MUSIC COPYRIGHT SOCIETY OF KENYA

Annual Report & Financial Statement

2011

MCSK

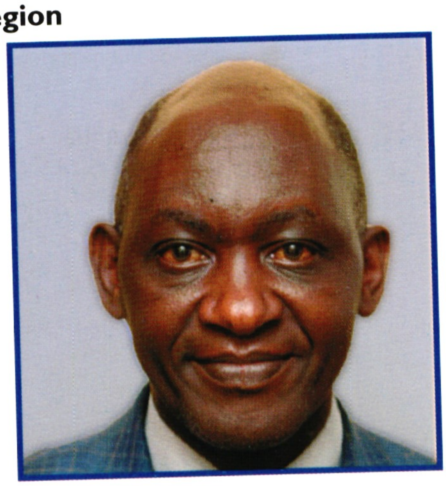
Music Copyright Society of Kenya

MCSK BOARD OF DIRECTORS

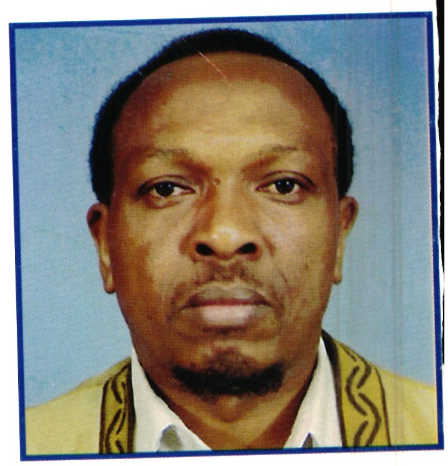
Michael Njehia Maganzo
Acting Chairman & Director
Central Region

Martha Maina
Company Secretary

TOM K'Odiyo
Director, Nyanza



C .D.M Kiratu
Director Nairobi Region



Albert Gacheru
Director Nairobi Region

James Mutisya
Director, Eastern

Naomi Nyongesa
Director, Western

Stanley Kimaiyo
Director Rift Valley

INTRODUCTION

MUSIC COPYRIGHT SOCIETY OF KENYA is registered under the Companies Act (Cap 486 of the laws of Kenya) as a Company Limited by Guarantee. It is a Non-profit making Collecting Management Organisation for Authors, Composers and Publishers of musical works.

Its main mandate is to collect royalties in public performance and Broadcasting, on behalf of its members and to distribute the same to its members, based on the professional rules of Copyright Collective Management Organisations

The Society also represents in Kenya the interests of other interests of similar Performing Rights Societies through reciprocal agreements

Music Copyright Society of Kenya aims at building, mobilising, institutionalising, and supporting the Musical fraternity within Kenya, integrating, sustaining and enhancing their earning for their works.

Our Vision

Make life better for those who make living beautiful

Mission

To be a world class African society that meets members' expectations with a commitment to sound management, cost effective services based on business ethics and values.

These values include fairness, integrity,, teamwork and commitment to service

Historical background

The society was registered in 1983 as a company under number C.5/83

The first directors were as follows:

1. Mr. Laban Juma Toto (Composer Musician)
2. Mr. David Amunga (Composer Musician)
3. Mr. Rajab S. Chumbii (Musician)
4. Mr.Daudi Kabaka (Composer Musician)
5. Ms. Betty Njeri Tett (Producer)
6. Mr. Griffith Justus Siboe(Director of Culture)
7. Mr. Rautta Athiambo (Civil Servant)
8. Mr. Robert Noel Simpson (Business man)

Since then, the society has grown in leaps and bounds in spite of many challenges and it is moving to greater heights to achieve its objectives

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NOTICE OF 22ND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 22Nd Annual General Meeting of the Company shall be held on **Thursday January 26th, 2012** at **Christ the King Cathedral Hall, Nakuru** from **10 a.m. to discuss the following Agenda items;**

1. To read the notice convening the meeting;
2. To Confirm the minutes of the last Annual General Meeting and discuss matters arising;
3. To receive Chairman's Report;
4. To receive and adopt the Audited Accounts for the financial year ending 30th, June 2011;
5. To appoint Auditors;
6. Election of Directors;
7. To consider any other business for which due notification will have been received 48 hours before the date of the Annual General Meeting;
8. To consider the following special business;

To adopt proposal for the formation of members' budget committee.

II. To discuss formation and structures of the **MCSK'S FOUNDATON**.

III. To discuss and adopt any proposals to amendments of Articles of Association that may be sent by 28th, December 2011.

By Order of the Board

MARTHA MAINA

COMPANY SECRETARY

December 16th, 2011.

CHAIRMANS REPORT

Michael Njehia Maganzo
Acting Chairman & Director

Good Morning to you dear beloved members,

Before I begin my address to you all, may I first kindly request you all to stand so that we may observe one-minute silence in honour of our twenty two members(see attached list) who have departed since the last Annual General meeting and indeed in honour of our beloved late immediate former Chairman, the late Habel Kifoto (14), (After minute silence) May God rest his soul in eternal peace

Hamjambo tena.

