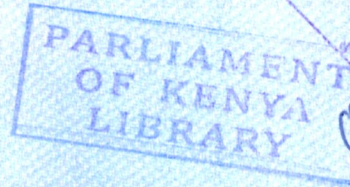


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT
OF
THE
AUDITOR-GENERAL**

ON

**FINANCIAL STATEMENTS
OF INDUSTRIAL & COMMERCIAL
DEVELOPMENT CORPORATION FOR
THE YEAR ENDED 30 JUNE 2010**



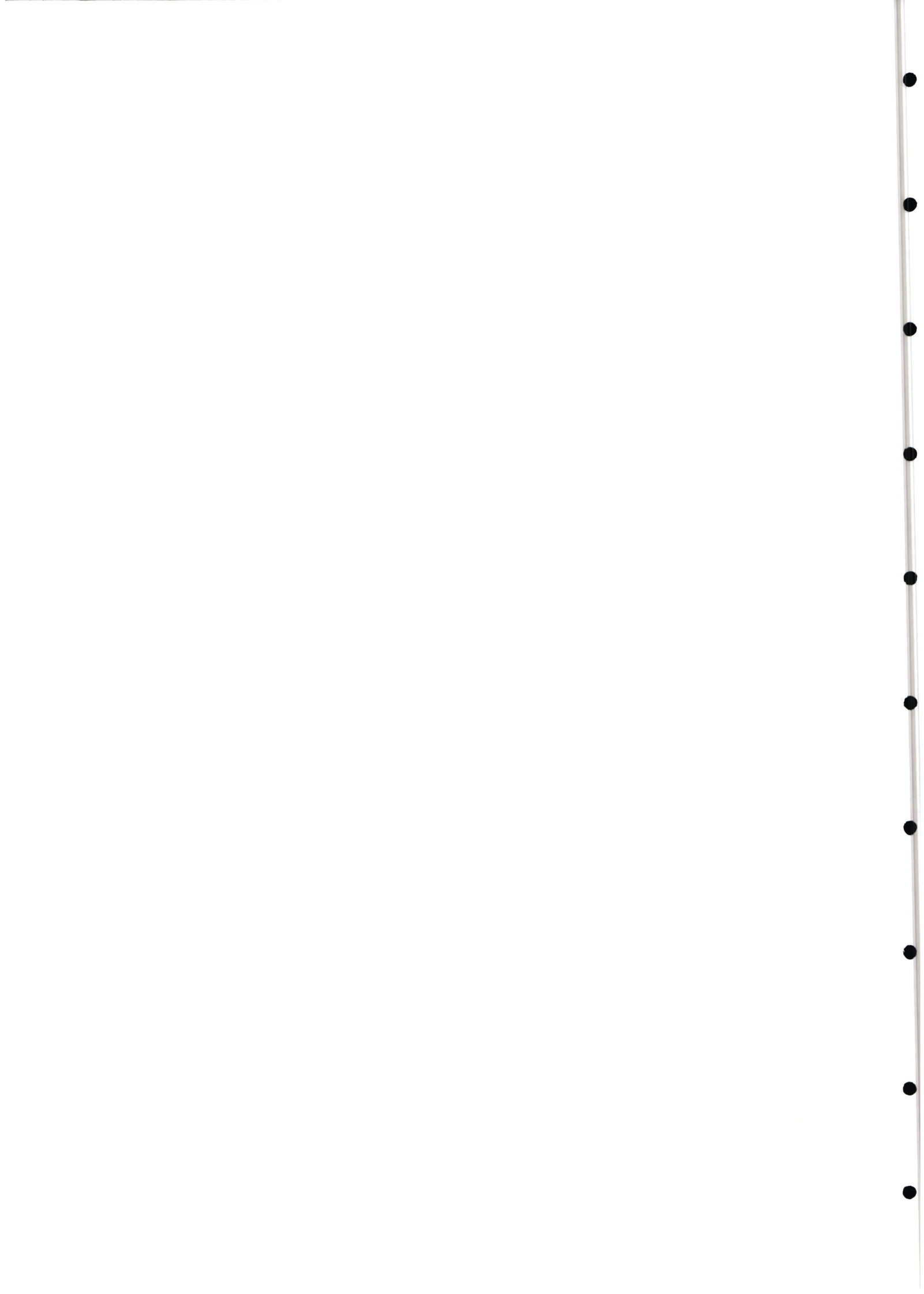
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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT AND FINANCIAL STATEMENTS

AT .

30 JUNE 2010



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2010**

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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION

DIRECTORS

Martin K. Muragu
Isaac B. Mogaka
Peter M. Kimurwa
Abdirahman Yare Haji
Albert Ruturi
Bernard G. Njuguna
Richard N. Wanjalla
Mohamed A. Mohamed
Permanent Secretary, Ministry of Trade
Permanent Secretary, Treasury

Chairman
Executive Director-Retired 19 March 2010
Executive Director-Appointed 14 June 2010

Alternate: Margaret M. Byama, HSC
Alternate: Daniel Mutua

SECRETARY

Grace M. Magunga
PO Box 45519
00100 Nairobi

AUDITORS

KPMG Kenya
PO Box 40612
00100 Nairobi
On behalf of:
The Auditor-General
PO Box 30084
00100 Nairobi

REGISTERED OFFICE

Uchumi House
Aga Khan Walk
PO Box 45519
00100 Nairobi

BANKERS

Kenya Commercial Bank Limited
Moi Avenue
P.O. Box 30081
00100 Nairobi

Commercial Bank of Africa Limited
Wabera Street
PO Box 30437
00100 Nairobi

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 30 JUNE 2010**

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 2010 in accordance with Section 15(4) of the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445).

1. **Principal activities**

The principal activities of the Corporation are investment in venture capital, lending for commercial and industrial purposes and offering consultancy and related management advisory services.

2. **Results for the year**

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

3. **Dividends**

The directors do not recommend the payment of a dividend for the year ended 30 June 2010 (2009 – Nil).

4. **Directors**

The directors of the Corporation who served since 1 July 2009 are set out on page 1.

5. **Auditors**

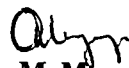
The Auditor-General is responsible for the statutory audit of the Corporation's books of account in accordance with Sections 14 and 39(i) of the Public Audit Act, 2003 which empowers the Auditor-General to nominate other auditors to carry out the audit on his behalf.

KPMG Kenya was appointed by the Auditor-General to carry out the audit for the year ended 30 June 2009 and 2010.

6. **Approval of financial statements**

The financial statements were approved at a meeting of the Directors held on 18th November 2010

BY ORDER OF THE BOARD


Grace M. Magunga
Secretary

Date: 18th November 2010

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of ICDC set out on pages 6 to 39 which comprise the statement of financial position as at 30 June 2010, 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.

The Directors responsibility includes: determining that the basis of accounting described in note 2 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 are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the Directors to ensure the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation.


