

GILGIL TELECOMS INDUSTRIES

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GILGIL TELECOMS INDUSTRIES LTD.

ANNUAL ACCOUNTS

AS AT

30th JUNE 2006

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF GILGIL
TELECOMS INDUSTRIES LIMITED FOR
THE YEAR ENDED 30 JUNE 2006**



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF GILGIL TELECOMS INDUSTRIES LIMITED FOR THE YEAR ENDED 30 JUNE 2006

I have audited the financial statements of Gilgil Telecoms Industries Limited set out on pages 6 to 25, which comprise the balance sheet as at 30 June 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes. I am satisfied that all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit, were obtained.

Directors' responsibilities for the financial statements

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

Responsibilities of the Controller and Auditor General

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Financial Performance

During the year ended 30 June 2006 the Company recorded a net loss of Kshs.363,000,000 (2005 – Kshs.124,000,000) which brought the accumulated losses to Kshs.1,894,000,000 (2005 – Kshs.1,529,000,000). Further, the Company owes the parent Company, Telkom (K) Ltd, Kshs.1,504,000,000 with no prospects of repayment in the near future. The poor financial performance coupled with the huge debt owed to the parent Company is an indication that the Company is facing serious financial difficulties and its continued operation as a going concern is dependent upon the support of its parent company, Telkom (K) Ltd. It has however, been explained that the parent company, Telkom Kenya Limited, has decided to address the poor performance by restructuring and has identified a strategic equity partner to have the company run as a joint venture.

2. Non Current Assets

The Company's non current assets of Kshs.307,000,000 include value of land of Kshs.9,400,000, on which the company's buildings stand. The Company has, however, not been able to obtain title deed for the land and no recent valuation has been done to reflect the most current value. In addition, the company's fleet of vehicles include eight (8) motor vehicles still registered either in the name of the defunct Kenya Posts and Telecommunications or the parent company, Telkom (K) Ltd. Further, all plant and machinery, except those used in the pole plant are idle most of the time. This situation is indicative of significant impairment of fixed assets. Consequently, it was not possible to ascertain the correctness of the carrying value of the non current assets figure of kshs.307,000,000 as at 30 June 2006.

3. Debtors

The debtors balance of Kshs.174,000,000 includes amounts owed by Telkom (K) Ltd of Kshs.110,743,841, Telemart of Kshs.53,021,192, Postal Corporation of Kenya of Kshs.7,697,257 and VAT claimable of Kshs.7,845,095 whose existence and value could not be confirmed in the absence of supporting documentation and direct confirmation reports from the debtors. In addition, the debtors balance of Kshs.174,000,000 is net of provisions for bad and doubtful debts of Kshs.38,136,287 whose basis and adequacy could not be ascertained. It was therefore, not possible to confirm

the accuracy of the debtor's balance of Kshs.174,000,000 as at 30 June 2006.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2006 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act (Cap.486 of the Laws of Kenya).



P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

15 October 2007



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DIRECTORS REPORT

The directors have the pleasure in submitting this report together with the un-audited financial statements for the year ended 30th June 2006.

Introduction

Gilgil Telecoms Industries Limited (GTI) is registered under the Companies Act CAP 486 of the laws of Kenya and is a wholly owned subsidiary of Telkom Kenya limited (TKL)

Principle Activities

The Company is in the business of Manufacturing and Assembly of Telecommunications and allied products.

Results

The results for the financial year 2005/2006 are as set out in pages 7 to 26.

Dividends

The directors do not recommend payment of any dividend.

Transfer To Reserves

The profit attributable to shareholders amounted to negative 363Million, has been transferred to general reserves

Directors

The names of the directors, officers and administration who served since 1st July 2006 are set out on page 3. However the following directors retired within the financial year as stated below:-

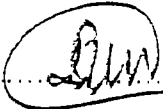
- (i) Mr. S.D Kamau
- (ii) P.S Eng. James Rege


STATEMENT OF DIRECTORS RESPONSIBILITIES

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

The directors 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 generally accepted accounting practice and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the Company and of its operating results.

The directors 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.

Director.....  Date 21/5/07

Director  Date.....