On behalf of the entire board of directors of MCSK, i welcome you all to this the 22nd AGM of the Society. This AGM is indeed of much significance as it is the first AGM that we are holding under the newly amended Constitution duly passed by you, the members of the Society. This was indeed a milestone achievement by the Society as we forge ahead to build a strong MCSK , upholding our vision to be a world class Collecting Society , operating at the most efficient level and serving the interests of both our local members and our affiliate Societies . It has been a difficult road that we have gone through and the past year has been the toughest, that the Society has faced, and we can only thank God for seeing us to this day.

I am however glad and proud to stand here before you today to report that despite the challenges that we have faced, we still managed as a board to stick together and steer the Society away from the ferocious tide, as you will shortly see from the report that I will give. As is the custom, I will endeavour to highlight the various areas of performance within the Society for a better understanding of the activities carried out in the past year.

Membership

The membership of the Society grew to 5,726 members as at the close of the last financial year as compared to 4619 in the previous financial year. This reflected a growth by 1107 members, reflecting 23.96% growth. The growth in membership is indeed a positive sign for the Society as it does show the confidence that the Kenyan musicians have in the Society.

Collections

The collections of the Society saw further growth to Kshs216, 970,983, which was a growth of Kshs 31,419,462 Compared to the previous financial year where Kshs 185,551,521 Was collected. This reflected a percentage growth of 16.93 %. Out of this amount, Kshs 16,356,123 was attributed to surcharge amounts

It is however critical to note that, the Society's license to collect was irregularly revoked by the Kenya Copyright Board. As a result, one of our key sources of income, continued to lose ground. Operating income was also affected by increased loss ratios particularly in our collections arising from inflation due to the global economic crisis. Despite the difficult year we have seen our society continue to register growth and ensure we remain profitable. Recovery from the global economic crisis was slow and it certainly did not arrive in our region during the period.

We are however currently sorting out the issues with the Kenya Copyright Board and we have received a lot of cooperation from them. Looking ahead, once the issues are fully resolved, we shall endeavour to collect the pending license fees from the last financial year.

Distribution

The amounts of money reserved for distribution to members also increased from Kshs 45,000,000 to Kshs. 59, 981,894 .This was an improvement from the previous financial year. This therefore marked an improvement by 33.29% of amounts reserved for distribution compared to the previous financial year.It simply means had our operations not been affected, this year we would have been talking of reserving close to Kshs 100, 000,000 for distribution to our members and affiliates. Members , indeed this figure is accurate as it compares fully with our budget for the last financial year where we fully adhered to the budget , as such expenses were as projected , and the same to income and distribution .

Expenses

The expenditure for the Society stood at Kshs 152,474,323). This reflected a growth by Kshs 14,834,493, compared to the previous financial year. The percentage growth as such was 10.78%.

As earlier mentioned this expenditure was within the budget for the Society and reflected expenses for a period of 12 months as opposed to the collections, which were for 9 months. A huge part of the expenditure was incurred in items that foster growth in the Society such as Capital expenditure and infrastructure developments as you will see from the Audited Accounts and other expenditure relating to members for example Annual General Meeting and seminar expenses . I am however glad to report that in terms of our strategic plan, we are now through with most of these items of capital and infrastructure development expenditure except major expense of purchase of a building, which had been adopted by members at the 20th Annual General Meeting held in Kakamega

You will also see within the Audited Accounts items of expenditure such as depreciation, impairment losses, and such items, which consume much into the expenditure budget. Members, I would like you to note that some of these items are not actual expenses incurred but have to be reflected in the accounts as expenditure items because of the accounting rules and principles. I am taking some time to explain this because there has always been a misconception that the Society is merely spending money, in fact this issue was stated at the last Annual General Meeting by one of the members, and as such I would like to make it clear, and as you will see from the Audited accounts that not all items listed as expenses are actual incurred expenditure. If you were to therefore look into the actual administrative costs, you will note that they are not as high as has been portrayed previously. I therefore urge you members to carefully look at the Audited accounts and even as our newly appointed auditors come to present the Accounts to you, you can then ask any questions that you may have regarding the accounts.

Budget

I have today chosen to talk a little about the budget and the budgeting process at MCSK , firstly because it touches on the expenses that I have mentioned in the preceding paragraph and also because it is one of the issues that is to be discussed within the agenda items of the day . The budgeting process at the Society is steered by the Finance and Investment Committee, which is a committee of the board comprising of specialists with accounting and finance knowledge, and by the management of the Society, led by the General Manager.

In the last financial year, the teams presented a budget to the board that we operated on for the full financial year. As earlier, mentioned, within the budget, our anticipated collection was Kshs 306,580,000 and surplus Kshs 153,729,889.06 Expenses were Kshs 152,850,110.94. Effective next financial year, we intend to incorporate members to be appointed by you, as part of a budget committee, whose role would be to ensure that the budget is properly prepared and taking the general membership consideration, and further and more importantly to ensure that the Society operates within its budget.