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 ICDC 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 Corporation 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 Corporation's ability to continue as a going concern and have no reason to believe the Corporation will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Corporation's Board of Directors on 15th November 2010 and were signed on its behalf by:


Chairman
Executive Director



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL & COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2010

The Financial Statements of Industrial & Commercial Development Corporation for the year ended 30 June 2010 set out at pages 6 to 39, which comprise the Statement of Financial Position as at 30 June 2010, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by KPMG Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the 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 judgement, including the assessments 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 Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

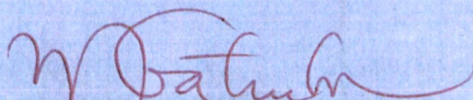
I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Grants and Loans

- (i) Disclosed in Note 26 are grants and loans totalling Kshs.957,389,751 (2009-Kshs.948,941,930). The respective loan agreements were not however made available and therefore the terms of such agreements could not be verified. As in the previous year, the Corporation has explained that there were no formal agreements between ICDC and the Government, and that a reconciliation of the loans balance is under process to determine the quantum and treatment of Government obligations in the books. In addition, the grants and loans balance includes managed funds totalling to Kshs.96,870,390, which were on-lent to companies that are no longer performing or are under receivership or liquidation. Similar to the previous year, no provision for losses in respect of these funds has been made in the financial statements.
- (ii) According to information available, the Corporation charged interest expense amounting to Kshs.8,447,815 during the year. However, and as previously reported, the basis of the expense could not be ascertained.
- (iii) Grants have been disclosed under non-current liabilities, contrary to International Accounting Standard (IAS) No.20 - Accounting for Government Grants and Disclosures of Government Assistance, which requires that such grants be credited directly to reserves.

Opinion

Except for the foregoing reservations, in my opinion, the financial statements present fairly, in all material respects the financial position of the Corporation as at 30 June 2010 and its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Industrial & Commercial Development Corporation Act (Cap. 445 of the Laws of Kenya)


A. S. M. Gatumbu
AUDITOR GENERAL

Nairobi

28 December 2010

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs	2009 KShs
Income			
Operating income	7	2,345,117,012	2,146,921,933
Other income	8	<u>128,580,065</u>	<u>23,492,582</u>
		<u>2,473,697,077</u>	<u>2,170,414,515</u>
Expenses			
Administration and establishment expenses	9	(242,990,770)	(234,177,802)
Impairment losses	10	<u>(1,933,763,638)</u>	<u>(1,702,571,084)</u>
		<u>(2,176,754,408)</u>	<u>(1,936,748,886)</u>
Operating profit		296,942,669	233,665,629
Finance charges	11	<u>(8,447,815)</u>	<u>(8,447,815)</u>
Profit before tax		288,494,854	225,217,814
Income tax expense	13	<u>-</u>	<u>-</u>
Net profit for the year		<u>288,494,854</u>	<u>225,217,814</u>
Other comprehensive income			
Change in fair value of quoted and unquoted investments		<u>1,454,993,128</u>	<u>(1,465,349,085)</u>
Total comprehensive income/(loss) for the year		<u>1,743,487,982</u>	<u>(1,240,131,271)</u>


The notes set out on pages 10 to 39 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	2010 KShs	2009 KShs
ASSETS			
Non-current assets			
Investment in quoted companies	14	3,067,859,479	2,202,599,482
Investment in unquoted companies	15	6,093,923,179	5,384,190,098
Investment in Government securities	16(a)	68,423,100	68,423,100
Loans	17(a)	145,175,816	127,808,329
Advances	18	-	-
Intangible assets	19	17,289,053	16,169,296
Prepaid operating leases	20	8,159,421	8,925,144
Property and equipment	21	<u>715,152,098</u>	<u>714,031,919</u>
		<u>10,115,982,146</u>	<u>8,522,147,368</u>
Current assets			
Loans	17(a)	708,799,555	624,005,357
Related companies current accounts	22	31,226,370	15,924,034
Sundry debtors	23	142,832,582	123,473,008
Government securities and short term deposits	16(b)	819,204,590	835,529,598
Bank and cash balances	24	<u>41,095,743</u>	<u>24,900,384</u>
		<u>1,743,158,840</u>	<u>1,623,832,381</u>
TOTAL ASSETS		<u>11,859,140,986</u>	<u>10,145,979,749</u>
RESERVES, GRANTS AND LIABILITIES			
Reserves (page 9)			
Capital reserves	25	1,909,590,447	1,909,590,447
Fair value reserves	25	8,121,945,779	6,666,952,651
Retained earnings		<u>682,813,875</u>	<u>394,319,021</u>
		<u>10,714,350,101</u>	<u>8,970,862,119</u>
Grants and non-current liabilities			
Grants and loans	26	<u>957,389,751</u>	<u>948,941,930</u>
Current liabilities			
Creditors	27	62,401,134	101,175,700
Dividend payable	28	<u>125,000,000</u>	<u>125,000,000</u>
		<u>187,401,134</u>	<u>226,175,700</u>
TOTAL RESERVES, GRANTS AND LIABILITIES		<u>11,859,140,986</u>	<u>10,145,979,749</u>

The financial statements on pages 6 to 39 were approved by the Board of Directors on
and were signed on its behalf by:


Chairman

18-11-2010

Executive Director

The notes set out on pages 10 to 39 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 KShs	2009 KShs
Cash flow from operating activities			
Cash generated from operations	29(a)	<u>125,934,800</u>	<u>417,491,813</u>
Investing activities			
Purchase of property and equipment	21	(19,576,486)	(71,515,369)
Purchase of intangible asset	19	(6,059,480)	(16,169,302)
Proceeds from sale of equipment/property		121,733,202	3,206,118
Loans advanced and interest charged thereon		(102,161,685)	(343,039,246)
Increase in investment in unquoted investments		(120,000,000)	-
Decrease/(increase) in advance - Other companies		-	<u>2,060,705</u>
Cash outflows from investing activities		(126,064,449)	(425,457,094)
Financing activities			
Repayment of Government of Kenya loans	26	-	(20,000,000)
Cash outflows from financing activities		-	(20,000,000)
Increase in cash and cash equivalents	29(b)	(129,649)	(27,965,281)

The notes set out on pages 10 to 39 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Capital reserves KShs	Fair value reserves KShs	Retained earnings KShs	Total reserves KShs
2009:				
At 1 July 2008	1,909,590,447	8,132,301,736	169,101,207	10,210,993,390
Comprehensive income				
Net profit for the year	-	-	225,217,814	225,217,814
Other comprehensive income				
Fair value adjustment	-	(1,465,349,085)	-	(1,465,349,085)
Total comprehensive income/(loss) for the year	-	(1,465,349,085)	225,217,814	(1,240,131,271)
At 30 June 2009	<u>1,909,590,447</u>	<u>6,666,952,651</u>	<u>394,319,021</u>	<u>8,970,862,119</u>
2010:				
At 1 July 2009	1,909,590,447	6,666,952,651	394,319,021	8,970,862,119
Comprehensive income				
Net profit for the year	-	-	288,494,854	288,494,854
Other comprehensive income				
Fair value adjustment	-	1,454,993,128	-	1,454,993,128
Total comprehensive income for the year	-	1,454,993,128	288,494,854	1,743,487,982
At 30 June 2010	<u>1,909,590,447</u>	<u>8,121,945,779</u>	<u>682,813,875</u>	<u>10,714,350,101</u>

The notes set out on pages 10 to 39 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2010**

1. REPORTING ENTITY

The Corporation is incorporated as a Government Parastatal in Kenya under a Kenyan Act of Parliament Cap 445, Laws of Kenya. The address of its registered office is as follows:

Uchumi House
Aga Khan Walk
PO Box 45519
00100 Nairobi GPO

2. BASIS OF PREPARATION

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(ii) Basis of measurement

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property and equipment.

