DEVELOPMENTS

The capital market requires a suitable legal and regulatory framework to reduce uncertainty and risk. In particular, market transactions must be enforceable on a timely basis through a regulatory system that fosters responsible behaviour by market players. The legal framework is also intended to provide incentives for transactional fairness in order to facilitate capital formation. During the year, the Authority continued to carry out its regulatory mandate in the following core functions under legal affairs:

CHIEF EXECUTIVE'S REPORT (Cont'd)

- Development, maintenance and enforcement of an effective legal and regulatory framework for the capital markets;
- Licensing of market operators; approval and registration of approved institutions;
- Approval of issues and listings; and
- Enforcement of compliance with the law.

New Legislation

The Central Depositories Act 2000 was operationalized in June 2003. This Act aims 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 addition, the Central Depositories (Regulation of Central Depositories) Rules 2004 developed. The Rules deal with the application and approval process of the central depository and central depository agents (CDA's). Work also commenced on the legal framework to govern the issue and listing of Asset Backed Securities. The need for a comprehensive review of the legal and regulatory framework to ensure that it is adequate and consistent was noted and work on this is expected to commence in the near future.

CMA Licensees

The Authority is charged with the licensing of various market operators. In the year ended June 2004, the Authority reviewed and processed a total of 68 applications for licences. These include eleven (11) Stockbrokers; five (5) Investment Banks; eleven (11) Fund Managers; fifteen (15) Investment Advisers, and four (4) Authorized Depositories. The Authority also licensed new market operators. Dyer and Blair Limited, Standard Stocks Limited, and Kestrel Capital (East Africa) Limited upgraded their licenses from stockbrokers to investment banks. Heaven's and

Executive and Corporate Advisory Services Limited were licensed as investment advisers, while National Industrial Credit Bank was licensed as an authorized depository.

MARKET DEVELOPMENT

Asset Backed Securities

The Finance Bill 2004 introduced amendments to the Capital Markets Act to empower the Authority to license and approve special purpose vehicles (SPVs) for purposes of issuing long-term securities through securitization. The concept involves repackaging of non-marketable financial instruments of varying creditworthiness into new, liquid debt securities, offering cash flows which differ significantly from those of the underlying instruments. Where investors seek to issue long-term securities for a specific purpose, the issuer will be required to deposit the funds in a ring-fenced account, the spending of which will be supervised by the Authority. Issuance of asset-backed securities will enable institutions providing infrastructure services to access long-term capital on the strength of expected revenue streams from the underlying assets. The Authority is developing the necessary regulatory framework to facilitate issuance of these securities.

FINANCIAL REPORT

The Authority's financial position is presented in the audited financial statements for the year ended 30 June 2004. Overall, the financial position strengthened during the year with a surplus of Kshs 46.0 million realized. The balance sheet shows a strong liquid asset base due to the fact that surplus funds are invested in short-term government stock.

Income from fees, levies and other charges for services to the securities industry in 2004 grew to Kshs 141.3 million, compared to Kshs. 101.6 in 2003, an increase of 39%. This, better than expected result is due in large part to strong trading activity at the stock

CHIEF EXECUTIVE'S REPORT (Cont'd)

exchange coupled with heavy government borrowing in the domestic bond market. Government's support through grant reduced further to Kshs 10 million, (2003: Kshs 15m.), and has been withdrawn altogether in the ensuing fiscal year.


Total expenditure was Ksh106.3 million, or 7% higher than previous year's figure of Kshs. 99 million. Of the total expenditure, 49.8% is attributable to staff costs and benefits, while total operating costs accounted for another 50.2%. This compares favourably with the experience of similar public agencies operating in the knowledge economy. However, staffing levels were considerably lower than expected during the year due to internal restructuring and staff turnover.

Outlook

The future looks bright and 2005 promises to be another challenging and rewarding year. Activity in the capital market is continuing at high levels, as is the demand for services from the Authority. We are determined not only to meet this demand but to improve the quality of our service delivery. As we look

ahead, our immediate preoccupation will focus on implementing measures to deepen and broaden our capital markets as well as making the regulatory framework more facilitative and more user friendly.