DIRECTORS, OFFICERS AND ADMINISTRATION

Sammy K. Kirui	Chairman
Esther Koimett	Member (Alternate Mr. Mwaura)
Dr. Bitange Ndemo	Member (Alternate-Felix Mugabe)
Gabriel Tanyasis	Member
Benard Momanyi	Manager

SECRETARY

P.B. Jilani

AUDITORS

Controller And Auditor General
Kenya National Audit Office
Aniversary Towers
University Way
P.O. Box 30084
NAIROBI

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Gilgil Telecoms Industries
Nakuru-Nairobi Old Road
P.O. Box 250-20116
GILGIL

BANKERS

Kenya Commercial Bank Limited
Gilgl Branch
P.O. Box 190-20116
GILGIL

ADVOCATES

Sarah Chesang And Co. Advocates
Gibcon House 2nd Floor
P.O. Box 2782
NAKURU

FINANCIAL HIGHLIGHTS

1. TURNOVER

The Company's operations registered an increase in turnover for the first time this year after many years. A turnover of Kshs.56M was registered compared to Kshs. 26Million for the same period last year (2004/2005)

There is expected growth in revenue in the next year due to increased inflow of orders which are expected to mature in the year 2006/2007. The achievement on turnover was above the target for the year which was Kshs.52Million.

2. EXPENDITURE

The Company's expenditure increased by Kshs.20Million representing 12% increase compared to the same period last financial year. This is mainly due to increase in purchases of manufacturing materials during this period but whose benefit will be realized in the next year coupled by increase in the levels of operation. In summary, the increased expenditure was as a result of:

- a) Purchase of preservative chemical (CCA) of about Kshs.7Million which is to be utilized in production over a long period of time.
- b) Outsourcing of transportation caused by breakdown on our trucks and,
- c) Motor vehicle maintenance cost increased significantly during this period due to breakdowns

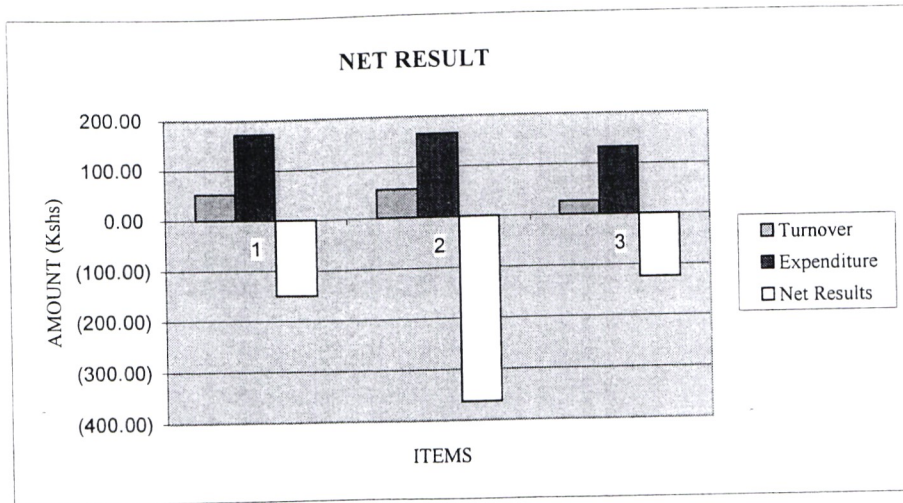
Compared to the budget, the company managed to reduce expenditure from Kshs.172Million to Kshs.164Million resulting into a saving of Kshs.8Million.

3. NET RESULTS

The Company registered a net loss of Kshs.146Million before exceptional item and Kshs.363Million after charging for exceptional item compared to Kshs.124Million for the same period last year.

The table below highlights this scenario

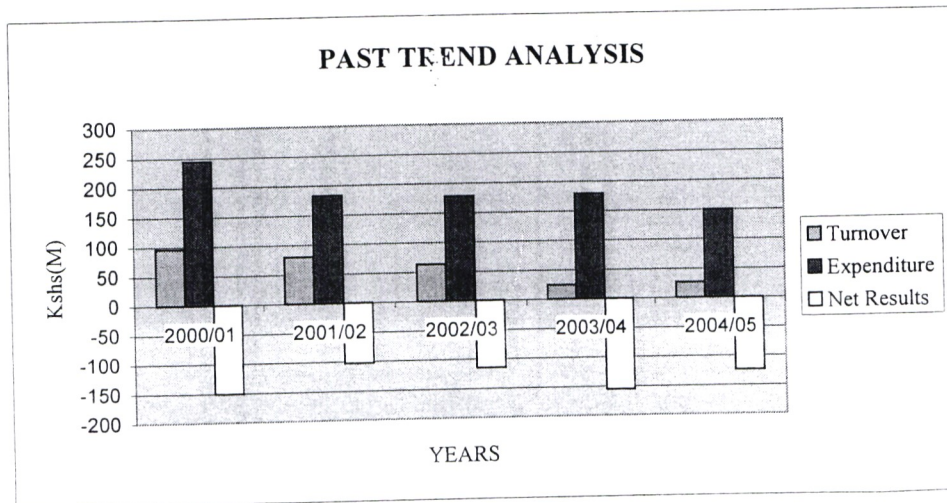
	Budget	Actual	
	Kshs. M	Jun-2006	Jun-2005
Turnover	52	56	26
Expenditure	172	165	132
Net Results	(150)	(363)	(124)