(iii) Use of estimates and judgements

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 recognised 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.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

(iv) Functional and presentation currency

The financial statements are presented in Kenya Shillings, which is the Corporation's functional currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest shilling.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

Consolidated financial statements of the Corporation and its subsidiaries are not prepared owing to the absence of control or nature of the shareholding in the subsidiaries.

The Corporation does not have power, directly or indirectly, to govern the financial and operating activities of the subsidiaries and associates so as to obtain benefits from the activities.

(b) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the statement of comprehensive income in the year in which they arise.

(c) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Motor vehicles	20%
Furniture and office equipment	10%
Computers	33.3%

Leasehold land and buildings are amortised over the remaining period of the lease term.

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

The assets residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

Assets acquired during the year are not subject to depreciation in the year of purchase but full depreciation is charged on these assets in the year of disposal.

(d) Intangible assets

The costs incurred to acquire and bring to use specific computer software licences are capitalised. The costs are amortised on a straight line basis over the expected useful lives, not exceeding three years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Capital reserves

Capital gains on the disposal of investments in other companies, and of property and equipment are appropriated to capital reserves in the year of disposal. Losses on such disposal are written off to statement of comprehensive income.

(f) Managed funds

No provision is made against investments and loans financed by the Government funds received by the Corporation merely to manage such funds.

(g) Income

Income earned is brought into the accounting period on the following basis:

- (i) Interest on loans, rents and management fees include income received and accrued during the accounting period.
- (ii) Dividends are taken into account when declared and reasonable evidence is available that they have become due and receivable during the accounting period.

(h) Prepaid operating leases

Leases on assets under which all risks and benefits of ownership are effectively retained by the Lessor are classified as operating leases. Payments made under operating Leases are charged to the statement of comprehensive income on a straight-line basis over the period of their lease.

(i) Financial instruments

(i) Classification

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. Management determines the classification of its investments at initial recognition. Financial instruments are classified as follows:

Financial assets at fair value through profit and loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides money directly to a debtor, with no intention of trading the receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(i) *Classification - continued*

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has the positive intent and ability to hold to maturity. Were the Corporation 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 Corporation 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.

(ii) *Recognition and measurement*

The Corporation recognises 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 recognised directly in the equity and for financial assets at fair value through profit and loss.

(iii) *Derecognition*

A financial asset is derecognised when the Corporation loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

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

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Corporation.

(iv) *Identification and measurement of impairment of financial assets*

At each balance sheet date the Corporation 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(iv) Identification and measurement of impairment of financial assets - continued

Loans and advances are stated at cost, net of suspended interest and provisions for doubtful amounts. The Corporation establishes an allowance for impairment losses that represent its estimate of losses in respect of financial assets that are past due or individually assessed as impaired. The corporation policy is to make allowances for impairment losses on accounts that are six months past due. The value of any collateral held against such assets is taken into account in arriving at the impairment loss held against them.

Impairment losses on assets carried at amortised 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 recognised in profit or loss and reflected in an allowance account against loans and advances.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised 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 recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(j) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(k) Taxation

Income tax expense comprises current tax and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Grants and donations

Income grants related to specific projects identified by donors are held in reserves and reduced by provisions against specific projects that are considered bad or doubtful. Any grant or donation received to compensate expenses or for the purpose of giving immediate operational support is dealt with in the statement of comprehensive income in the year it is received.

(m) Employee benefits

(i) Pension obligations

The Corporation operates a defined contribution pension scheme for all its employees. The assets of the scheme are held in a separate administered fund that is funded by both the Corporation and the employees.

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

The Corporation's contributions to the above schemes are charged to the statement of comprehensive income in the year to which they relate.

(ii) Employee entitlements

The monetary liability for employees accrued annual leave entitlement at the balance sheet date is recognized as an accrued expense.

(n) Provisions

Provisions are recognised 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.

(o) Impairment for non-financial assets

The carrying amounts of the Corporation'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 recognised 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 Corporation. Impairment losses are recognised in profit or loss. Impairment losses recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment for non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For property and equipment, the fair value is determined by the Corporation's qualified valuers based on an open market value basis.

(p) 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 and treasury bills maturing within three months from date of acquisition.

(q) Related party transactions

The Corporation 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.

(r) Finance charges

Finance charges represent interest on loans. The interest is recognised as it accrues in the statement of comprehensive income using the effective interest method.

(s) Comparatives

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

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2010, and have not been applied in preparing these financial statements:

IFRS 9 *Financial Instruments* retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised costs and fair value. The basis for classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 will become mandatory for the Corporation's 2014 financial statements and is not expected to have a significant effect on the financial statements.

IAS 24 *Related Party Disclosures* amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. The amendment to IAS 24 will become mandatory for the Corporation's 2011 financial statements and are expected to have an impact on the presentation of related party information in the Corporation's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) New standards and interpretations not yet adopted (continued)

The amendment to IAS 17 Leases clarifies that when a lease includes both land and buildings elements, an entity assess the classification of each element as a finance of an operating lease separately. In the case of land, in determining whether the land is an operating lease or a finance lease, the entity should consider:

- The fact that the land normally has an indefinite economic life;
- The present value of the residual value of the land may be negligible; and
- Although the title of the land is not transferred to the lessee, substantially all risks and rewards are transferred to the lessee.

As such, the amendment to IAS 17 allows for the classification of leasehold land as a finance lease. These changes will become mandatory for the corporation's 2011 financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

(i) *Income taxes*

The Corporation is subject to income taxes in Kenya. Significant judgment is required in determining the Corporation's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognises 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.

(ii) *Impairment of financial assets (including loans and advances and investments)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) *Impairment of financial assets (including loans and advances and investments) - continued*

The Corporation considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in a provision account against the financial asset. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(iii) *Estimation of fair value of unquoted equity investments*

Management has made the following significant estimates and assumptions in determining the fair values of unquoted securities:

- The determination of the comparable quoted companies that have similar characteristics as the Corporation and whose price-earnings ratios have been used to fair value the Corporation's investments in unquoted securities;
- The determination of whether the average net assets of the unquoted investee companies are reflective of the fair values of these unquoted investee companies; and

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(iii) *Estimation of fair value of unquoted equity investments*

- The determination of the weighting that should be allocated to the valuation based on the price-earnings ratio vis-à-vis the valuation based on the net assets of the unquoted investee companies. Management has assigned equal weights to the two criteria.

(b) Critical judgements in applying the entity's accounting policies

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

- Classification of financial assets and leases; and
- Whether assets are impaired.

5. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

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

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, 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 Corporation's activities. The Corporation through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Corporation's Audit Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Finance and Investments Committee.

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Finance and Investments Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Corporation's standard payment and delivery terms and conditions are offered. The Corporation's review includes external ratings, when available, and in some cases references. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the Finance and Investments Committee.

Regular audits of business units and the Corporation's Credit processes are undertaken by Internal Audit.

The Corporation established an allowance for impairment losses that represent its estimate of losses in respect of financial assets that are past due or individually assessed as impaired. The value of any collateral held against such assets is taken into account in arriving at the impairment loss held against them.