I would like to express my appreciation of the vital role played by the Authority Board in the development of the capital market, and to thank them for their guidance and dedication. They have made available much of their time and played an important role in the Authority's decision-making processes. The staff have worked hard during the year under considerable pressure, and have shown a high degree of commitment, professionalism and fairness. I would like to thank them warmly. I acknowledge with gratitude the support and goodwill of the government and other stakeholders in addressing many common problems and matters of importance to the development of our capital market.



Edward H Ntalami
CHIEF EXECUTIVE

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

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MEMBERS OF THE AUTHORITY

The present Members of the Authority are:

- Prof Chege Waruingi - Chairman
- Mr Malachi Oddenyo
- Ms Lucy K Njiru
- Mr Michael Cherwon
- Mr Selest N Kilinda
- Mr Wanjohi Ndirangu
- Mr James M Kitonga
- Mr Joseph K Kinyua - Permanent Secretary to the Treasury
- Mr Maurice Kanga - (Alternate, Permanent Secretary to the Treasury)
- Mr Andrew Mullei - Governor, Central Bank of Kenya
- Mr Kakai Cheloti - (Alternate, Governor, Central Bank of Kenya)
- Hon Amos Wako - Attorney General
- Ms Roselyn Amadi - (Alternate, Attorney General)
- Mr Edward H Ntalami - Chief Executive

CHIEF EXECUTIVE

Mr Edward H Ntalami
P O Box 74800
Nairobi

Telephone: 221910/221869
e-mail: Corporate@cma.or.ke
Website: www.cma.or.ke

BANKERS

Commercial Bank of Africa Limited
Mama Ngina Street
P O Box 45136, 00100 GPO
Nairobi

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

AUDITORS

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

REPORT OF THE MEMBERS OF THE AUTHORITY

The members of the Authority have pleasure in presenting their report and audited financial statements for the year ended 30 June 2004.

INCORPORATION

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

ACTIVITIES

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

RESULTS

	2004 Sh
Total income from services for the year	141,280,240
Total expenditure for the year	(106,275,605)
Gross surplus from services	35,004,635
Government grant	10,000,000
Finance income	2,417,606
Exceptional item	(1,437,602)
Surplus for the year transferred to the general fund	45,984,639

AUTHORITY MEMBERS AND MANAGEMENT

The present members of the Authority are shown on page 22.

AUDITORS

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

BY ORDER OF THE BOARD

Chief Executive

Nairobi,

16th December, 2004

STATEMENT OF AUTHORITY MEMBERS' RESPONSIBILITIES

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

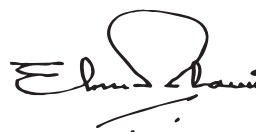
The members accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Capital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

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



Member

16th December, 2004



Member

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

We have audited the financial statements on pages 26 to 37 for the year ended 30 June 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of Authority members and auditors

As described on page 24, the Authority members are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, proper books of account have been kept by the Authority and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Authority at 30 June 2004 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Capital Markets Act.

Deloitte & Touche

3 March 2005

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 Sh	2003 Sh
FEE INCOME	2	140,737,000	100,391,522
OTHER INCOME		543,240	1,200,362
TOTAL INCOME FROM SERVICES		141,280,240	101,591,884
EXPENDITURE	3	(106,275,605)	(99,003,436)
GROSS SURPLUS FROM SERVICES		35,004,635	2,588,448
GOVERNMENT GRANT		10,000,000	15,000,000
FINANCE INCOME	4	2,417,606	3,487,440
EXCEPTIONAL ITEM	5	(1,437,602)	(8,915,141)
SURPLUS FOR THE YEAR		45,984,639	12,160,747