4. PAST FINANCIAL TRENDS

	2000/01	2001/02	2002/03	2003/04	2004/05
Turnover	96	80	63	24	26
Expenditure	244	183	178	179	150
Net Results	(151)	(103)	(115)	(155)	(124)

**All Values in Kshs.M*



**MANUFACTURING PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDING 30 JUNE 2006**

ITEM	NOTES	Jun-2006 Kshs Million	Jun-2005 Kshs. Million
Turnover	2.1.1	56	26
Cost of sales	2.1.4	121	64
Gross Profit/(Loss) from operations		(65)	(37)
Other Income	2.1.2	4	3
Gross Profit/(Loss)		(61)	(34)
Administration Expenses	2.2.1	(68)	(69)
Operational Expenses	2(d)	(15)	(12)
Miscellaneous Expenses	2(g)	(2)	(9)
		(85)	(90)
Profit/(Loss) from operations before exceptional item		(146)	(124)
Exceptional item		(217)	
Profit/(Loss) Before Tax		(363)	(124)
Profit/(Loss) before tax		(363)	(124)
Tax		-	
Net Profit/(Loss) After Tax and exceptional Item		(363)	(124)


The company profit and loss account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 24.

BALANCE SHEET AS AT 30 JUNE 2006

	NOTES	Jun-2006 Kshs Million	Jun-2005 Kshs. Million
Non Current Assets			
Property, Plant and Equipment	6.0	307	336
		307	336
Current Assets			
Stock	3.1	41	58
Debtors	3.2	174	195
Bank And Cash Balances	3.3	11	20
TOTAL ASSETS		226	273
Current liabilities			
Creditors	4.0	33	182
Total short term liabilities		33	182
NET CURRENT ASSETS		193	91
NET ASSETS		500	427
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital	5.0	880	880
Revaluation Reserve		10	10
General Reserve	7.0	(1,894)	(1,529)
TKL Current Account	19.0	1,504	1,066
		500	427

The company balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 26.


S. KERUI.
CHAIRMAN


B. MOMANYI
MANAGER

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006**

	Capital	Current Account	Retained Surplus	Revaluation Reserve	Total
	Kshs. Million		Kshs. Million	Kshs. Million	Kshs. Million
1 st July 2004	880	964	(1,396)	10	458
Adjustment	-	-	(9)	-	(9)
As Restated	880	964	(1,405)	10	449
Disbursement:	-	102		-	102
Profit/(Loss)	-	-	(125)	-	(125)
30-Jun-05	880	1,066	(1,530)	10	426
1 st July 2005	880	1,066	(1,530)	10	426
Adjustment					
As Restated	880	1,066	(1,530)	10	426
Disbursements		438			438
Profit/(Loss)		-	(363)	-	(363)
30-Jun-05	880	1,504	(1,893)	10	501

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 21.

**CASH FLOW STATEMENT
FOR THE PERIOD ENDING 30 JUNE 2006**

	Jun-2006	Jun-2005
	Kshs Million	Kshs. Million
Net Cash Generated From operating activities		
Profit/(Loss) Before Taxation	(363)	(125)
Adjustment For: Provisions	-	(11)
Depreciation	25	29
	(338)	(107)
(Increase)/Decrease In Stock	17	(7)
(Increase)/Decrease In Trade Receivables	21	21
Increase/(Decrease) In Trade Payables	(149)	5
Cash Generated From Operations	(111)	19
Net Cash Flow From Operations	(449)	(87)
Cash Flow From Investing Activities		
Purchase Of Plant, Property And Equipment	-	-
Grants From TKL	438	102
Proceeds From Sale Of Equipment	2	-
Net Cash Used In Investing Activities	440	102
CASHFLOW FROM FINANCING ACTIVITIES		
Net Increase In Cash And Cash Equivalents	(9)	15
Cash And Cash Equivalents At Beginning Of Period	20	5
Cash And Cash Equivalents At End Of Period	11	20

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 21.