Dear members, this fully goes to show the open attitude that we have with you and to show that we have nothing to hide in the Society. These are part of the reforms that we are proposing towards having an even more transparent Society. I do as such hope that at the time of discussing this agenda item, we shall have a positive attitude and look towards the better good of the Society, and not for individual interests.Yaani, tusiweke siasa.

Conclusion

Finally, before I call in the Auditor to take us through the Accounts, I again wish to thank you all for coming for this 22nd Annual General Meeting. I thank you for being attentive as I read the report, and pray to God

to continue giving us strength and wisdom to prevail.

GOD BLESS YOU ALL.

AHSANTENI SANA

Signed: Mr MICHAEL MAGANZO

ACTING CHAIRMAN, MCSK

COMPANY INFORMATION

DIRECTORS

: Habel Kifoto, HSC - Chairman
: Michael Maganzo Njehia
: Tom M. Kodiyo
: Stanley Kimaiyo
: Naomi Nyongesa
: Albert Gacheru
: C.D.M Kiratu, OGW
: James Mutisya
: Dorcas Odege (Department of Culture)
: Maurice Okoth - General Manager

BANKERS :

NIC Bank
: Westlands Branch
: Nairobi

Equity Bank
: P.O.Box 75104 - 00200
: Community Centre
: Nairobi

Standard Bank
: P.O.Box 30003-00100,
: Ukay Centre Branch,
: Nairobi

Standard Bank
: P.O.Box 14438 - 00800,
: Westlands
: Nairob

REGISTERED OFFICE AND :

Music Copyright Society of Kenya Ltd

PRINCIPAL PLACE OF BUSINESS

: P.o. Box 14806 - 00800
: Maua Close, Westlands
: Nairobi , Kenya.

COMPANY SECRETARY :

: Martha Maina,
: Martha Maina & Associates
: P.O. Box 19743 - 00202
: Nairobi.

(With effect from 24th May 2011)

EXTERNAL AUDITORS : Maritimes Associates

: P.O. Box 816 - 00200
: Odyssey Plaza, South B
: Nairob: Nairobi

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the financial year ended 30th June 2011.

PRINCIPAL ACTIVITY

The company is a non-profit making organisation established to administer certain rights granted under the Copyrights Act on behalf of members. Its core mandate is the collection and distribution of royalties to members.

RESULTS

The results for the year are as set out on page 6.

DIRECTORS

The directors of the company who served during the year are as shown on page 7.

The company is a non-profit making organisation established to administer certain rights granted under the Copyrights Act on behalf of members. Its core

mandate is the collection and distribution of royalties to members.

AUDITORS

The company auditors, Messrs Maritimes Associates appointed during the year have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act

BY ORDER OF THE BOARD

Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors responsibility includes: determining that the basis of accounting described in note is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these 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.

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 International Financial Reporting Standards and in the manner required by the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs 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 controls.

The Directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not remain a going concern for at least the next twelve months from the date of this statement.

The financial statements were approved by the Directors for issue on 19 2011 and were signed by:-

Director MICHAEL N.J. MAGAN Signature

Director ALBERT GACHERU KIA Signature

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MUSIC COPYRIGHT SOCIETY OF KENYA LTD AS AT 30th JUNE 2011

This report is made solely to the members of Music Copyright Society of Kenya Ltd, (the "company"), as a body corporate, in accordance with Section 159 of the Companies Act (Cap 486). Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body corporate, for our audit work, for this report, or for the opinions we have formed.

Report on the financial statements

We have audited the financial statements of company set out on pages 6 to 21 which comprise the Statement of Financial Position as at 30th June 2011,and the Statement of Comprehensive Income, statement of changes in equity and Statement of Cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the financial statements

As stated on page 3, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in compliance with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements as set out on pages 6 to 9 when read together with the notes thereon, give a true and fair view of the financial position of the company, as at 30th June 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Kenyan Companies Act, based on our audit, we report to you that:-

i. We have obtained all the information and explanations which to the best our knowledge and belief were necessary for the purposes of our audit;

ii. In our opinion proper books of accounts have been kept by the company, as far as it appears from ourexamination of those books; and

iii. The financial statements of the company are in agreement with the books of account.