BALANCE SHEET AS AT 30 JUNE 2004

	Note	2004 Sh	2003 Sh
ASSETS			
Non-current assets			
Equipment	7	12,778,805	16,012,063
Staff loans and advances	8	7,671,972	8,793,252
Investors' Compensation Fund investment in CDSC	9	7,000,000	7,000,000
Investors' Compensation Fund Treasury bonds (maturing after one year)	9	22,113,956	-
Investment in government securities	10	45,104,777	-
		94,669,510	31,805,315
Current assets			
Staff loans and advances	8	3,532,567	8,322,381
Trade and other receivables	11	4,656,865	3,937,001
Investors' Compensation Fund	9	8,062,798	24,535,309
Staff Benevolent Fund bank balance		3,051,512	2,962,425
Millennium Staff Savings Scheme		-	1,987,649
Investment in Government Securities	10	65,784,800	45,238,730
Call deposit		10,009,864	-
Bank and cash balances		8,405,994	9,703,781
		103,504,400	96,687,276
Total assets		198,173,910	128,492,591
FUNDS AND LIABILITIES			
Funds			
Capital fund		27,885,508	27,885,508
General fund		100,419,880	54,435,241
		128,305,388	82,320,749
Current liabilities			
Accounts payable	12	29,233,063	9,686,459
Investors' Compensation Fund	9	37,176,754	31,535,309
Staff Benevolent Fund		3,051,512	2,962,425
Millennium Staff Savings Scheme		407,193	1,987,649
		69,868,522	46,171,842
Total funds and liabilities		198,173,910	128,492,591

The financial statements on pages 26 to 37 were approved by the members of the Authority on 16th December, 2004 and were signed on their behalf by:



CHAIRMAN



CHIEF EXECUTIVE



STATEMENT OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED 30 JUNE 2004

	Capital fund Sh	General fund Sh	Total Sh
At 1 July 2002	27,885,508	42,274,494	70,160,002
Surplus for the year	-	12,160,747	12,160,747
At 30 June 2003	27,885,508	54,435,241	82,320,749
At 1 July 2003	27,885,508	54,435,241	82,320,749
Surplus for the year	-	45,984,639	45,984,639
At 30 June 2004	27,885,508	100,419,880	128,305,388

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 Sh	2003 Sh
OPERATING ACTIVITIES			
Cash generated from operations	13(a)	77,478,595	17,854,282
Interest received		2,417,606	3,487,440
Net cash generated from operating activities		79,896,201	21,341,722
INVESTING ACTIVITIES			
Purchase of equipment		(1,793,596)	(5,449,661)
Proceeds of disposal of equipment		3,200	766,300
Net cash used in investing activities		(1,790,396)	(4,683,361)
FINANCING ACTIVITIES			
Investment in the Central Depository and Settlement Corporation (Purchase)/maturity of treasury bills by the Investors' Compensation Fund		- (3,268,556)	(7,000,000) 8,633,866
Purchase of treasury bonds by the Investors' Compensation Fund		(4,531,680)	(12,785,957)
Maturity of Treasury bills		-	9,689,080
(Purchase)/maturity of Treasury bonds		(35,536,106)	11,394,041
Net cash (used in)/generated from financing activities		(43,336,342)	9,931,030
INCREASE IN CASH AND CASH EQUIVALENTS		34,769,463	26,589,391
CASH AND CASH EQUIVALENTS:			
AT 1 JULY		52,811,975	26,222,584
AT 30 JUNE	13(b)	87,581,438	52,811,975

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

1 ACCOUNTING POLICIES

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

(a) Basis of accounting

The financial statements are prepared under the historical cost convention.

(b) Government grants

Government grants are recognised to income when received.

(c) Fees, interest and other income

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

(d) Treasury bills

Treasury bills are stated at redemption value less unearned discounts on purchase. Discounts on purchase are recognised to income over the period to maturity of the related instruments.

(e) Treasury bonds

Investments in Treasury bonds are stated at cost. Interest receivable is recognised to income on the accruals basis.

(f) Motor vehicles, furniture and equipment and depreciation

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

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

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

(g) Employee benefit

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(h) Foreign currency translation

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

(i) Financial instruments

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

	2004	2003
	Sh	Sh
2 FEE INCOME		
Capitalisation, rights and new issues fees	65,206,645	66,369,306
NSE - Transaction fees	62,259,097	21,634,194
Application and licensing fees	13,271,258	12,388,022
	140,737,000	100,391,522
3 EXPENDITURE		
Personnel costs (Note 6)	52,994,643	58,067,206
Rent and maintenance	6,781,116	6,728,823
Training and conferences	5,178,795	7,736,327
Medical scheme and insurance expenses	2,774,041	2,731,815
Entertainment and public relations	1,736,499	2,231,457
Telephone, postage and utilities	2,692,167	2,797,947
Equipment maintenance and stationery	2,931,058	2,995,263
Motor vehicle running expenses	886,284	834,957
Subscriptions and IOSCO membership	1,423,314	1,481,919
Authority members allowances	5,310,900	2,858,600
Professional and market development services	14,185,561	1,918,021
Staff uniforms & Miscellaneous expenses	55,112	572,236
Depreciation expense	5,026,852	5,602,554
Audit fees	370,000	344,000
Investor education and awareness programme	1,834,750	2,102,311
Bad debt expense	2,094,513	-
	106,275,605	99,003,436