NOTES TO THE FINANCIAL STATEMENT FOR THE PERIOD ENDING 30 JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:-

1.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention modified by the revaluation of Plant, Property and Equipment.

1.2 Turnover

Turnover represents revenue accruing from various profit centres and international sales. Turnover is recognized when realized, i.e when goods/ services have been delivered to the customer and the same is invoiced or on COD basis, exclusive of Value Added Tax. It does not include interdepartmental sales of goods and other related services.

1.3 Stock

Stocks are valued at the lower of cost and/or net realizable value. Cost is determined on a weighted average basis or where this is not available, depreciated replacement cost. If the purchase or production cost is higher than net realizable value, stocks are written down to net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expense

1.4 Fixed Assets

(a) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment. Cost comprises purchase price, including import duties and non-refundable purchase taxes and directly attributable costs of bringing an asset to working condition for its intended use. Additions to fixed assets during the year are capitalized at cost.

(b) Depreciation

Depreciation is calculated to write off the cost or valuation of fixed assets on a straight-line basis over the expected remaining useful lives of the specific assets. Indicative rates are as below:-

	Useful lives (in years)
Freehold land	No depreciation
Leasehold land	Over the period of the lease
Buildings	10 -50 years
Motor vehicles	2 -10 years
Furniture and fixtures	1 -11 years
Computers	5 years
Plant and machinery	1 -10 years

(b) Impairment of Property, Plant and Equipment

The carrying amounts of these assets above are reviewed at each balance sheet date to determine whether these exceed the recoverable amounts in which case an impairment loss is recognised.

1.5 Investments

The investment in the joint venture company, ERIGTEL Limited in which GTI's shareholding amounts to 49%, and valued at cost stood at Kshs.63M as at December 2003. This value was deemed to be irrecoverable and therefore fully provided for in the year 2001. Additions during this financial year was provided for in the Profit and Loss Account

1.6 Trade and Other Debtors

Trade and other receivables are stated at nominal value, less provision for any amounts expected to be irrecoverable.

1.7 Translation Of Foreign Currencies

All assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the exchange rate ruling at the balance sheet date. Transactions during the period in foreign currencies are converted at the rates ruling at the date of transaction. The resulting differences are dealt with in the profit and loss account.

1.8 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, bank balances, and deposits held at call with the banks net of bank overdrafts.

1.9 Taxation

Current tax is based on the results for the year as shown in the Financial Statements and adjusted in accordance with tax legislation

2.1 NOTES TO THE ACCOUNTS

2.1.1 Turnover (Kshs) 56,143,173

A detailed schedule of total revenue for the period is shown on notes to the accounts No 15 where revenue increased by over 100% compared to last financial year

2.1.2 Other Income(Kshs) 4,038,311

	Jun-2006	Jun-2005
	Kshs	Kshs
Rent Receivable	1,325,249	1,512,428
Disposal Gain/(Loss)	(645,375)	11,067
Transport Refund	615,409	450,144
Miscellaneous Sales	2,408,384	364,909
Interest On Loans	-	432,702
Interest Received	339,219	2,593
Exchange Gain/(Loss)	(4,574)	(61,724)
Total	4,038,311	2,712,119

2.1.3 Profit/Loss Before Tax

Profit/Loss before tax is arrived at after charging the following items

	Jun-2006	Jun-2005
	Kshs.M	Kshs
Staff Costs	97	99
Depreciation	29	29
Directors Fees	0.04	-

The number of employees as at 15th June 2006 were 331. Immediately thereafter they were all laid off as part of the ongoing restructuring of the company. Telkom Kenya Ltd has seconded a caretaker team to manage the day to day operations of the company.

2.1.4 Cost Of Goods Sold

Profit/Loss before tax is arrived at after charging the following items

	Jun-2006	Jun-2005
	Kshs.M	Kshs.M
Prime Cost	74	37
Factory Overheads	33	37
Stock (Work In Progress & Finished Goods)	5	18

The cost of goods sold are detailed in the notes to the accounts No 17.