(i) Credit risk exposure

The Corporation's exposure to credit risk is analysed as follows:

	2010 Gross carrying amount KShs'000	2010 Impairment losses KShs'000	2010 Net carrying amount KShs'000	2009 Net carrying amount KShs'000
Investments in quoted companies	3,074,811,428	(6,951,949)	3,067,859,479	2,202,599,482
Investments in other companies	6,406,553,700	(312,630,521)	6,093,923,179	5,384,190,098
Loans	13,261,984,126	(12,408,008,755)	853,975,371	751,813,685
Advances	76,353,648	(76,353,648)	-	-
Related companies current accounts	840,475,621	(809,249,251)	31,226,370	15,924,034
Sundry debtors	263,894,974	(121,062,392)	142,832,582	123,473,008
	<u>23,924,073,497</u>	<u>(13,734,256,516)</u>	<u>10,189,816,981</u>	<u>8,478,000,307</u>

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) Ageing of financial assets

The ageing of the above financial assets at the reporting date was:

30 June 2010: (KShs)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
ASSETS						
Investments in quoted companies					3,067,859,479	3,067,859,479
Investments in other companies					6,093,923,179	6,093,923,179
Long term loans				145,175,816	-	145,175,816
Government securities					68,423,100	68,423,100
Current portion of loans receivable			708,799,555			708,799,555
Other companies current accounts			31,226,370			31,226,370
Sundry debtors			142,832,582			142,832,582
Short term deposits		819,204,590				819,204,590
Cash and cash equivalents	41,095,743					41,095,743
Total	41,095,743	819,204,590	882,858,507	145,175,816	9,230,205,758	11,118,540,414

30 June 2009: (KShs)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
ASSETS						
Investments in quoted companies	-	-	-	-	2,202,599,482	2,202,599,482
Investments in other companies	-	-	-	-	5,384,190,098	5,384,190,098
Long term loans	-	-	-	127,808,329	-	127,808,329
Government securities	-	-	-	-	68,423,100	68,423,100
Current portion of loans receivable	-	-	624,005,357	-	-	624,005,357
Other companies current accounts	-	-	15,924,034	-	-	15,924,034
Sundry debtors	-	-	123,473,008	-	-	123,473,008
Short term deposits	-	835,529,598	-	-	-	835,529,598
Cash and cash equivalents	24,900,384	-	-	-	-	24,900,384
Total	24,900,384	835,529,598	763,402,399	127,808,329	7,655,212,680	9,406,853,390

(iii) Impairment losses

The movement in the allowance for impairment in respect of financial assets during the year was as follows:

	Balance brought forward	Additions during the year	Write backs during the year	Write offs/Adjustments during the year	Balance carried forward
Investments in quoted companies	6,951,949				6,951,949
Investments in other companies	312,630,521				312,630,521
Loans	11,041,557,313	1,922,107,756	(43,066,218)	(512,590,096)	12,408,008,755
Advances	88,213,613			(11,859,965)	76,353,648
Other companies current accounts	809,672,349	552,074		(975,172)	809,249,251
Sundry debtors	109,097,925	12,196,793	(117,810)	(114,516)	121,062,392
Total	12,368,123,670	1,934,856,623	(43,184,028)	(525,539,749)	13,734,256,516

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation'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 Corporation's reputation.

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 2 years. 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.

In addition to the above, the Corporation has overdraft bank facilities with Kenya Commercial Bank and Commercial Bank of Africa amounting to KShs 40 million and KShs 30 million respectively.

The responsibility for managing daily liquidity assessment resides with the Financial Controller. However, the statement of financial position liquidity management resides with the Corporation's Finance and Investment Committee.

The table below analyses financial liabilities into relevant maturity based on the remaining period at 30 June 2010 to the contractual maturity date.

30 June 2010: (KShs)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
LIABILITIES						
Grant and loans	-	-	-	-	957,389,751	957,389,751
Creditors	-	2,601,001	59,800,133	-	-	62,401,134
Dividends payable	-	-	-	-	125,000,000	125,000,000
Total liabilities	-	2,601,001	59,800,133	-	1,082,389,751	1,144,790,885
30 June 2009: (KShs)						
LIABILITIES						
Grant and loans	-	-	-	-	948,941,930	948,941,930
Creditors	-	2,310,000	98,865,700	-	-	101,175,700
Dividends payable	-	-	-	-	125,000,000	125,000,000
Total liabilities	-	2,310,000	98,865,700	-	1,073,941,930	1,175,117,630

(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 Corporation'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 optimising the return.

(i) 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 Corporation's investments and borrowings.

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

FINANCIAL RISK MANAGEMENT (Continued)

INTEREST RATE RISK ANALYSIS

The table shows the extent to which the Corporation's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

2010:	Effective interest rate %	On demand KShs	Due within 3 months KShs	Due between 3 and 12 months KShs	Due between 1 and 5 years KShs	Due after 5 years KShs	Non interest bearing KShs	Total KShs
Assets								
Non current assets								
Investments in quoted companies		-	-	-	-	-	3,067,859,479	3,067,859,479
Investments in other companies	14.35	-	-	-	-	-	6,093,923,179	6,093,923,179
Investment in Government securities		-	-	-	68,423,100	-	-	68,423,100
Loans	10.56	-	-	-	145,175,816	-	-	145,175,816
Intangible assets		-	-	-	-	-	17,289,053	17,289,053
Prepaid operating lease rentals		-	-	-	-	-	8,159,421	8,159,421
Property and equipment		-	-	-	-	-	715,152,098	715,152,098
Total- non current assets		-	-	-	145,175,816	68,423,100	9,902,383,230	10,115,982,146
Current assets								
Other companies' current accounts		-	-	-	-	-	31,226,370	31,226,370
Sundry debtors		-	-	-	-	-	142,832,582	142,832,582
Loans	10.56	-	-	708,799,555	-	-	-	708,799,555
Government securities & short term investments	7.70	-	819,204,590	-	-	-	-	819,204,590
Bank and cash balances		-	-	-	-	-	41,095,743	41,095,743
Total current assets		-	819,204,590	708,799,555	-	-	215,154,695	1,743,158,840
Total assets		-	819,204,590	708,799,555	145,175,816	68,423,100	10,117,537,925	11,859,140,986
Reserves, grants and liabilities								
Reserves		-	-	-	-	-	10,714,350,101	10,714,350,101
Grants and non current liabilities								
Grants and Government of Kenya loans	5.29	-	-	-	-	957,389,751	-	957,389,751
Current liabilities								
Creditors		-	-	-	-	-	62,401,134	62,401,134
Dividends payable		-	-	-	-	-	125,000,000	125,000,000
Total reserves, grants & liabilities		-	-	-	-	957,389,751	10,901,751,235	11,859,140,986
Interest sensitivity gap		-	819,204,590	708,799,558	145,175,816	(888,966,651)	(784,213,310)	

FINANCIAL RISK MANAGEMENT (Continued)