Maritimes Associates

Maritimes Associates Certified

Public Accountants

Nairobi

Date: 20/12/2011

Music Copyright Society of Kenya Ltd Annual Report and Audited Financial Statements For the financial year ended 30th June 2011

APPROPRIATION ACCOUNT

	NOTES	2011 Kes	2010 Kes
GROSS INCOME	(a),(b)	**216,970,983**	**185,551,521**
Excess of Receipts over payments	Page	**64,496,660**	47,911,691
Less Transfer to Socio-Cultural Fund		**(4,514,766)**	(3,854,890)
Surplus before Provision for Royalties		**59,981,894**	**44,056,801**
Less Provision for Royalties	Page	**(59,843,930)**	(45,000,000)
Surpluses/(Deficit) for the Year	Page	**137,964**	(943,199)
Surpluses/(Deficit) b/f		**(3,771,493)**	(2,828,294)
Surpluses/(Deficit) c/f		**(3,633,529)**	(3,771,493)

The notes and Schedules set out on pages 10 to 21 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

	NOTES	2011 Kes	2010 Kes
ASSETS			
NON-CURRENT ASSETS			
Property and Equipment	22	16,235,878	10,375,803
Intangible Asset	15	1,564,150	-
		17,800,028	10,375,803
CURRENT ASSETS			
Accounts receivable	14	31,369,248	16,359,102
Deposits and Prepayments	16	4,220,199	3,603,724
Cash and Bank balances	20	4,722,171	4,146,477
		40,311,619	24,109,303
TOTAL ASSETS		58,111,647	34,485,106
CAPITAL AND LIABILITIES			
CAPITAL AND RESERVES			
Socio-Cultural Fund	Page 8	10,138,248	6,685,560
General Reserve		1,109,319	1,849,174
Donation Fund		97,863	97,863
Fixed Assets Fund		15,323	21,890
Appropriation Account		1,489,059	1,344,528
		12,849,811	9,999,015
CURRENT LIABILITIES			
Creditors and Accruals	18	18,862,853	6,667,624
Royalties Payable	17	26,398,983	17,818,467
		45,261,836	24,486,091
TOTAL CAPITAL AND LIABILITI		58,111,647	34,485,106

The financial statements were approved by the Board of Directors on ……………………..2011 and were signed on its behalf by:

Kalua Michael ______)
______) DIRECTORS
)

The notes and schedules set out on pages 10 to 21 form an integral part of the financial statements.

Music Copyright Society of Kenya Ltd Annual Report and Audited Financial Statements For the financial year ended 30th June 2011

STATEMENT OF MOVEMENT IN FUND

	GENERAL RESERVE	FIXED ASSETS FUND	DONATION FUND	APPROPRIATION ACCOUNT	TOTAL
	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2010	1,849,174	91,169	97,863	(2,828,294)	
Adjustments for the period	-	(69,279)	-	5,116,021	(790,088)
	1,849,174	**21,890**	**97,863**	**2,287,727**	**4,256,654**
Surplus (Deficit) for the year				(943,199)	**(943,199)**
Balance as at 30th June 2010	**1,849,174**	**21,890**	**97,863**	**1,344,528**	**3,313,455**
Dep. Adjustments/Increase for year	(739,855)	(6,567)	-	(6,567	**(739,855)**
Surplus (Deficit) for the year	-	-	-	137,964	**137,964**
Balance as at 30th June 2010	**1,109,319**	**15,323**	**97,863**	**1,489,059**	**2,711,564**

Fixed Asset funds relates to balance of book value of assets previously donated to the society.

Adjustment relates to reclassified amount which had been disclosed as liabilities now classified as income

The notes set out on pages 10 to21 from an integral part of the financial statements

STATEMENT OF CASH FLOWS

	NOTES	2011 Kes	2010 Kes
CASH FLOWS FROM OPERATING ACTIVITIES			
Surpluses(Deficit) before Appropriation		64,496,660	47,911,691
Adjustments for:			
Prior Year Adjustments		(739,855)	5,046,742
Depreciation		5,585,889	2,985,901
Operating Profit (Loss) before working capital changes		69,342,694	55,944,334
Working capital changes			
Changes in accounts receivable		(15,010,146)	(11,275,250)
Changes in Deposits and Prepayments		(616,475)	(2,605,116)
Changes in Provision for losses		-	-
Changes in accounts payable		12,195,229	5,178,922
		(3,431,393)	(8,701,444)
Cash generated from operations		65,911,301	47,242,890
Cash generated from operations		65,911,301	47,242,890
CASH FROM INVESTING ACTIVITIES			
Purchase of land for sale		(13,010,114)	(8,334,603)
Royalties Paid		(49,566,531)	(36,912,937)
Purchase of fixed assets		(10,775,614)	(57,900)
		(73,352,259)	(45,305,440)
CASH FROM FINANCING ACTIVITIES			
Royalties Payable provision		8,580,516	(2,285,948)
Members Fees Movements		(563,864)	-
Total Cash from Financing Activities		8,016,652	(2,285,948)
NET CASH INFLOW /(OUTFLOV		575,694	(348,498)
CASH AND CASH EQUIVALENTS BALANCE AS AT 30TH JUNE 2010		4,146,477	4,494,975
CASH AND CASH EQUIVALENTS BALANCE AS AT 30TH JUNE 201		4,722,171	4,146,477

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

(i) Registered Office and Principal place of Business
The reporting entity is Music Copyright Society of Kenya Ltd, whose registered office and principal place of business is as shown on page 1.

(ii) Incorporation
The company is registered as a limited liability company, limited by guarantee and is incorporated in Kenya under the Kenyan Companies Act (Cap. 486), Laws of Kenya.