2.2 OPERATING EXPENDITURE

2.2.1 Administration Expenditure (Kshs)	67,750,554		
		Jun-2006	Jun-2005
		Kshs.	Kshs
Salaries And Wages		30,293,172	33,877,754
Travelling Allowances		1,638,536	1,550,493
House Allowance		20,800,545	14,676,020
Contribution To Other Authorities		22,474	9,000
Audit Fee		93,200	480,000
Medical Expenses		2,526,510	1,603,925
Insurance		3,116,547	1,527,081
Security Charges		462,556	375,900
Pension And Provident		7,085,344	10,369,582
		66,038,884	64,469,755
Add: Opening Consumables		1,711,670	1,826,506
		67,750,554	66,296,261
Less: Closing Consumables		-	1,711.670
Total		67,750,554	64,584,591
2.2.2 Operating Expenditure (Kshs)	15,165,882		
		Jun-2006	Jun-2005
		Kshs.	Kshs
Motor Vehicle Expenses-Fuel and Repairs		5,573,118	5,644,253
Motor Vehicle Expenses-Insurance		511,433	505,593
Agency Fee		311,205	2,058,564
Depreciation		6,307,450	237,186
Other		2,011,685	8,291,487
Add: Opening Consumables		820,539	2,988,110
		15,535,430	19,725,193
Less: Closing Consumables		369,548	820,539
Total		15,165,882	18,904,654

2.2.3 Miscellenous Expenditure (Kshs)	2,809,799	Jun-2006	Jun-2005
		Kshs	Kshs
Public Relations		717,881	651,397
Water Electricity And Postage		48,468	4,647,683
Incidental Expenses		2,214,739	1,714,211
Engineering And Building		277,839	99,505
Incidental Expenses-Legal		791,485	658,027
Incidental Expenses-Directors		42,000	36,000
Other		641,239	334,191
		4,733,651	8,141,014
Add: Opening Consumables		57,947	1,191,971
		4,791,598	9,332,985
Less: Closing Consumables		1,981,799	57,947
Total		2,809,799	9,275,038

3. CURRENT ASSETS

3.1 Stock (Kshs)	41,203,077		
		Jun-2006	Jun-2005
		Kshs	Kshs
Raw Materials		33,644,579	82,932,990
Work In Progress		661,335	10,477,632
Finished Goods		4,545,816	8,631,394
Consumables		2,351,347	6,973,584
		41,203,077	109,015,600
Less: Provision			51,455,021
Total		41,203,077	57,560,579

3.2 Debtors (Kshs) 173,953,707

Specific provisions for bad and doubtful debts are provided for those debts considered by Management as doubtful while, known bad debts are written off. During the period in review, no specific provision for bad debts was provided

		Jun-2006	Jun-2005
		Kshs	Kshs
Trade Debtors			
Main (Telkom Kenya)		110,743,841	115,038,126
Main (Telemart Techn.)		53,021,192	45,384,545
Main (PCK)		7,697,257	7,676,056
Sundry & Others		32,782,609	29,726,396
Sub-Total		204,244,899	197,825,123
Provision For Bad Debts		(38,136,287)	(38,136,287)
		166,108,612	159,688,836
VAT		7,845,095	27,665,835
Purchase Loans		-	6,026,022
Provision For Purchase Loans		-	(638,391)
Salary Advances		-	357,918
Imprest and Accruals		-	512,063
		7,845,095	33,923,447
Total		173,953,707	193,612,283

3.3	Cash And Bank Balances(Kshs)	11,023,217		
			Jun-2006	Jun-2005
			Kshs	Kshs
	Bank A/c-1 (223-970-060)		4,085,242	669,645
	Bank A/c-2 (223-970-111)		4,471,128	16,925,302
	Dollar A/c-402-380-018)		648,534	861,856
	Golden Account			527,289
	Bid Security Bonds		1,620,000	100,000
	Cash In Hand		198,313	1,097,908
	Total		11,023,217	20,182,000

4. CURRENT LIABILITIES

4.1	Creditors (Kshs)	32,698,816		
			Jun-2006	Jun-2005
			Kshs	Kshs
	Trade Creditors		32,698,816	23,629,190
	Telposta Pension Scheme (Deductions)		-	17,354,959
	Telposta Pension Scheme (Employer)		-	69,741,030
	Telposta Pension Scheme (Rent)		-	21,023,163
	VAT Liability		-	17,045,191
	SACCOS		-	19,747,621
	NHIF, NSSF		-	6,209,200
	Staff Outstanding Payments		-	846,557
	Others Bodies		-	6,985,044
	Total		32,698,816	182,581,955