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

	2004 Sh	2003 Sh
4 FINANCE INCOME		
Interest earned on investments	2,417,606	3,487,440
5 EXCEPTIONAL ITEM		
This represents legal and other expenses incurred by a tribunal that has been investigating a matter relating to a licensed broker.		
6 PERSONNEL COSTS		
Consolidated pay, leave pay and passages	42,047,378	50,531,065
Staff retirement benefits and gratuity	10,459,515	7,209,341
Benevolent Fund Contributions	402,150	234,000
National Social Security Fund (NSSF)	85,600	92,800
	52,994,643	58,067,206
Average number of employees during the year	36	38

7 EQUIPMENT

	Motor Vehicles Sh	Computer equipment Sh	Office equipment Sh	Furniture and fittings Sh	Total Sh
COST					
At 1 July 2003	14,361,285	6,097,788	5,643,814	19,726,467	45,829,354
Additions	-	1,036,310	223,022	534,264	1,793,596
Disposals	-	-	-	(21,304)	(21,304)
At 30 June 2004	14,361,285	7,134,098	5,866,836	20,239,427	47,601,646
DEPRECIATION					
At 1 July 2003	8,465,024	3,851,602	4,181,992	13,318,675	29,817,293
Charge for the year	2,173,685	1,275,146	398,901	1,179,120	5,026,852
Eliminated on disposals	-	-	-	(21,304)	(21,304)
At 30 June 2004	10,638,709	5,126,748	4,580,893	14,476,491	34,822,841
NET BOOK VALUE					
At 30 June 2004	3,722,576	2,007,350	1,285,943	5,762,936	12,778,805
At 30 June 2003	5,896,263	2,246,186	1,461,822	6,407,792	16,012,063

Included in motor vehicles, furniture and equipment are assets with a cost of Sh 23,975,838 (2003 – Sh 19,899,095) which are fully depreciated. The notional annual depreciation charge on these items is Sh 4,463,197 (2003 – Sh 2,547,182).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8 STAFF LOANS AND ADVANCES

	SHORT TERM Sh	LONG TERM Sh	TOTAL 2004 Sh	TOTAL 2003 Sh
Car loans	642,402	1,963,115	2,605,517	4,482,569
House loans	-	1,920,452	1,920,452	1,920,452
Other loans and advances	2,890,165	5,710,422	8,600,587	10,712,612
Provision for bad debts	-	(1,922,017)	(1,922,017)	-
	3,532,567	7,671,972	11,204,539	17,115,633

9 INVESTORS' COMPENSATION FUND

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

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 for non-compliance with CMA Rules and Regulations.

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

	2004 Sh	2003 Sh
At 1 July	31,535,309	27,255,928
Nairobi Stock Exchange transactions fees	4,445,758	1,506,160
Interest on investments	1,695,687	2,150,519
Financial penalties	-	1,122,702
Management fees	(500,000)	(500,000)
At 30 June	37,176,754	31,535,309

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	2004	2003
	Sh	Sh
Non-current		
Equity investment in the Central Depository and Settlement Corporation (at cost)	7,000,000	7,000,000
Treasury bonds maturing after one year (effective interest rate – 11.5%)	22,113,956	-
	29,113,956	7,000,000
Current		
Treasury bonds – maturing after 3 months (effective interest rate – 4.3%)	3,003,682	20,085,957
Treasury bills – maturing after 3 months (effective interest rate – 2.7%)	4,959,900	1,961,291
Transaction fees receivable	269,948	-
Management fees payable to CMA	(500,000)	-
Bank balance	329,268	2,488,061
	8,062,798	24,535,309
	37,176,754	31,535,309
10 GOVERNMENT SECURITIES		
(a) Treasury bonds		
Maturing after 1 year	44,705,730	-
Accrued interest	399,047	-
	45,104,777	-
(b) Treasury bonds		
Maturing within 1 year	-	9,410,355
Accrued interest	-	158,316
	-	9,568,671
(c) Treasury bills		
Redemption value –maturing within 1 year	66,000,000	36,000,000
Less: unearned discount	(215,200)	(329,941)
	65,784,800	35,670,059
	110,889,577	45,238,730