(iii) Domicile
The company is domiciled in Kenya and carries out its business in Kenya.

(iv) Statement of Compliance
The financial statements are in compliance with the International Financial Reporting Standards (IFRS).

2. BASIS OF PREPARATION

(i) Basis of preparation
The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property and equipment at fair value and are in compliance with International Financial Reporting Standards (IFRS).

(ii) Use of estimates and judgments
The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(iii) Functional Currency, Presentation and Precision
The financial statements are presented in Kenya Shillings, which is the company's functional currency. The financial statements have been stated to the nearest shilling.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Assets Held for Sale and Investment Property
Property held for sale is not depreciated since they are held on a temporary basis.

(b) Revaluation reserve
Gains or Losses arising on revaluation of equity investments are appropriated into the Revaluation Reserves account in the year they arise through the Income Statement. Those arising from revaluation of fixed assets are credited to the General Reserve Account.

(c) Income
Income earned is brought into the accounting period on the following basis:-

I. Incomes constitute license fees and are recognised when there is contractual evidence that they have been earned. These are invoices raised, direct bank deposits and cash collected. For a period of three months the company lost a significant portion of incomes when their license was not issued by Kenya Copyright Board.

II. Gains on disposal of fixed assets include income received and accrued during the accounting period.

III. Other incomes include incomes from members entrance fees and other miscellaneous incomes from interest earned on bank deposits.

(d) Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity.

-Held to Maturity
Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Were the Company to sell, other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills and bonds.

-Available for sale
Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Company or held to maturity. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liabilities are classified either as trading financial liabilities or other financial liabilities.

- Recognition and measurement
The Company recognizes assets on the date it commits to purchase the asset. From this date, any gains or losses arising from changes in fair value of the assets are recognized directly in the equity and for financial assets at fair value through profit and loss.

- Derecognition
A financial asset is derecognized when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Company commits to sell the assets. The Company uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments are derecognized on the day they are transferred by the Company.

- Identification and measurement of impairment of financial assets
At each balance sheet date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by the company together for all financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a debt by the company on terms that the company would otherwise consider, indications that a debtor will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of debtors in the market, or economic conditions that correlate with defaults in the market.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the expected recoverable amount based on the value of securities. Losses are recognized in profit or loss and reflected in an allowance account against the debts.

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the

(e) Offsetting of financial assets and liabilities

recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(f) Taxation

The company surpluses are not subjected to income tax but withholding tax is levied on royalties paid to members and returns to the tax authorities made appropriately.

(g) Impairment Losses

Provisions are recognized when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(h) Impairment for non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset that generates cash flows and are largely independent from other assets of company. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro-rata basis.

For property and equipment, the fair value is determined by the company's contracted qualified valuers based on an open market value basis.

(i) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

(j) Related party transactions

The company discloses the nature and amounts outstanding at the end of the financial year from transactions with related parties, which include transactions with directors, employees and related companies.

(k) Finance charges

Finance charges represent bank and other charges.

(l) Comparatives

Where necessary comparative figures have been restated, redescribed and or reclassified to conform to changes in presentation in the current year.

(m) New standards and interpretations

The following are new standards and interpretations specifically affecting the presentations of the Financial Statement of the company.

IFRS 8 Operating Segments
(Effective 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8 does not have any impact on the company's financial statements since the company does not operate in different business segments.

IFRIC 12 Service Concession Arrangements
(Effective 1 January 2008) provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which is mandatory for the company's 2009 financial statements, does not have any effect on the financial statements because the company has not entered into any public – to – private service concessions.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

Income taxes
The company is subject to taxes in Kenya. Significant judgment is required in determining the company's provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is. different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Critical judgments in applying the entity's accounting policies
In the process of applying the company's accounting policies, directors have made judgments in determining:-

I. Assets;
II. Leases;
III. Impairment of assets;
IV. Non-current assets held to Maturity;
V. Non-current assets held for disposal

5. FINANCIAL RISK MANAGEMENT

The company has exposure to the following risks:-

- Credit risk
- Liquidity risk
- Market risk.
- Operational risks

The Directors have overall responsibility for the establishment and oversight of the company's risk management framework. The company's risk management policies are established to identify and analyze the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company's directors oversee and monitor compliance with the risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the company.

(a) Credit risk
Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's transactions with customers, other institutions and investment securities. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure.

Management of credit risk

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The directors have established a credit policy or standard under which each new customer is analyzed individually for creditworthiness before the company's business transactions are entered into and delivery terms and conditions are offered, initiated, executed or effected. The company's review includes external ratings, image profiling and public knowledge and in some cases references, where available. Credit limits are established for each Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's transactions with customers, other institutions and investment securities. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure. customer, which includes a maximum open ceiling.

(b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Typically the company ensures that it has sufficient cash on demand to meet expected normal operational expenses. This excludes the servicing of financial obligations which are separately planned for. Also excluded are the potential impacts of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The responsibility for managing daily liquidity assessment resides with the directors. However, the balance sheet liquidity management is a companywide task.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

This is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates which affects the company's investments and borrowings.