5. CAPITAL FUND ACCOUNT

This is the share capital, which consists of the initial assets transferred from TKI to GII in 1993

61. PROPERTIES, PLANT AND EQUIPMENT

	Land and Buildings	Plant & Machinery	Motor Vehicle	Furniture & Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
1 July 2005	256,310,000	234,294,745	16,492,000	14,294,622	521,391,367
Additions				259,131	259,131
Disposals		(12,005,178)	(2,225,000)		(14,230,178)
30-Jun-06	256,310,000	222,289,567	14,267,000	14,553,753	507,420,320
Depreciation					
1 July 2005	30,645,143	128,871,858	14,569,947	11,354,902	185,441,850
For the year	5,107,524	19,374,347	608,024	591,902	25,681,797
Disposals		(8,606,310)	(2,107,486)		(10,713,796)
30-Jun-06	35,752,667	139,639,895	13,070,485	11,946,804	200,409,851
N.B.V					
30-Jun-06	220,557,333	82,649,672	1,196,515	2,606,949	307,010,469

Motor vehicles with a cost of Shs.6.732.000 were fully depreciated and no depreciation was charged during the year

7. RESERVES

	Retained Profit/(Loss) Kshs' Million	Revaluation Reserve Kshs' Million	Total Kshs' Million
As At 1st July 2005	(1,530)	10	(1,540)
Adjustments	-	-	-
Revaluation For The Year			-
Retained profit for the year	(363)	-	(363)
As At 30 June 2006	(1,893)	10	(1,903)

Shs.10M resulted from revaluation of fixed assets and shall be utilized as per IAS 16. The General Reserve account balance of Shs.1.8B represents accumulated losses that the Company has posetd over the years. The issue being addressed in the on going restrcuturing of the Company.

8. CURRENCY

These accounts are presented in Kenya shillings million (Kshs.Million).

9. INCORPORATION

The Company is incorporated in Kenya under the Companies Act.

11.0 NATIONAL SOCIAL SECURITY FUND

This is a statutory defined contribution pension scheme in which both the employer and employee contribute equal amounts. The Company's contribution during the period has been charged to the Profit and Loss Accounts

12.0 TELPOSTA PENSION FUND AND TELEPOSTA PROVIDENT FUND

Two new retirement benefit plans were established on 1st July 1999 as part of the restructuring of the defunct KPTC. These are the Teleposta Pension Scheme and Teleposta Provident Fund. The scheme and the fund operate retrospectively and supersede the former KPTC Pension and Provident Fund regulations, which have been revoked. Membership of both plans comprises employees of GTI among other sister companies.

Certain assets of GTI were transferred to the Plans on 30th June 1999 to cover the accumulated liability of GTI arising in respect of past services. GTI assets did fully fund the liability.

Current contributions to the fund and the scheme are based on salary as follows:

Contribution	Pension Scheme	Provident Fund
Employee	7.5%	7.5%
Employer	26.8%	10.6%-18.1%

13.0 TERMINATION BENEFITS

The Government approved the restructuring of Telkom Kenya limited subsequently approving the retrenchment of GTI staff numbering 331 during the close of the financial year on the terms set out below:

a) Staff aged 50years and above

- Three (3) months basic salary in lieu of notice
- Severance payment-one month for every year remaining and part thereof
- Transport allowance-Kshs.40,000

b) Staff aged 50years below

- Two (2) months basic salary in lieu of notice
- Severance payment-2.5months for every year worked
- Transport allowance-Kshs.40,000
- Golden handshake-Kshs.150,000

The total cost of termination benefits amounted to Kshs.216,937,687 which was borne by TKL.

14.0 CONTINGENT LIABILITIES

a) Litigation

There are potential liabilities in respect of various pending court cases arising from the normal running of the business and claims from retrenched employees. Management is of the opinion that these debtors' claims would not give rise to material liability however the estimated liability for suits filed by employees is **Kshs. 110 Million**. There are also Government taxes amounting to Kshs.344M in form of interest and penalties with the principle therein being Kshs.40Million.

b) Erigtel

GTI has not incorporated into its accounts the results of its associated company, ERIGTEL, and has therefore not made provisions for any liabilities that may arise in ERIGTEL. However, GTI has provided 100% on this investment. GTI board of directors approved the winding up of this subsidiary.