The average interest rate earned on Treasury bonds during the year was 4.6% (2003 – 9%) while the average interest rate earned on Treasury bills during the year was 2.6 % (2002 – 7%).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 TRADE AND OTHER RECEIVABLES

	2004 Sh	2003 Sh
Transaction fees receivable	3,556,734	2,744,764
Other fees receivable	-	547,920
Sundry debtors	1,100,131	644,317
	4,656,865	3,937,001

12 ACCOUNTS PAYABLE

Sundry payables	15,103,063	9,316,459
Pending lawsuits	8,000,000	-
Restructuring costs	5,760,000	-
Audit fees	370,000	370,000
	29,233,063	9,686,459

13 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of surplus from services to cash generated from operations

Gross surplus from services	35,004,635	2,588,448
Depreciation	5,026,852	5,602,554
Government grants	10,000,000	15,000,000
Gain on disposal of property and equipment	(3,200)	(528,175)
Exceptional item	(1,437,602)	(8,915,141)
	48,590,685	13,747,686
(Increase)/decrease in trade and other receivables	(719,864)	82,871
Decrease in staff loans and advances	5,911,094	5,266,477
Increase/(decrease) in accounts payable	19,546,604	(6,382,961)
Increase in investors' compensation fund	5,641,445	4,279,381
Increase in staff benevolent fund	89,087	884,377
Decrease in millennium staff savings scheme balance	(1,580,456)	(23,549)
	77,478,595	17,854,282

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(b) Analysis of cash and cash equivalents	2004 Sh	2003 Sh
Bank and cash balances	8,405,994	9,703,781
Call deposit	10,009,864	-
Staff benevolent fund bank balance	3,051,512	2,962,425
Investors compensation fund bank balance	329,268	2,488,061
Millennium Staff Savings Scheme	-	1,987,649
Treasury bills - maturing within 3 months	65,784,800	35,670,059
	87,581,438	52,811,975

14 OPERATING LEASE COMMITMENTS

Operating lease payments represent rentals payable by the Authority for its office property. Property rental expenses during the year amounted to Sh 6,781,116 (2003 - Shs 6,728,823). At the balance sheet date, the company had outstanding commitments under operating leases, which fall due as follows:

	2004 Sh	2003 Sh
Within one year	6,354,189	6,077,135
Between 2-5 years	16,972,376	23,845,424
At 30 June	23,326,565	29,922,559

15 RETIREMENT BENEFIT OBLIGATIONS

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

The scheme is subjected to a triennial valuation 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 entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The principal actuarial assumptions applied in the valuation are:

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

As per the preliminary report, the Actuaries estimate that the present value of past service actuarial liabilities amounted to Sh 38,506,000 at 1 July 2004, and that the value of scheme's assets exceeded the liabilities by Sh 422,000 at that date.

The Authority's contributions to this scheme for the year to 30 June 2004 amounted to Sh 2,952,772 (2003 - Sh 2,984,092).

The Authority also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the statutory scheme are determined by local statute and are currently limited to Sh 200 per employee per month. Contributions to this scheme during the year amounted to Sh 85,600 (2003 - Sh 92,800).

16 CAPITAL COMMITMENTS

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

	2004 Sh	2003 Sh
Authorised but not contracted for	10,500,000	2,000,000
17 CONTINGENT LIABILITY		
Pending law suits	53,722,695	-

A former Chief Executive and a former Manager of the Authority have filed suits against the Government of Kenya and the Authority for wrongful dismissal and are seeking damages totalling Sh 61,722,695. Based on the advice of legal counsel, the authority members have estimated a liability of Sh 8,000,000 will arise from these suits. The liability has been recognised in these financial statements.

18 CURRENCY

The financial statements are presented in Kenya Shillings (Sh).

