

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

Library

L.S. LAID No 22	
Member of the	Clerk
Deputy	Staff
Chief A.A.O.	Reporter
Director	Library
P.C.A.	Press

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

PARLIAMENT
OF KENYA
LIBRARY

ON

**THE FINANCIAL STATEMENTS OF
INDUSTRIAL AND COMMERCIAL
DEVELOPMENT CORPORATION FOR
THE YEAR ENDED 30 JUNE 2007**





INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2007



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS	Page
Directors, officers and administration	1
Report of the directors	2
Statement of directors' responsibilities	3
Report of the independent auditors'	4 – 6
Income statement	7
Balance sheet	8
Cash flow statement	9
Statement of changes in equity	10
Notes to the financial statements	11 – 31



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Kent Libiso
I.B. Mogaka
James G. Kahi
Ibrahim M. Abdille
Abungana Khasiani
Elias N. Birichi
Abdirahman Yare Haji
P.S. Ministry of Trade and Industry
P.S. Treasury

Chairman
Executive Director

(Resigned 29 June 2007)

(Appointed 15 August 2007)
Alternate: Amb. Leonard Ngaithe
Alternate: Daniel Mutua

CORPORATION SECRETARY

Grace M. Magunga
PO Box 45519
00100 Nairobi GPO

AUDITORS

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

REGISTERED OFFICE

Uchumi House
Aga Khan Walk
PO Box 45519
00100 Nairobi GPO

BANKERS

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

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2007

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 2007 which disclose the state of affairs of the Corporation, 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 lending for commercial and industrial purposes, participating in joint ventures and offering consultancy and related management advisory services.

2. **Results for the year**

The results for the year are set out on page 7.

3. **Dividends**

The directors do not recommend the payment of a dividend for the year ended 30 June 2007 (2006 – Nil).

4. **Directors**

The directors of the Corporation who served since 1 July 2006 are set out on page 1.

5. **Auditors**

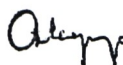
The Controller and Auditor-General is responsible for the statutory audit of the Corporation's books of account in accordance with Sections 14 and 39(i) of the Public Audit Act, 2003 which empowers the Controller and Auditor-General to nominate other auditors to carry out the audit on his behalf.

KPMG Kenya was appointed by the Controller and Auditor-General to carry out the audit for the year ended 30 June 2007.

6. **Approval of financial statements**

The financial statements were approved at a meeting of the Directors held on 29 November 2007.

BY ORDER OF THE BOARD



Grace M. Magunga
Corporation Secretary

Date: 29 November 2007

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 7 to 31 which comprise the balance sheet at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement 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 1 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.

Under the ICDC Act 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.

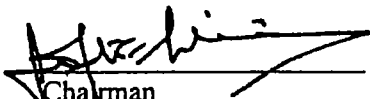
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the ICDC Act. 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 control.

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 Board of Directors on 29 November 2007 and were signed on its behalf by:


Chairman


Executive Director





KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2007

The financial statements of Industrial and Commercial Development Corporation, for the year ended 30 June 2007 as set out on pages 7 to 31 which comprise the balance sheet as at 30 June 2007, income statement, statement of changes in equity, cash flow statement for the year then ended together with a summary of significant accounting policies and other explanatory notes 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.

Directors' Responsibility for the Financial Statements

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

Responsibility of the Controller and Auditor General

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, 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 directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Provision for doubtful debts