15. TOTAL REVENUE ANALYSIS AS AT 30 JUNE 2006

	Telkom Kshs	T.Mart Kshs	PCK Kshs	Others Kshs	Total Kshs
Pole Plant					
Credit	2,279,193	-	-	22,902,949	25,182,142
Cash	-	-	-	6,983,322	6,983,322
	2,279,193	-	-	29,886,271	32,165,464
Mechanical					
Credit	456,924	-	11,586,561	3,359,949	15,403,434
Cash	-	-	-	807,213	807,213
	456,924	-	11,586,561	4,167,162	16,210,647
Wood					
Credit	32,759	-	-	2,716,073	2,748,832
Cash	-	-	-	229,139	229,139
	32,759	-	-	2,945,212	2,977,971
ARC					
Credit	1,316,105	66,986	291,298	3,097,986	4,772,375
Cash	-	-	-	17,116	17,116
	1,316,105	66,986	291,298	3,115,102	4,789,491
Total	4,084,981	66,986	11,877,859	40,113,747	56,143,573

16. STOCK ANALYSIS AS AT 30 JUNE 2006

	RAW MATERIAL	WORK IN PROGRESS	FINISHED GOODS	CONSUM. STORES	Total Kshs
POLEPLAN	2,940,986	-	4,210,672	-	7,151,658
METAL	2,658,856	661,335	84,000	-	3,404,191
WOOD	718,471	-	116,450	-	834,921
ARC	27,326,267	-	134,694	-	27,460,961
STORES	-	-	-	2,351,347	2,351,347
Sub-Total	33,644,580	661,335	4,545,816	2,351,347	41,203,078
Provision	-	-	-	-	-
TOTAL	33,644,580	661,335	4,545,816	2,351,347	41,203,078

**17. MANUFACTURING PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDING 30 JUNE 2006**

	Jun-2006	Jun-2005
	Kshs	Kshs
TURNOVER	56,143,173	26,011,211
Opening Stock of Raw Materials	35,861,397	35,890,616
ADD: Purchases	47,054,820	12,774,322
Cost of Raw Materials Available	82,916,217	48,664,938
LESS: Closing Stock of Raw Materials	33,644,579	35,861,397
Cost of Raw Materials Consummed	49,271,638	12,803,541
Manufacturing wages	24,407,688	23,914,446
PRIME COST	73,679,326	36,717,987
Depreciation of Plant	19,374,347	20,967,378
Repair & Maintanance	535,009	199,709
Power & Fuel	2,041,909	325,631
Indirect Wages	4,052,773	5,504,614
Indirect Expenses	7,306,932	9,711,503
FACTORY OVERHEADS	33,310,970	36,708,835
ADD: Opening W.I.P	10,477,632	814,817
	43,788,602	37,523,652
LESS: Closing W.I.P	661,335	10,477,632
	43,127,267	27,046,020
PROD. COST OF GOODS COMPLETED	116,806,593	63,764,007
ADD: Opening Stock of Finished goods	8,631,394	8,107,715
	125,437,987	71,871,722
LESS: Closing Stock of Finished goods	4,545,816	8,631,394
COST OF GOODS SOLD	120,892,171	63,240,328
GROSS PROFIT / (LOSS) FROM OPERATION	(64,748,999)	(37,229,117)
Rent Received	1,325,249	1,512,428
Commission Received		11,067
Transport Refund	615,409	450,144
Disposal Profit/(Loss)	(645,375)	-
Miscellaneous Sales	2,408,384	364,909
Interest Receivable	-	2,593
Interest On Loan	339,219	432,702
Exchange Gain/(Loss)	(4,574)	(61,724)
ADD: Other Sources of Income	4,038,311	2,712,119
GROSS PROFIT / (LOSS)	(60,710,687)	(34,516,998)
LESS: OPERATING EXPENSES		
Administration	67,750,553	68,907,834
Operational	15,165,882	11,750,745
Miscellaneous	2,809,799	9,275,038
Total Operating Expenses	85,726,234	89,933,617
Profit/(Loss) Before Exceptional Item	(146,436,921)	(124,450,615)
Less:Exceptional Item	216,937,687	-
NET PROFIT / (LOSS)	(363,374,608)	(124,450,615)