LISTED COMPANIES AND MARKET CAPITALIZATION AT JUNE 30 2004

SECURITY	ISSUED SHARES (M)	CLOSING PRICE (KSHS)	MARKET CAP (KSHS B)
MAIN INVESTMENT MARKET SECTOR			
Agricultural sector			
1 Unilever Tea Knya Ltd	48.88	70.50	3.45
2 Kakuzi Ltd.	19.60	29.00	0.57
3 Rea Vipingo Ltd.	60.00	9.00	0.54
4 Sasini Tea & Coffee Ltd.	38.01	19.50	0.74
Commercial and services sector			
5 CMC Holdings Ltd.	24.28	51.00	1.24
6 Car & General (K) Ltd.	22.28	13.80	0.31
7 Hutchings Biemer Ltd.(s)	0.36	20.25	0.01
8 Kenya Airways Ltd	461.62	13.15	6.07
9 Marshalls (EA) Ltd.	14.39	16.70	0.24
10 Nation Media Group Ltd.	53.48	186.00	9.95
11 Tourism Promotion Services (Serena)	38.68	30.00	1.16
12 Uchumi Supermarkets Ltd.	60.00	17.50	1.05
Finance & investment sector			
13 Barclays Bank (K) Ltd.	203.68	200.00	40.74
14 CFC Bank Ltd.	120.00	45.75	5.49
15 Diamond Trust Bank of Kenya Ltd.	99.38	30.00	2.98
16 ICDC Investment Co. Ltd.	55.00	67.00	3.69
17 Housing Finance	115.00	9.90	1.14
18 Jubilee Insurance Co. Ltd.	36.00	53.00	1.91
19 Kenya Commercial Bank Ltd.	149.60	53.00	7.93
20 National Bank of Kenya Ltd.	200.00	18.75	3.75
21 NIC Bank Ltd.	82.41	49.25	4.06
22 Pan Africa Insurance Holdings Ltd.	48.00	28.00	1.34
23 Standard Chartered Bank Ltd.	247.24	130.00	32.14
Industrial & Allied sector			
24 Athi River Mining Ltd	93.00	18.95	1.76
25 British American Tobacco (K) Ltd.	100.00	210.00	21.00
26 Bamburi Cement Ltd.	362.96	79.50	28.86
27 BOC Kenya Ltd.	19.53	137.00	2.68
28 Carbacid Investments Ltd.	11.33	116.00	1.31
29 Crown Berger Ltd.	21.57	32.75	0.71
30 Olympia Capital Holdings Ltd.	10.00	17.00	0.17
31 E.A.Cables Ltd.	20.25	32.00	0.65
32 E.A. Portland Cement Ltd.	90.00	47.50	4.28
33 East African Breweries Ltd.	109.03	445.00	48.52
34 Sameer (EA) Ltd.	278.34	10.05	2.80
35 Kenya Oil Co. Ltd.	10.08	420.00	4.23
36 Kenya Power & Lighting Ltd.	79.13	91.50	7.24
37 Mumias Sugar Co. Ltd.	510.00	9.05	4.62
38 Total Kenya Ltd.	174.81	39.25	6.86
39 Unga Group Ltd.	63.09	14.50	0.91
ALTERNATIVE INVESTMENT MARKET SEGMENT			
40 A. Baumann & Co. Ltd.	3.84	8.00	0.03
41 City Trust Ltd.	4.17	30.00	0.13
42 Eaagads	6.43	17.00	0.11
43 Express Kenya Ltd.	4.80	9.00	0.04
44 Kapchorua Tea Co. Ltd.	3.91	100.00	0.39
45 Kenya Orchards Ltd.	7.80	3.80	0.03
46 Limuru Tea Co. Ltd.	0.60	231.00	0.14
47 Standard Newspapers Group Ltd.	65.13	50.00	3.26
48 Williamson Tea Kenya Ltd	8.76	90.50	0.79
Preference shares			
1 Kenya Power & Lighting Ltd. Pref. 4%	1.80	6.00	0.01
2 Kenya Power & Lighting Ltd. Pref. 7%	0.35	8.00	0.00

CMA LICENSEES

APPROVED INSTITUTIONS

SECURITIES EXCHANGE

Nairobi Stock Exchange Ltd.