Interest rate risk is managed principally through monitoring the company's interest rate risk exposure within self-imposed parameters over a range of possible changes in interest rates.

Equity prices

IThe company is exposed to price risk in respect of its investments in quoted shares. The exposure to price risk is managed primarily by setting limits on the percentage of net assets available for benefits that may be invested in equity, and by ensuring sufficient diversity of the investment portfolio.

Currency risk

The company operates wholly within Kenya and its assets and liabilities are carried in the local currency. The Company is not exposed to foreign currency risk.

6. FINANCIAL RISK MANAGEMENT

(a) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The ultimate accountability for operational risk management within the company rests with the Directors. Consequently, the level of risk that the company accepts, together with the basis for managing those risks is assigned to the company's Chief Decision Maker. This responsibility is supported by the development of overall standards for the management of operational risk.

(b) Capital Risk Management

- safeguard the company's ability to continue as a going concern and comply with the requirements of the Company's Act;
- provide optimum returns for its shareholders and benefits to other stakeholders;
- maintain an optimal gearing ratio both to support the development of its business and to reduce the cost of capital, when necessary.

The company is registered as a company limited by guarantee and hence no share capital. Therefore capital risk management requirement is not applicable.

7. INCOME

Turnover represents proceeds from license fees recorded from invoices, cash and cheques received by the company during the year. During the year the company had no operating license for three months at which time no income was accrued, hence the income recorded relates to a period of nine months only.

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	2011 Kes	2010 Kes
7(a) DISTRIBUTABLE INCOME		
General Licensing	191,310,945	171,143,067
Foreign Loyalties	1,087,900	-
Mechanicals	6,572,695	-
Broadcasting	16,636,366	13,898,717
	215,607,906	**185,041,784**
7(b) NON-DISTRIBUTABLE INCOME		
These included incomes from the following sources during the year:-		
Members Entrance Fees	1,118,218	-
Disposal of Fixed Assets	97,000	-
Other Incomes	147,859	509,737
	1,363,077	**509,737**
Total Income	216,970,983	**185,551,521**

	2011 Kes	2010 Kes
8 DIRECT COSTS-COLLECTION COSTS		
Marketing and Licensing Expenses	2,438,028	2,078,147
Security on Collection	16,356,123	18,377,290
	18,794,151	**20,455,437**
9 DIRECTORS AND MEMBERS EXPENSES		
Directors Allowances and other costs	10,143,240	9,650,845
AGM and Seminar Costs	4,779,496	6,495,338
	14,922,736	**16,146,183**
10 STAFF COSTS		
Salaries and Wages - Other Staff	51,054,135	39,839,658
Salaries and Wages - Management Staff	13,724,115	12,789,087
Pensions Contributions	2,947,892	2,462,685
Medical Insurance Premiums	4,099,171	2,674,114
	71,825,313	**57,765,544**

The average number of employees during the year was 110, (2010, 104).

NOTES TO THE FINANCIAL STATEMENTS - Continued

	[illegible]	2010 Kes
11 ADMINISTRATIVE COSTS		
Rent and Rates	[illegible]	3,006,688
Repairs and Maintenance	[illegible]	1,429,324
Depreciation	[illegible]	2,985,901
Telephone, Postage and Internet	[illegible]	1,264,104
Printing and Stationery	[illegible]	2,807,288
O ce Expenses	[illegible]	1,242,933
Transport, Travel and Accommodation	[illegible]	5,338,666
Audit Fees	[illegible]	562,120
Legal Fees	[illegible]	2,509,940
Newspapers and Periodicals	[illegible]	68,745
Subscriptions	[illegible]	373,215
Motor Vehicles Expenses	[illegible]	4,515,621
Car Hire Charges	[illegible]	5,294,276
Public Relations and Advertisements	[illegible]	2,619,152
Water and Electricity	[illegible]	280,659
Security Expenses	182,562	177,620
Professional and Consultancy Fees	34,251	781,500
Restructuring and Recruitment Costs	-	450,000
Membership Prog/Training and Team Building	1,690,150	1,357,604
Impairment Losses	1,860,612	4,850,000
	45,261,348	**41,915,356**
12 FINANCE COSTS		
Bank charges	1,670,775	1,357,310
Total Finance Costs	**1,670,775**	**1,357,310**
Total Costs	**152,474,323**	**137,639,830**
Excess of Receipts over payments	**64,496,660**	**47,911,691**

Music Copyright Society of Kenya Ltd Annual Report and Audited Financial Statements For the financial year ended 30th June 2011

NOTES TO THE FINANCIAL STATEMENTS - Continued

13 TAXATION

The company's operating surpluses/(loses) are not subjected to income tax instead withholding tax is retained from any distribution to members and returns filed appropriately.