18. ACTUAL EXPENDITURE FOR THE PERIOD ENDING 30 JUNE 2006

SYMB	DESCRIPTION	Jun-2006	Jun-2005
		Kshs	Kshs
A1	Salaries & Allowances	53,181,640	61,642,508
A2	Extra Duty Pay	440,876	13,182
A3	Casual Labour	42,218	38,279
B1	Travelling & Subsistence Allowance	807,821	731,563
B1T	Travelling & Subsistence Allowance (Training)	8,000	38,800
B2	Travelling & Subsistence Allowance (Leave)	2,328,293	2,542,582
C1	House Allowance	25,889,444	23,895,988
C2C	Plant Maintenance	502,969	185,209
C2D	Callibration Charges	32,040	24,500
D	Water, Light & Electricity	2,077,293	1,569,887
D2	Postage & Telephone	13,084	3,403,427
F1	Contribution To Other Authorities	22,474	9,000
F2	Audit Fee	93,200	480,000
F3	Medical Expenses (Outpatient)	2,485,238	1,602,925
F3A	Medical Expenses (Drugs)	41,272	4,005
F4	Agency Fee	311,205	237,186
F5	Incidental Expenses	2,211,991	1,603,119
F5F	Incidental Expenses (Legal)	791,485	658,027
F5A	Incidental Expenses (Awards)	1,023,965	356,023
F5D	Incidental Expenses (BOD)	45,000	36,000
F5T	Incidental Expenses (Training)	253,640	42,748
F6	Public Relations	717,881	651,397
F7	Insurance	3,116,547	1,527,081
F8	Security Charges	462,556	375,900
G1	General Stores	798,824	356,094
G2	Uniforms	422,182	28,720
G5A	Motor Vehicle Running Expenses (Fuel)	3,157,790	2,152,690
G5B	Motor Vehicle Running Expenses (Repairs)	2,415,328	783,344
G5D	Motor Vehicle Running Expenses (Insurance)	511,433	508,343
K1A	Manufacturing & Assembly Materials	47,054,820	12,774,322
K1D	Engineering & Building Materials	480,091	99,505
K2C	Carriage Outwards (Transport Refund)	-	458,900
K2E	Carriage Outwards	1,240,143	
N1	Gratuities	18,652	
N2	Pension Fund	9,422,101	10,432,776
N3	Provident Fund	2,160,611	2,489,897
		164,582,106	131,753,927

19. CURRENT ACCOUNT (TKL) AS AT 30 JUNE 2006

PARTICULARS	AMOUNT	
	Kshs	Kshs
Balance b/d		1,066,002,479
Add: Disbursements From TKL	221,075,905	
Expenses Incurred On Behalf of GTI	216,937,687	
Less: Payments Made On Behalf of TKL		438,013,592
		-
Balance As At 30 June 2006		1,504,016,071

20. GENERAL RESERVE ACCOUNT AS AT 30 JUNE 2006

PARTICULARS	AMOUNT	
	Kshs	Kshs
Balance b/d		(1,530,135,404)
Net Profit/(Loss) For The Year		(363,374,608)
Balance As At 30 June 2006		(1,893,510,012)

21. BALANCE SHEET AS AT 30 JUNE 2006

	Jun-2006	Jun-2005
	Kshs	Kshs
FIXED ASSETS		
Plant & Machinery	82,649,672	105,421,390
Land	9,400,000	9,400,000
Building & Siteworks	211,157,333	216,264,857
Motor vehicles	1,196,515	1,922,046
Furniture & Office Equip.	2,606,949	2,939,720
	307,010,469	335,948,013
CURRENT ASSETS		
Stock	41,203,076	57,560,579
Debtors	173,953,707	194,723,261
Cash & Bank Balances	11,023,218	20,182,000
	226,180,001	272,465,840
TOTAL ASSETS	533,190,470	608,413,853
CURRENT LIABILITIES		
Creditors & Accrued Expenses	32,698,816	182,561,183
	32,698,816	182,561,183
NET CURRENT ASSETS	193,481,185	89,904,657
NET ASSETS	500,491,653	425,852,670
FINANCED BY		
Capital	880,195,859	880,195,859
General Reserve	(1,893,510,012)	(1,530,135,404)
TKL Current Account	1,504,016,071	1,066,002,479
Revaluation Account	9,789,736	9,789,736
	500,491,654	425,852,670