Kimathi Street, Nation Centre, 1st Floor

P.O. Box 43633

Nairobi

Tel: 254 2 230692

Fax: 254 2 224200

E-mail: info@nse.co.ke

Website: www.nse.co.ke

DEPOSITORY AND SETTLEMENT SYSTEM

Central Depository and Settlement Corporation

Nation Centre, Kimathi Street, 10th Floor

P. O. Box 3464

Nairobi

Tel: 254 2 253078/230692 ext 248

Fax: 254 2 253077

E-mail: 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

E-mail: enquiries@africanalliance.co.ke

CFC Financial Services Ltd.

CFC Center, Chiromo Road

P.O. Box 44074 – 00100

Nairobi

Tel. 3741861/3752900

Fax. 3752951/3752907

E-mail: cfcfs@cfcgroup.co.ke

Apex Africa Investment Bank Ltd

Rehani House (HFCK), 4th Floor

Corner of Kenyatta Avenue and Koinange Street

P.O. Box 43676 - 00100

Nairobi

Tel: 254 2 242170

Fax: 254 2 215554

E-mail: hak@insightkenya.com

CBA Capital

International House

Ground Floor

P.O. Box 30437 - 00100

Nairobi

Fax: 335827

E-mail: cbacapital@cba.co.ke

Website: www.cba.co.ke

CMA LICENSEES (Cont'd)

Dyer & Blair Ltd

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

Francis Drummond & Co. Limited

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

Standard Investment Bank

Hazina Towers, 17th floor
PO Box 13714 – 00800
Nairobi
Tel: 220225/227004
Fax: 240297
E-mail: info@standardstocks.com
Website: www.standardstocks.com

Suntra Investment Bank Ltd

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

Kestrel Capital (EA) Limited

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

First Africa East Africa Ltd

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

Barclays Financial Services

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

CMA LICENSEES (Cont'd)

STOCKBROKERS

Ashbhu Securities

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

Francis Thuo & Partners Ltd.

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

Reliable Securities Limited

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

Crossfield Securities Ltd

Vedic House, 2nd floor
P O Box 34137 - 00100
Nairobi
Tel: 246036
Fax: 245971
E-mail: crossfield@wananchi.com

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

Faida securities Ltd.

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

Nyaga Stockbrokers Ltd.

Nation Centre 12th floor
P O Box 41868 - 00100
Nairobi
Tel: 332783/4, 332884
Fax: 332785
E-mail: nyagastk@users.africaonline.co.ke

Solid Investment Securities Ltd

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

Discount Securities Ltd.

International House, Mezzanine
P O Box 42489 - 00100
Nairobi
Tel: 219552/38, 240942
Fax: 336553
E-mail: discount@dsl.co.ke

Sterling Securities Limited

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

CMA LICENSEES (Cont'd)

FUND MANAGERS

AIG Global Investment Co. (EA) Ltd

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

African Alliance (K) Management Ltd.

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

Old Mutual Asset Managers (K) Ltd

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

Stanbic Investment Management Services Ltd

Stanbic Building, Kenyatta Avenue
P.O. Box 30550 - 00100, Nairobi
Tel: 335888
Fax: 247285
E-mail: sims@africaonline.co.ke

Old Mutual Investment Services Ltd

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

Genesis (K) Management Ltd

Lonhro 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
Fax: 330120/219744
E-mail: aureos.co.kp
Website: www.aureous.com

Royal Investment Management Services Limited

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

CMA LICENSEES (Cont'd)

ICEA Investment Services Ltd.

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

Co-op Trust Investment Services Ltd.

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

Standard Chartered Investment Services Ltd.

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

British-America Asset Managers Limited

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

Old Mutual Asset Managers (EA) Ltd

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

InvestQ Capital Limited

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

CMA LICENSEES (Cont'd)

INVESTMENT ADVISORS

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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

Heavens Gold Ltd

Amboseli Road, Lavington
P.O. Box 19790-00100
Nairobi
Tel: 560061

Inter-Alliance International (K) Ltd

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

Executive and Corporate Advisory

Services (K) Ltd
Mvuli Road Westlands
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: 2714811
Website: www.citigroup.co.ke
E-mail: covenant@nbi.ifbkenya.com

Covenant International Ltd

Sarit Centre
PO Box 931- 00600
Nairobi
Tel: 513532
Fax: 513532

Veritas Financial Services

Village Market
P.O.Box 4-00621
Nairobi

Cooperative Consult. Serv. Ltd

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

CMA LICENSEES (Cont'd)

Dry Associates

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

Loita Capital Partners Ltd

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

Professional Investment Consultants Ltd.