The balance sheet reflects non-current and current portion of loans figures of Kshs.52,573,428 (2006 – Kshs.73,306,080) and Kshs.255,196,340 (2006 – Kshs.191,804,960) respectively totalling Kshs.307,769,768 (2006-Kshs.265,111,040) as disclosed in Note 14 to the financial statements. The loan balances are net of provision for bad and doubtful debts of Kshs.8,547,034,442 (2006 – Kshs.7,445,129,780) or 96.5% of loans outstanding as at 30 June 2007. Most of the loans were not adequately secured and have been performing poorly thereby exposing the Corporation to the risk of loss. The Corporation has, however, explained that the bulk of non-performing loans were advanced from the 1960s to 1990s when the Corporation was expected by the Government to play a social dimension role and it could not therefore review its lending policies on timely basis so as to avert accumulation of non-performing loans. The Government has since reviewed the Corporation's mandate which requires it to subject all investments to strict commercial criteria. In view of the inadequacy of security in respect of the old loans and lack of reliable projected loan repayments, it is not possible to confirm recoverability of the outstanding loans for which provision of Kshs.8,547,034,442 (2006 – Kshs.7,445,129,780) has been made in these financial statements.

2. Grants and Loans

Disclosed in Note 21 to the financial statements are grants and loans totalling Kshs.1,014,046,320 (2006 –Kshs.1,005,598,500). Loan agreements were not made available and therefore the terms of such agreements could not be verified. The Corporation has, however, explained that there are no formal agreements between Industrial & Commercial Development Corporation and the Government and that a reconciliation of the loan balances is under process to determine the quantum and treatment of Government loans in the Corporation books. Further the grants and loans balance includes managed funds totalling Kshs.138,870,390 (2006-Kshs.138,870,390) which were on-lent to companies that are non-performing and most of which are either in liquidation or under receivership. No provision for losses in respect of these managed funds has been made in these financial statements. The Corporation is of the

view that the Government will restructure the Corporation's balance sheet and convert the funds to equity and loans at agreed interest rates in the near future. In the absence of a formal agreement between the Government and the Corporation, it is not possible to express an opinion on the status of these funds as at 30 June 2007.

Opinion

Except for the effect on the financial statements of matters referred to in the preceding paragraphs, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of financial affairs of the Corporation as at 30 June 2007 and of its profit 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).



**P.N. KOMORA, C.B.S.
CONTROLLER AND AUDITOR GENERAL**

Nairobi

08 January 2008



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

Income	Note	2007 KShs	2006 KShs
Operating income	2	483,186,282	437,233,360
Other income	3	<u>6,274,280</u>	<u>10,775,730</u>
Expenses		<u>489,460,562</u>	<u>448,009,090</u>
Administration and establishment expenses	4	(183,079,067)	(204,956,940)
Impairment losses	5	<u>(44,686,840)</u>	<u>(78,243,710)</u>
		<u>(227,765,907)</u>	<u>(283,200,650)</u>
Operating profit		261,694,655	164,808,440
Finance charges	6	<u>(13,130,030)</u>	<u>(27,176,370)</u>
Profit before tax and rationalisation costs	7	248,564,625	137,632,070
Rationalisation costs	8	-	(43,718,700)
Profit on sale of investments	9	128,838,980	-
Income tax expense	10	<u>-</u>	<u>-</u>
Profit after tax		<u>377,403,605</u>	<u>93,913,370</u>

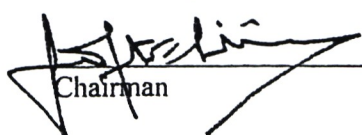
The notes set out on pages 11 to 31 form an integral part of the financial statements.

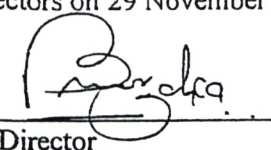
INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BALANCE SHEET AS AT 30 JUNE 2007