14 ACCOUNTS RECEIVABLE

Trade and Other Debtors	31,369,248	16,359,102
	31,369,248	**16,359,102**

15 INTANGIBLE ASSETS

Cost	-	-
Additions	2,234,500	-
	2,234,500	-
Depreciation		
Balance as at 01.07.2010	-	-
Charges for the Year	670,350	-
Net Book Value 01.06.2011	**1,564,150**	-

These relate to software costs paid for during the year.

16 Deposits and Prepayments

Deposit-Akamba	30,000	30,000
Deposit-Dropping Zone	25,300	13,200
Fuel Deposit - Total and Kenya Shell	705,000	635,000
Rent Deposit	916,536	513,970
Advances To PRSK	27,840	27,840
Receivable-Magazine Project	1,052,209	697,504
Prepaid Rent	1,428,139	1,399,835
Security Deposit	35,175	35,175
Overpayment - Jam City Motors	-	226,000
Withholding Tax Receivable	-	25,200
Total of Deposits and Prepayments	**4,220,199**	**3,603,724**

NOTES TO THE FINANCIAL STATEMENTS - Continued

17	**LOCAL ROYALTIES PAYABLE**		
	Royalties Brought forward	12,556,026	7,377,385
	Add Royalties Provided for during the year	[illegible]	45,000,000
		[illegible]	52,377,385
	Less Royalties paid to Members during the year	[illegible]	(36,912,937)
	Less Tax withheld on Royalties	[illegible]	(2,908,422)
		[illegible]	12,556,026
	Tax on Royalties B/F	5,262,441	5,262,441
	Less Tax Paid during the year	[illegible]	-
	Tax on Royalties C/F	5,157,552	5,262,441
	Total Royalties and Tax Payable	[illegible]	17,818,467
18	**CREDITORS AND ACCRUALS**		
	Trade Payables	18,456,853	5,543,384
	Audit Fees	[illegible]	1,124,240
	Totals	18,862,853	6,667,624
19	**SOCIO-CULTURAL FUND (BF)**		
	Balance Brought forward	6,685,560	4,446,954
	Add Provisions for the Year	4,514,766	3,854,890
	Less Payments in the Year	(1,062,079)	(1,616,284)
	Totals	10,138,247	6,685,560
20	**CASH AND BANK BALANCES**		
	Cash in hand	22,865	131,190
	Fixed Deposit - Standard Bank	375,485	227,626
	Current Account - Standard Bank -Ukay	3,695,825	1,745,355
	Standard Bank - Westlands	359,738	799,015
	Equity Bank	98,823	1,243,291
	NIC-Operations Ac	128,868	-
	NIC-Distribution Ac	40,567	-
		4,722,171	4,146,477

For the purposes of the cash flow statement, the year cash and cash equivalents comprises of the following:

	4,722,171	4,146,477
Cash and bank balances	4,722,171	4,146,477

Music Copyright Society of Kenya Ltd Annual Report and Audited Financial Statements For the financial year ended 30th June 2011

21 CONTIGENT LIABILITIES

By the time of audit, there was a contingent liability of Ksh 14.0m made up of various court cases. The amount has not been dealt in these financial statements as Directors are of the view that they may not crystallize and individual cases are not material.

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For the financial year ended 30th June 2011

FIXED ASSETS

COST	Furniture and Fittings KSHS	Equipment KSHS	and KSHS	Vehicles KSHS	TOTAL KSHS
Balance as at 1st July 2010	3,221,562	755,185	2,338,077	10,789,020	**17,103,844**
Additions during the period	566,872	5,543	2,612,699	9,825,000	**13,010,114**
Cost as at 30th June 2011	**3,788,434**	**760,728**	**4,950,776**	**20,614,020**	**30,113,958**
DEPRECIATION					
As at 1st July 2010	792,516	324,026	1,581,031	4,030,468	**6,728,041**
Charge for the period	374,490	54,588	1,010,924	4,145,888	**5,585,889**
As at 30th June 2011	**3,788,434**	**760,728**	**4,950,776**	**20,614,020**	**30,113,958**
Net Book Value as at 30th June 2011	**(3,788,434)**	**(760,728)**	**(4,950,776)**	**(20,614,020)**	**(30,113,958)**
Net Book Value as at 30th June 2010	**2,429,046**	**431,159**	**757,046**	**6,758,552**	**10,375,803**

MCSK Music Copyright Society of Kenya

APPOINTMENT OF AUDITORS

The company auditors, Messrs Maritimes Associates appointed during the year have expressed their willingness to continue in office for the ensuing year in accordance with section 159 (2) of the companies Act.

ELECTION OF DIRECTORS

The following are the candidates nominated for the regions shown below .