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

First Africa Capital Ltd.

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

BA Financial Management (K) Ltd.

P.O. Box 555 Sarit Center 00606
Nairobi
E-mail: bafinance@exchange.uk.com

J.W. Seagon

Muthaiga Shopping Centre
PO Box 63420-00619
Nairobi

Zimele Asset Management Co. Ltd.

Unipen House
Hurlingham Shopping Centre
P.O. Box 76528 - 00508
Nairobi
Tel: 2729078/2722953
Fax: 2722953
Fax: 3740497
E-mail: zimele@africaonline.co.ke

Iroko Securities Kenya Ltd

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

Jani Consultancy Services Limited

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

CMA LICENSEES (Cont'd)

AUTHORIZED DEPOSITORIES

Barclays Bank of Kenya Ltd.

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

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
E-mail: 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
E-mail: vicki@nationalbank.co.ke
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
E-mail: 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

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
E-mail: mail@aureous.co.ke

APPROVED COLLECTIVE INVESTMENT SCHEMES

1. African Alliance Kenya Management Limited

- (i) African Alliance Kenya Shilling Fund
- (ii) African Alliance Kenya Fixed Income Fund
- (iii) African Alliance Kenya Managed Fund

2. Old Mutual Investment Services Limited

- (i) Old Mutual Equity Fund
- (ii) Old Mutual Money Market Fund

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.

ENABLING LEGISLATION (Cont'd)

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.

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.

CAPITAL MARKETS ADVISORY COMMITTEE

MEMBERS

1. Chief Executive – Capital Markets Authority (Chairman)
2. Mr. Stewart Henderson – Chief Executive Officer (Old Mutual Life Assurance)
3. Mr. George Oraro – Partner (Oraro & Company Advocates)
4. Mr. Gideon Muriuki – Managing Director (Cooperative Bank of Kenya)
5. Mr. Naval Sood – Director (PricewaterhouseCoopers Ltd)
6. Mr. Hamish Keith – Partner (Daly & Figgis Advocates)
7. Mr. Gerald Mahinda – Group Managing Director (East African Breweries)
8. Ms. Ruth Onyancha – Company Secretary (Barclays Bank of Kenya)
9. Mrs. Catherine A Kola – Board Secretary (Electricity Regulatory Board)
10. Mr. Sandeep Raichura – Executive Director (Hymans Robertson)
11. Ms. Agnes Lutukai – Partner (KPMG (Kenya))
12. Chief Executive – Nairobi Stock Exchange
13. Chief Executive – Central Depository and Settlement Corporation
14. Chief Executive – Institute of Certified Public Accountants of Kenya
15. Chief Executive – Institute of Certified Public Secretaries of Kenya
16. Chairman – Association of Kenya Stockbrokers
17. Chairman – Kenya Bankers Association
18. Chairman – Association of Kenya Insurers
19. Representative – Central Bank of Kenya

Mandate of the Committee

- (i) To advise on aspects of implementation of a robust capital markets infrastructure, including the automated and central depository systems;
- (ii) Development, regulation and policy formulation for capital markets with respect to mobilizing savings in financial assets and allocating them to productive sectors of the economy;
- (iii) Identification of impediments, legal, fiscal or otherwise and to propose measures to create an enabling environment for the deepening of the capital markets;
- (iv) Improvement of capital markets disclosure standards and corporate governance practices;
- (v) Development, refinement and maintenance of an appropriate legal and regulatory framework in the capital market; and
- (vi) Any other issues that may arise from time to time and is delegated by the Authority.

MEMBERS OF THE CAPITAL MARKETS TRIBUNAL

1. Mr. Morris Njagi (Lawyer) - Chairman
2. Mr. Nelson Kaburu (Lawyer) - Member
3. Mr. Michael Waweru (Chartered Accountant) - Member
4. Mr. Adan Mohamed (Banker) - Member
5. Mr. Terry Davidson (Banker) - Member
6. Ms Pauline Nyamweya (Lawyer) - Secretary

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