INTEREST RATE RISK ANALYSIS

2009:	Effective interest rate	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non interest bearing	Total
Assets	%	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Non current assets								
Investments in quoted companies	-	-	-	-	-	-	2,202,599,482	2,202,599,482
Investments in other companies	-	-	-	-	-	-	5,384,190,098	5,384,190,098
Investment in Government securities	14.35	-	-	-	68,423,100	-	-	68,423,100
Loans	10.39	-	-	-	127,808,329	-	-	127,808,329
Intangible assets	-	-	-	-	-	-	16,169,296	16,169,296
Prepaid operating lease rentals	-	-	-	-	-	-	8,925,144	8,925,144
Property and equipment	-	-	-	-	-	-	714,031,919	714,031,919
Total- non current assets								
				127,808,329	68,423,100	8,325,915,939		8,522,147,368
Current assets								
Other companies' current accounts	-	-	-	-	-	-	15,924,034	15,924,034
Sundry debtors	-	-	-	-	-	-	123,473,008	123,473,008
Loans	10.39	-	-	624,005,357	-	-	-	624,005,357
Government securities & short term investments	8.5	-	835,529,598	-	-	-	-	835,529,598
Bank and cash balances	-	-	-	-	-	-	24,900,384	24,900,384
Total current assets								
			835,529,598	624,005,357	127,808,329	68,423,100	164,297,426	1,623,832,381
Total assets								
			835,529,598	624,005,357	127,808,329	68,423,100	8,490,213,365	10,145,979,749
Reserves, grants and liabilities								
Reserves	-	-	-	-	-	-	8,970,862,119	8,970,862,119
Grants and non current liabilities								
Grants and Government of Kenya loans	5.29	-	-	-	-	948,941,930	-	948,941,930
Current liabilities								
Creditors	-	-	-	-	-	-	101,175,700	101,175,700
Dividends payable	-	-	-	-	-	-	125,000,000	125,000,000
Total reserves, grants & liabilities								
			-	-	-	948,941,930	226,175,700	226,175,700
Interest sensitivity gap								
		835,529,598	624,005,357	127,808,329	(880,518,830)	(706,824,454)	-	-

5 FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

Sensitivity analysis on interest rates

An increase of 1 percentage point in interest rates at the reporting date would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2009:

Effect in Shillings

	Statement of comprehensive income	
	2010 KShs	2009 KShs
Loans and advances	8,539,754	7,518,137

A decrease of 1 percentage point in interest rates at the reporting date would have had an equal but opposite effect on the profit and loss, on the basis that all other variables remain constant.

(ii) Equity prices

The Corporation 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.

At 30 June 2010, if the prices of all equity investments had increased/decreased by 5% with all other variables held constant, the increase in net assets available for benefits for the year would have been KShs 153,392,973 (2009 – KShs 110,129,974) higher/lower.

5 FINANCIAL RISK MANAGEMENT (Continued)

Equity prices (Continued)

This is analysed in the table below:

Equity	No of shares	Market price 2010	Market Value 2010	Price changes analysis (5%) 2010
Commercial and Services				
Safaricom Limited	2,975,200	5.80	17,256,160	862,808
Kenya Airways Limited	53,500	46.75	2,501,126	125,056
Access Kenya Limited	82,000	20.25	1,660,500	83,025
			21,417,786	1,070,889
Finance and Investment				
Nation Media Group	14,600	140.00	2,044,000	102,200
Centum Investments Company Ltd	129,304,130	22.25	2,877,221,293	143,850,845
Standard Chartered Bank Ltd	14,700	222.00	3,263,400	163,170
Jubilee Holdings Limited	15,000	170.00	2,550,000	127,500
Barclays Bank of Kenya	39,200	61.50	2,410,800	120,540
			2,887,489,493	144,374,475
Industrial and Allied				
Eveready Batteries Limited	36,583,575	4.00	146,334,300	7,316,715
British American Tobacco	17,000	215.00	3,655,000	182,750
Kenya Power & Lighting Ltd	12,200	200.00	2,440,000	122,000
Total Kenya Limited	93,600	28.50	2,667,600	133,380
East African Breweries Ltd	21,300	181.00	3,855,300	192,765
			158,952,200	7,947,610
Total			3,067,859,479	153,392,974

(iii) *Currency risk*

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation'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 Corporation's operations.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation'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 Corporation rests with the Board of Directors. Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk.

(e) Capital management

The Corporation is governed by the Industrial and Commercial Development Corporation Act Cap 445, Laws of Kenya, which does not provide for a capital structure.

6. FINANCIAL ASSETS AND LIABILITIES AND THEIR FAIR VALUES

The table below sets out the Corporation's classification of each class of financial assets and liabilities, and their fair values:

	Held for trading KShs	Held to maturity KShs	Loans and receivables KShs	Available-for-sale KShs	amortised cost KShs	Other KShs	Total carrying amount KShs	Fair values KShs
As at 30 June 2010								
Assets								
Investments in quoted companies	-	-	-	3,067,859,479	-	-	3,067,859,479	3,067,859,479
Investments in other companies	-	-	-	6,093,923,179	-	-	6,093,923,179	6,093,923,179
Investments in Government securities	-	68,423,100	-	-	-	-	68,423,100	68,423,100
Loans	-	-	853,975,371	-	-	-	853,975,371	853,975,371
Current accounts	-	-	-	-	31,226,370	-	31,226,370	31,226,370
Sundry debtors	-	-	-	-	142,832,582	-	142,832,582	142,832,582
Short term deposits	-	-	-	-	819,204,590	-	819,204,590	819,204,590
Cash and cash equivalents	-	-	-	-	41,095,743	-	41,095,743	41,095,743
Total assets	-	68,423,100	853,975,371	9,161,782,658	1,034,359,285	-	11,118,540,414	11,118,540,414
Liabilities and shareholders' funds								
Government loans and grants	-	-	-	-	957,389,751	-	957,389,751	957,389,751
Total liabilities	-	-	-	-	957,389,751	-	957,389,751	957,389,751
As at 30 June 2009								
Assets								
Investments in quoted companies	-	-	-	2,202,599,482	-	-	2,202,599,482	2,202,599,482
Investments in other companies	-	-	-	5,384,190,098	-	-	5,384,190,098	5,384,190,098
Investments in Government securities	-	68,423,100	-	-	-	-	68,423,100	68,423,100
Loans	-	-	751,813,686	-	-	-	751,813,686	751,813,686
Current accounts	-	-	-	-	15,924,034	-	15,924,034	15,924,034
Sundry debtors	-	-	-	-	123,473,008	-	123,473,008	123,473,008
Short term deposits	-	-	-	-	835,529,598	-	835,529,598	835,529,598
Cash and cash equivalents	-	-	-	-	24,900,384	-	24,900,384	24,900,384
Total assets	-	68,423,100	751,813,686	7,586,789,580	999,827,024	-	9,406,853,390	9,406,853,390
Liabilities and shareholders' funds								
Government loans and grants	-	-	-	-	948,941,930	-	948,941,930	948,941,930
Total liabilities	-	-	-	-	948,941,930	-	948,941,930	948,941,930

The standard requires disclosure of fair values of all financial instruments. Other than investments in quoted companies that are actively traded in the market, the other financial instruments have been disclosed at amortised cost. The market has not developed a standard yield curve that can be used to fair value securities held to maturity (HTM), that are not actively traded in the market. The total HTM portfolio is therefore reflected at amortised cost. Loans and advances are not actively traded in the market, rendering fair valuation impractical. Consequently, these have been disclosed at amortised cost.