	Note	2007 KShs	2006 KShs
ASSETS			
Non-current assets			
Investment in subsidiary companies	11	1,206,370,680	1,430,125,280
Investment in associate companies	12	3,935,019,686	3,287,042,760
Investment in Government securities	13	68,398,815	70,000,000
Loans	14	52,573,428	73,306,080
Advances	15	11,718,020	2,113,550
Intangible assets	16	2,112,270	3,152,650
Prepaid operating leases	17	9,167,680	9,290,290
Property and equipment	18	<u>559,475,410</u>	<u>561,449,210</u>
		5,844,835,989	5,436,479,820
Current assets			
Subsidiary companies' current accounts	19	57,193,563	76,572,930
Loans	14	255,196,340	191,804,960
Sundry debtors	20	88,625,232	57,348,320
Government securities and short term deposits	13	666,026,867	588,555,290
Bank and cash balances		<u>15,219,000</u>	<u>53,610,230</u>
		1,082,261,002	967,891,730
TOTAL ASSETS		<u>6,927,096,991</u>	<u>6,404,371,550</u>
RESERVES, GRANTS AND LIABILITIES			
Reserves (Page 10)		5,750,535,395	5,138,633,080
Grants and non-current liabilities			
Grants and loans	21	1,014,046,320	1,005,598,500
Other loans	22	<u>1,000,000</u>	<u>22,660,000</u>
		1,015,046,320	1,028,258,500
Current liabilities			
Other loans	22	-	73,336,000
Creditors	23	36,515,276	39,143,970
Dividend payable	24	<u>125,000,000</u>	<u>125,000,000</u>
		161,515,276	237,479,970
TOTAL RESERVES, GRANTS AND LIABILITIES		<u>6,927,096,991</u>	<u>6,404,371,550</u>

The financial statements on pages 7 to 31 were approved by the Board of Directors on 29 November 2007 and were signed on its behalf by:


Chairman


Executive Director

The notes set out on pages 11 to 31 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Capital reserves KShs	Fair value reserves KShs	Accumulated losses KShs	Total reserves KShs
At 1 July 2005	1,715,963,110	-	(666,389,160)	1,049,573,950
Prior year adjustments *	-	3,103,786,530	-	3,103,786,530
At 1 July 2005 – As restated	1,715,963,110	3,103,786,530	(666,389,160)	4,153,360,480
Excess depreciation on revaluation	(8,589,790)	-	8,589,790	-
Fair value adjustment	-	891,359,230	-	891,359,230
Profit for the year	-	-	93,913,370	93,913,370
As at 30 June 2006	1,707,373,320	3,995,145,760	(563,886,000)	5,138,633,080
Excess depreciation on revaluation	(9,893,731)	-	9,893,731	-
On disposal of investments	-	(124,901,347)	-	(124,901,347)
Fair value adjustment	-	359,400,057	-	359,400,057
Profit for the year	-	-	377,403,605	377,403,605
Transfer from retained earnings	128,838,980	-	(128,838,980)	-
As at 30 June 2007	1,826,318,569	4,229,644,470	(305,427,644)	5,750,535,395

* Prior year adjustment in 2005 relates to restatement of investments in equity at fair value

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.

The notes set out on pages 11 to 31 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS).

(i) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets.

(ii) *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 and 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 and presentation currency*

These financial statements are presented in Kenya shillings (KShs), which is the Corporation's functional currency and presentation currency.

(b) 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.

(c) **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 income statement in the year in which they arise.

(d) **Property and equipment**

Items of property and equipment are stated at cost as deemed 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.

Intangible assets which comprise computer software acquired are amortised using straight-line method over their estimated useful life, generally not exceeding three years.

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.

(e) **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.

(f) **Capital reserves**

Capital gains on the disposal of investments in subsidiary and 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 income statement.

(g) **Managed funds**

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

(h) **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.

(i) **Prepaid lease**

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 income statement on a straight-line basis over the period of their lease.

(j) **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:

i. *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 it is acquired principally for the purpose of selling in the short-term or if so designated by management.

ii. *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.

iii. *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.

(j) **Financial instruments (continued)**

iv. *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 in 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.

(k) **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, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Corporation 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 grouping together financial assets (carried at amortised cost) with similar risk characteristics.

(k) Identification and measurement of impairment of financial assets (continued)

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Corporation on terms that the Corporation would otherwise consider, indications that a borrower or issuer 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 borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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.