Central Region	**Membership No.**
1. Michael Njehia Maganzo	504
2. George Maina Wahome	709
Eastern/North Eastern Region	
1. Lazarus Muoki Muli	463
2. James Mutisya Maweu	550
Coast Region	
1. Aidan Sango Agava	596
2. Francis Ochilo Odera	193
Rift Valley Region	
1. Daniel Kipkemboi Langat	356
2. Bernard Amuchizi Mukaisi	420
Western Region(without prejudice)	
1. Joseph Shisia Wasira	607
2. Naomi W. Nyongesa	403

The following list of candidates qualified as Directors during the nomination process pursuant to the election rules

Nairobi Region	**Membership No.**
1. Albert Gacheru Kiare	328
2. Christopher Mwaura Kiratu	105
Nyanza Region	
1. Tom Mboya Kodiyo	308

7.To Consider the following Special Business;

i) To adopt proposal for the formation of members' budget committee,

- **Its proposed that the regional committee members (or a section of their membership) forms a budget members committee.**

ii)To discuss formation and structure of the MCSK FOUNDATION

ii)To discuss and adopt the following proposals to amendments of Articles of Association;

Proposals to amend the articles of Association

1. That article 1(xxvii) be amended by the deletion of the word "branch" and the addition of the words "which will work under the Regional Director(s)"

The new Article will read thus: ***"Committee Member" means a member elected as a representative of the members in his/her region in the regional committee, which will work under the Regional Director(s)***

2. That Article 32 (b) (iii) be amended by the substitution of the word 'one' with 'three' so that the new article will read as follows;

"THREE consultant Directors who possess knowledge and expertise, which the Governing Council may need to resource upon from time to time"

Also amend Article 32 (b) (iii) (1, 2 and 3) to read as follows:-

1. The duration of office of these Directors shall be determined by the Governing Council but shall not exceed Three (3) years.
2. These Directors shall not be eligible to vie for the positions of the Chairperson or Vice Chairperson of the Governing Council.
3. The Governing Council may revoke the appointment of any consultant Director at any time by a resolution passed by a majority of its members and that decision shall be communicated in writing to him/her within twenty four (24) hours.

3. That Article 59 be amended as follows:
4.

1. First Proposal

- ***a. That the number of Nairobi committee members in Articles 59 (c) be reduced from TWENTY (20) to TEN (10).***
- ***b. That the number of the other Regions be reduced from TEN (10) to FIVE (5)***

2. Second Proposal

- ***a. That article 59 (b) be amended by the addition of the words "which shall work under the guidance of the Regional Director(s)" so as to read as follows:***

  "There shall be seven (7) Regional Committees , which shall work under the guidance of the repective Regional Director(s)"
- ***b. That Article 59 (f) be amended by substitution thereof of the word "Three" (3)with "ONE" (1) year so as to read as follows;-***

"Regional Committee member shall serve for a term of one (1) year and any such member shall be eligible to vie for the position for another four (4) years"

OR "to serve for a term of one (1) year and no limit as to terms"

OR " to serve for a two (2) year term and eligible to be elected for another two terms.

3. That Articles 59 (i) be amended by the substitution of the words "Regional Committee" with ***"Ad-Hoc Committee"*** and the deletion of the word "implementation" and limitation of term thereof, so as to read as follows;

"The initial Ad Hoc Committee that participated in the drafting of the amendment of the memorandum and articles of Association hereof will be retained for transition and consultation in drafting of the envisioned rules and regulations for a period of one (I) year or until the election of the Regional committee members pursuant to these articles whichever comes earlier"

4. That article 59 be added a new sub -article to read as follows;

59 (k) That any regional committee member who wishes to vie for a position in the Governing Council shall first resign as a member of the regional committee.

BY ORDER OF THE BOARD

Company Secretary

MCSK MANAGEMENT TEAM

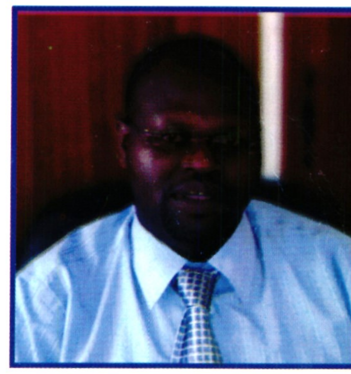
Maurice Okoth
Chief Executive Officer

Raphael Ndegawa
Internal Auditor

Merit Wambati HR &
Adminstration Manager

Peter Enyenze
Senior Regional
Manager-Nairobi Region

Joram Kipkemboi
Financial Accountant



Moses Maiyo Documentation &
Distribution Officer

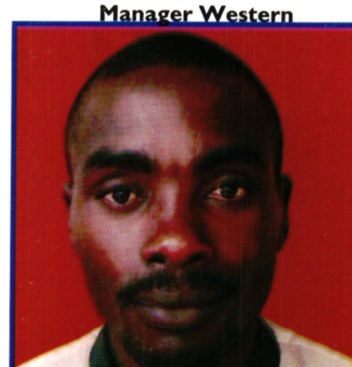
Jackline Oduol
Regional Manager-Coast

George Diang'a
Regional Manager
Rift Valley

Sarah Bondi
Regional
Manager Western

Joshine Mwendwa
Ag Regional Manager Eastern

Jane Wandigah
Ag Regional Manager-Central



James Oenga
Ag Regional Manager Nyanza

MCSK

Music Copyright Society of Kenya

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