	2010 KShs	2009 KShs
7. INCOME		
Dividends	151,603,471	81,391,659
Interest on loans and advances	1,954,665,090	1,656,770,503
Application fees	1,710,500	7,016,000
Valuation fees and other services	27,487,397	5,046,875
Rental income	85,414,031	79,995,057
Interest on deposits	81,170,305	83,372,206
Write back on provision for sundry debtors and related companies' current accounts	-	116,503,167
Write back on provisions for loans and advances	<u>43,066,218</u>	<u>116,826,466</u>
	<u>2,345,117,012</u>	<u>2,146,921,933</u>
8. OTHER INCOME		
Profit on disposal of equipment	121,088,748	3,206,118
Sundry income	<u>7,491,317</u>	<u>20,286,464</u>
	<u>128,580,065</u>	<u>23,492,582</u>
9. ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Staff costs	134,582,687	114,062,077
Directors' fees and other	9,248,555	10,988,770
Rent and rates	2,512,990	4,544,150
Audit fees	2,661,000	2,310,000
Revaluation loss on furniture and office equipment	-	3,171,001
Depreciation (Note 21)	18,297,974	17,838,060
Amortisation – prepaid leases (Note 20)	121,268	121,268
Amortisation – intangible assets (Note 19)	4,939,723	691,902
Repairs and maintenance	4,328,857	3,780,021
Insurance	3,840,395	2,889,825
Bank charges	793,524	861,899
Printing and stationery	2,491,329	1,547,832
Water and electricity	16,025,466	15,442,184
Publicity and advertising	9,118,513	7,431,515
Telephone and telex	2,170,130	2,374,493
Donations and other contributions	200,000	120,000
Travelling and subsistence	4,068,334	5,625,298
Motor vehicle running	1,553,656	1,903,173
Professional expenses	1,253,046	3,135,766
Computer expenses	3,857,346	3,077,337
Legal fees	5,094,712	8,383,131
Provision for legal case	-	5,000,000
Uchumi House security	7,207,200	6,552,000
VAT and other taxes	2,741,062	6,222,430
Subscriptions	937,175	786,433
Uchumi House administration	3,826,952	3,905,838
Other	<u>1,118,876</u>	<u>1,411,399</u>
	<u>242,990,770</u>	<u>234,177,802</u>

The number of employees at the end of the year was 65 (2009 – 65).

Included in staff costs are contributions to a defined contribution retirement benefit plan. During the year, the company expenses KShs 5,563,651 (2009 – KShs 4,812,623) in contributions payable.

	2010 KShs	2009 KShs
10. IMPAIRMENT LOSSES		
Arising from:		
Loans	1,922,107,756	1,638,992,600
Equity investments	-	55,503,358
Sundry debtors	<u>11,655,882</u>	<u>8,075,126</u>
	<u>1,933,763,638</u>	<u>1,702,571,084</u>

11. FINANCE CHARGES

Interest on Government of Kenya loans	<u>8,447,815</u>	<u>8,447,815</u>
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12. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

Depreciation	18,297,974	17,838,060
Amortisation – prepaid leases	121,269	121,268
Amortisation – intangible assets	4,939,723	691,902
Directors' emoluments: - Personal remunerations	9,248,555	9,661,288
- Gratuity	1,068,000	1,327,482
Auditors' remuneration	<u>2,661,000</u>	<u>2,310,000</u>

13. TAXATION

Income tax expense

Current tax at 30%	-	-
Deferred tax expense	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The tax on the Corporation's profit differs from the theoretical amount using the basic tax rate as follows:

	2010 KShs '000	2009 KShs '000
Accounting profit before taxation	<u>288,494,854</u>	<u>225,217,814</u>
Computed tax using the applicable tax rate at 30%	86,548,456	67,565,344
Non-deductible costs and non-taxable income	(54,159,871)	(59,938,115)
Deferred income tax not recognised	<u>(32,388,585)</u>	<u>(7,627,229)</u>
Income tax expense	<u>-</u>	<u>-</u>

A deferred tax asset estimated at KShs 2,177,740,285 (2009 – KShs 2,371,536,171) has not been recognised in these financial statements as the directors are of the opinion that the benefit will not crystallise in the foreseeable future.

13. TAXATION (Continued)

Deferred tax asset - unrecognised

The movement in the deferred tax asset is as follows:

2010:	At 1 July 2009 KShs	Movement in the year KShs	At 30 June 2010 KShs
Property and equipment	480,875	3,217,206	3,698,081
Provisions	(2,082,428,786)	158,190,095	(1,924,238,691)
Tax losses	(289,588,260)	32,388,585	(257,199,675)
	<u>(2,371,536,171)</u>	<u>193,795,886</u>	<u>(2,177,740,285)</u>
2009:	At 1 July 2008 KShs	Movement in the year KShs	At 30 June 2009 KShs
Property and equipment	(2,863,969)	3,344,844	480,875
Provisions	(2,166,764,459)	84,335,673	(2,082,428,786)
Tax losses	(297,215,489)	7,627,229	(289,588,260)
	<u>(2,466,843,917)</u>	<u>95,307,746</u>	<u>(2,371,536,171)</u>

14. INVESTMENT IN QUOTED COMPANIES	2010 KShs	2009 KShs
Investment in shares	3,662,700,523	3,662,700,523
Less: Fair value losses	(594,841,044)	(1,460,101,041)
	<u>3,067,859,479</u>	<u>2,202,599,482</u>

15. INVESTMENT IN UNQUOTED COMPANIES	2010 KShs	2009 KShs
Investment in shares	5,863,682,746	5,743,682,746
Add: Fair value gain/(losses)	230,240,433	(359,492,648)
	<u>6,093,923,179</u>	<u>5,384,190,098</u>

16. GOVERNMENT SECURITIES AND SHORT TERM DEPOSITS

(a) Treasury bonds – Held to Maturity

	2010 KShs	2009 KShs
Maturing after 90 days	<u>68,423,100</u>	<u>68,423,100</u>

The Treasury bonds will mature on 14 March 2016. The effective interest rate on treasury bonds at 30 June 2010 was 14.35% (2009 – 14.35%).

16. GOVERNMENT SECURITIES AND SHORT TERM DEPOSITS (Continued)

	2010 KShs	2009 KShs
(b) Maturing within 90 days		
Short term deposits	<u>819,204,590</u>	<u>835,529,598</u>
	<u>819,204,590</u>	<u>835,529,598</u>

The weighted average effective interest rate on short term deposits was 7.70% (2009-8.5%)

17. LOANS	2010 KShs	2009 KShs
(a) Outstanding loans		
Large and medium loans		
Loans to significant companies	674,303,124	583,983,163
Less: Impairment losses (Note 17 (b))	(216,670,200)	(216,670,200)
Total large and medium loans	<u>457,632,924</u>	<u>367,312,963</u>
Small loans		
Commercial	7,046,034,845	6,211,910,471
Property	746,477,111	747,841,677
Industrial	3,559,352,790	3,053,953,920
Machinery	227,491,269	424,162,363
ICDC/General Motors Kenya Limited/ Kenya Breweries Limited	9,202,371	7,882,400
Personal loans	154,140,142	23,316,529
ICDC – Kenya Bus Services Limited	19,241,074	16,838,211
Hire purchase	23,359,636	42,615,594
Corporate	782,131,102	680,866,670
Unclassified loans	<u>20,250,662</u>	<u>-</u>
	12,587,681,002	11,209,387,835
Less: Impairment losses (Note 17 (b))	(12,191,338,555)	(10,824,887,113)
Total small loans	<u>396,342,447</u>	<u>384,500,722</u>
Total loans	<u>853,975,371</u>	<u>751,813,685</u>
<i>Classified as:</i>		
Due within one year	708,799,555	624,005,357
Due after one year	<u>145,175,816</u>	<u>127,808,328</u>
Total loans	<u>853,975,371</u>	<u>751,813,685</u>

The weighted average effective interest rate on loans and advances at 30 June 2010 was 10.56% (2009 - 10.39%).

17. LOANS (Continued)	2010 KShs	2009 KShs
(b) Impairment losses on loans		
As at 1 July	11,041,557,313	9,670,868,390
Increase in impairment	1,922,107,756	1,638,992,600
Impairment losses no longer required	(43,066,218)	(116,826,466)
Loans written off	(512,590,096)	(151,477,211)
	<u>12,408,008,755</u>	<u>11,041,557,313</u>
Comprising of:		
Large and medium loans	216,670,200	216,670,200
Small loans	<u>12,191,338,555</u>	<u>10,824,887,113</u>
Total loans	<u>12,408,008,755</u>	<u>11,041,557,313</u>
18. ADVANCES		
Loans to significant companies	22,475,664	34,335,630
Other companies	<u>53,877,983</u>	<u>53,877,983</u>
	76,353,647	88,213,613
Less: Impairment losses	(76,353,647)	(88,213,613)
	<u>=====</u>	<u>=====</u>
19. INTANGIBLE ASSETS		
Cost		
As at 1 July	20,473,472	4,304,170
Additions in the year	<u>6,059,480</u>	<u>16,169,302</u>
As at 30 June	<u>26,532,952</u>	<u>20,473,472</u>
Amortisation		
As at 1 July	4,304,176	3,612,274
Charge for the year	<u>4,939,723</u>	<u>691,902</u>
As at 30 June	<u>9,243,899</u>	<u>4,304,176</u>
Net book value at 30 June	<u>17,289,053</u>	<u>16,169,296</u>
20. PREPAID OPERATING LEASES		
Cost		
At 1 July	9,167,680	9,167,680
Disposal	(668,621)	-----
At 30 June	<u>8,499,059</u>	<u>9,167,680</u>
Amortisation		
At 1 July	242,536	121,268
Charge for the year	121,268	121,268
Disposal	(24,166)	-----
At 30 June	<u>339,638</u>	<u>242,536</u>
Net book value at 30 June	<u>8,159,421</u>	<u>8,925,144</u>

These relate to costs of leasehold land owned by the Corporation.

21. PROPERTY AND EQUIPMENT

2010:	Buildings KShs	Motor vehicles KShs	Furniture and office equipment KShs	Total KShs
Cost/valuation				
At 1 July 2009	687,471,995	23,451,350	40,387,923	751,311,268
Additions	1,696,459	7,590,500	10,289,527	19,576,486
Adjustment	-	(212,074)	-	(212,074)
Disposals	-	-	(50,000)	(50,000)
At 30 June 2010	<u>689,168,454</u>	<u>30,829,776</u>	<u>50,627,450</u>	<u>770,625,680</u>
Comprising:				
Cost	78,143,858	30,829,776	10,289,527	119,263,161
Valuation	<u>611,024,596</u>	<u>-</u>	<u>40,337,923</u>	<u>651,362,519</u>
	<u>689,168,454</u>	<u>30,829,776</u>	<u>50,627,450</u>	<u>770,625,680</u>
Depreciation				
At 1 July 2009	20,572,915	16,706,434	-	37,279,349
Disposals	-	-	-	-
Adjustment	-	(339,941)	236,200	(103,741)
Charge for the year	<u>11,114,985</u>	<u>2,286,927</u>	<u>4,896,062</u>	<u>18,297,974</u>
At 30 June 2010	<u>31,687,900</u>	<u>18,653,420</u>	<u>5,132,262</u>	<u>55,473,582</u>
Net book value				
At 30 June 2010	<u><u>657,480,554</u></u>	<u><u>12,176,356</u></u>	<u><u>45,495,188</u></u>	<u><u>715,152,098</u></u>
2009:				
Cost/valuation				
At 1 July 2008	639,879,963	32,741,331	105,749,704	778,370,998
Additions	47,592,032	-	23,923,337	71,515,369
Revaluation loss	-	-	(89,285,114)	(89,285,114)
Disposals	-	(9,289,981)	-	(9,289,981)
At 30 June 2009	<u>687,471,995</u>	<u>23,451,350</u>	<u>40,387,923</u>	<u>751,311,268</u>
Comprising:				
Cost	76,447,399	23,451,350	-	99,898,749
Valuation	<u>611,024,596</u>	<u>-</u>	<u>40,387,923</u>	<u>651,412,519</u>
	<u>687,471,995</u>	<u>23,451,350</u>	<u>40,387,923</u>	<u>751,311,268</u>
Depreciation				
At 1 July 2008	10,251,131	23,709,487	80,997,891	114,958,509
Disposals	-	(9,289,981)	-	(9,289,981)
Depreciation written back on revaluation	-	-	(86,227,240)	(86,227,240)
Charge for the year	<u>10,321,784</u>	<u>2,286,928</u>	<u>5,229,349</u>	<u>17,838,060</u>
At 30 June 2009	<u>20,572,915</u>	<u>16,706,434</u>	<u>-</u>	<u>37,279,349</u>
Net book value				
At 30 June 2009	<u><u>666,899,080</u></u>	<u><u>6,744,916</u></u>	<u><u>40,387,923</u></u>	<u><u>714,031,919</u></u>

The Corporation valuer carried out a revaluation of furniture, fittings and equipment as at 30 June 2009 based on open market values. The resulting deficit was written off against income.

21. PROPERTY AND EQUIPMENT (Continued)

The revaluation of Uchumi House was carried out in November 2007 by the Corporation's qualified valuers, based on an open market value. The resulting surplus on revaluation was credited to capital reserves.

Included in the property and equipment are fully depreciated assets whose initial cost was KShs 16,108,810 (2009 – KShs 11,804,680). If they had been depreciated at existing rates, a notional depreciation charge of KShs 3,794,617 (2009 – KShs 2,360,928) would have resulted.

	2010 KShs	2009 KShs
22. RELATED COMPANIES' CURRENT ACCOUNTS		
Current accounts	840,475,621	825,596,383
Less: Impairment losses	(809,249,251)	(809,672,349)
	<u>31,226,370</u>	<u>15,924,034</u>
23. SUNDRY DEBTORS		
Dividends receivable	89,584,757	69,582,597
Receivable from Uchumi House tenants	47,994,996	40,710,140
Recoverable expenses from associate companies	54,193,745	40,802,139
Other debtors	<u>72,121,476</u>	<u>81,476,057</u>
	263,894,974	232,570,933
Less: Impairment losses	(121,062,392)	(109,097,925)
	<u>142,832,582</u>	<u>123,473,008</u>
24. BANK AND CASH BALANCES		
Bank and cash balances	28,425,743	24,900,384
Restricted funds	<u>12,670,000</u>	-
	<u>41,095,743</u>	<u>24,900,384</u>

Restricted funds relate to funds deposited in an escrow account in relation to a suit against the corporation during the year.

25. RESERVES

Capital reserves

Capital reserves comprises of surplus arising from revaluation of buildings and capital gains on disposal of investments in subsidiary and other companies.

Fair value reserves

Fair value reserves comprise of change in fair value of equity investments recognised directly in equity.

26. GRANTS AND LOANS

	2010 KShs	2009 KShs
From Government of Kenya		
<i>Grants:</i>		
Government grants	529,971,270	529,971,270
<i>Loans:</i>		
At 1 July 2010 and 2009	393,472,600	447,545,440
Interest for the year	8,447,821	7,927,190
Sale tax conversion	-	(42,000,000)
Repayment during the year	<u>-</u>	<u>(20,000,000)</u>
	<u>401,920,421</u>	<u>393,472,600</u>
From KFW of West Germany		
<i>Loans:</i>		
At 1 July 2010 and 2009	25,498,060	24,977,430
Interest for the year	<u>-</u>	<u>520,630</u>
Sub total KFW of West Germany	<u>25,498,060</u>	<u>25,498,060</u>
Total grants and loans	<u>957,389,751</u>	<u>948,941,930</u>

(a) From Government of Kenya

Soya Oil & Food Industries Ltd

Included in loans from the Government of Kenya is an amount of KShs 82,665,620 which relates to a bilateral grant given to the Government of Kenya in 1994 by the Government of Belgium in respect of Soya Oil & Food Industries.

Managed funds

Grants and loans include funds disbursed to the following companies being managed funds administered on behalf of the Government of Kenya, and against which no provision for losses is made in accordance with The Corporation's accounting policy stated in Note 3 (f):

	2010 KShs	2009 KShs
Rift Valley Textiles Limited (in receivership) – equity	43,400,000	43,400,000
Kenatco Transport Limited (in receivership) – equity	6,900,000	6,900,000
Kisumu Cotton Mills (1983) Limited (in liquidation) – equity	19,500,000	19,500,000
Pan African Vegetable Products Limited (in liquidation) – equity	1,265,000	1,265,000
Pan Vegetable Processors Limited – equity	15,805,390	15,805,390
South Nyanza Sugar Limited – equity	<u>10,000,000</u>	<u>10,000,000</u>
	<u>96,870,390</u>	<u>96,870,390</u>

There is a proposal to the Government of Kenya to restructure The Corporation's balance sheet. This will include conversion of some of the above loans, grants and managed funds into equity and the balance into term loans at agreed interest rates. The directors are of the opinion that the restructuring proposal will be implemented in the near future.

27. CREDITORS	2010	2009
	KShs	KShs
General creditors	48,663,072	86,759,376
Rent deposit	<u>13,738,062</u>	<u>14,416,324</u>
	<u>62,401,134</u>	<u>101,175,700</u>

28. DIVIDENDS PAYABLE TO GOVERNMENT OF KENYA

The amount relates to dividends declared out of profits for past years up to June 1999. Since that time, the Corporation has been actively pursuing the issue of restructuring of its statement of financial position by Government and one of the proposals is to write back this amount to reserves.

The Board has also observed that the Corporation has no share capital and therefore the issue of declaring a dividend by the Corporation is contentious.

The Corporation is of the view that the Government will in the near future finalize the restructuring of the statement of financial position and thereby conclusively address the issue of dividends due to the Government.

29. NOTES TO THE STATEMENT OF CASHFLOWS

	2010	2009
	KShs	KShs
(a) Reconciliation of profit before taxation to net cash inflow from operating activities		
Profit before tax	288,494,854	225,217,814
Adjustments for:		
Depreciation (Note 21)	18,297,974	17,838,060
Amortisation – prepaid leases (Note 20)	121,268	121,268
Amortisation – intangible assets (Note 19)	4,939,723	691,902
Impairment loss on unquoted equity (Note 10)	-	55,503,360
Interest on Government loans (Note 11)	8,447,815	8,447,815
Gain on disposal of property and equipment (Note 8)	(121,088,748)	(3,206,118)
Effect of property, plant and equipment revaluation	158,390	3,057,854
Increase/(decrease) in creditors	(38,774,566)	11,975,482
Increase in sundry debtors	(19,359,574)	88,436,088
Other adjustments on equity investment	-	34,662,127
Other adjustment on Government of Kenya loans (Note 26)	-	(42,000,000)
Decrease in other companies current accounts	(15,302,336)	<u>16,746,161</u>
Net cash inflow from operating activities	<u>125,934,800</u>	<u>417,491,813</u>
(b) Analysis of cash and cash equivalents		Change in the year
	2010	2009
	KShs	KShs
Government securities and short term investments	819,204,590	835,529,598
Bank and cash balances (Note 24)	<u>41,095,743</u>	<u>24,900,384</u>
	<u>860,300,333</u>	<u>860,429,982</u>
		<u>(129,649)</u>

30. BANK OVERDRAFT

The Corporation has overdraft facilities of KShs 40,000,000 and KShs 30,000,000 with Kenya Commercial Bank Limited (KCB) and Commercial Bank of Africa Limited (CBA) respectively. The overdraft with KCB is secured by legal charge over L.R. No.209/7408 Nairobi while the overdraft with CBA is secured with 55,570,830 shares in Centum Investment Company Limited and 1,556,456 shares in Uchumi Supermarket Limited.

31. RELATED PARTY TRANSACTIONS

Grants and loans

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to finance the operation of the Corporation. The relevant balances are shown in Note 26.

Investment in other related companies

The Corporation invests in other companies with a view to earn dividends and for capital appreciation. The relevant investment balances are shown in Note 14 and 15.

Dividends earned during the year are as follows:	2010 KShs	2009 KShs
Dividends (Note 7)	<u>151,603,471</u>	<u>81,391,659</u>

Dividends earned from investments are declared based on management policies of respective companies where the Corporation has invested.

Advances to other related companies

The Corporation grants advances to companies where they have invested in to finance their operations and working capital requirements. The relevant balances are shown in Note 18 and 22.

Compensation to executive management	2010 KShs	2009 KShs
Short term compensation benefits (salaries)	5,420,968	10,988,770
Executive Director's gratuity	<u>1,068,000</u>	<u>1,488,000</u>
	<u>6,488,968</u>	<u>12,476,770</u>

Loans and advances to staff

Directors	-	733,035
Staff and management	<u>110,370,325</u>	<u>75,893,971</u>
	<u>110,370,325</u>	<u>76,627,006</u>

The Corporation provides loans and advances to staff as benefits based on staff management policies prevailing from time to time.

32. COMMITMENTS

	2010	2009
	KShs	KShs
These include the following:		
Small loans	21,300,000	15,200,000
Capital commitments - approved	<u>9,070,960</u>	<u>33,457,834</u>
	<u>30,370,960</u>	<u>48,657,834</u>

33. CONTINGENT LIABILITIES

As at 30 June 2010, the Corporation had issued guarantees amounting to KShs 13,000,000 (2009 – KShs 38,000,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to KShs 71,579,012 (2009 – KShs 1,913,974) together with the interest thereon and costs of the suits. In addition as per Note 24, the Corporation has deposited Kshs 12,670,000 in a joint interest earning account with the advocates of parties in a suit with the Corporation and obtained a bank guarantee of the same amount in respect of the matter. No provision has been made in these financial statements as the directors are of the opinion that no liability in respect of the above matters will crystallise.

34. FUTURE RENTAL COMMITMENT UNDER OPERATING LEASES

The Corporation's commitments under operating leases are as follows:

	2010	2009
	KShs	KShs
Due within 1 year	89,016,272	68,959,142
After 1 year but less than 5 years	78,518,489	135,800,886
After 5 years	<u>1,033,027</u>	<u>2,962,003</u>
	<u>168,567,788</u>	<u>207,722,031</u>