(l) Taxation

Tax on the income statement for the year comprises current tax and the change in deferred tax. Current taxation is provided for on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

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

(m) 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 income statement in the year it is received.

(n) **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 income statement 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.

(iii) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange of these benefits. The Corporation recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(o) **Provisions**

Provisions are recognised when the Corporation has 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.

(p) **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.

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

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 group that generates cash flows that largely are independent from other assets and groups. 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 unit (group of units) on a pro-rata basis.

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 equipments, the fair value is determined by the Corporations qualified valuers based on an open market value basis.

(q) Offsetting of financial assets and liabilities

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

(r) 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.

(s) 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.

(t) New standards and interpretations not yet adopted

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements Capital Disclosure: requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Corporation's 2008 financial statements, will require extensive additional disclosures with respect to Corporation; financial instruments and share capital.

2.	INCOME	2007 KShs	2006 KShs
	Dividends:		
	- Subsidiary companies	31,348,250	61,951,880
	- Other companies	200,630,590	49,649,900
	Interest on loans and advances:		
	- Large and medium size loans and advances	-	26,160
	- Small loans	27,157,090	35,213,480
	Application fees	2,864,500	436,170
	Valuation fees and other services	362,680	3,821,480
	Write back on provision for investments	15,650,140	71,049,920
	Rental income	59,890,910	37,991,850
	Interest on deposits	50,091,132	38,396,530
	Write back on loans and advances	<u>95,190,990</u>	<u>138,695,990</u>
		<u>483,186,282</u>	<u>437,233,360</u>
3.	OTHER INCOME		
	Profit on disposal of equipment	2,463,300	-
	Computer income	-	254,000
	Sundry income	<u>3,810,980</u>	<u>10,521,730</u>
		<u>6,274,280</u>	<u>10,775,730</u>
4.	ADMINISTRATION AND ESTABLISHMENT EXPENSES		
	Staff costs	87,133,480	107,107,340
	Directors' fees and other	5,800,520	3,581,010
	Rent and rates	4,278,050	4,746,980
	Audit fees	2,219,790	1,197,900
	Depreciation	15,131,020	16,494,590
	Amortisation – prepaid leases	122,610	122,610
	Amortisation – intangible assets	1,040,380	1,151,520
	Repairs and maintenance	4,695,370	5,229,350
	Insurance	3,286,120	3,123,660
	Bank charges	705,040	1,160,930
	Printing and stationery	2,792,700	1,149,010
	Water and electricity	10,978,330	17,892,030
	Publicity and advertising	1,778,440	1,827,640
	Telephone and telex	2,246,210	2,508,900
	Donations and other contributions	50,000	150,000
	Travelling and subsistence	4,530,740	4,221,370
	Motor vehicle running	4,624,480	6,962,610
	Computer expenses	1,603,050	1,104,760
	Legal	2,782,110	6,910,400
	Uchumi House security	3,794,410	3,204,460
	VAT and other taxes	9,074,910	4,542,980
	Subscriptions	669,890	850,150
	Uchumi House administration	6,503,670	5,017,510
	Other	<u>7,237,747</u>	<u>4,699,230</u>
		<u>183,079,067</u>	<u>204,956,940</u>

The number of employees at the end of the year was 64 (2006 – 66).

	2007 KShs	2006 KShs
5. IMPAIRMENT LOSSES		
<i>Arising from:</i>		
Small loans	7,602,120	-
Equity investment	-	6,951,950
Sundry debtors	<u>37,084,720</u>	<u>71,291,760</u>
	<u>44,686,840</u>	<u>78,243,710</u>
6. FINANCE CHARGES		
Interest on Government of Kenya loans	8,447,820	8,447,820
Interest on other loans	<u>4,682,210</u>	<u>18,728,550</u>
	<u>13,130,030</u>	<u>27,176,370</u>
7. PROFIT BEFORE TAXATION AND RATIONALISATION COSTS		
Profit before taxation and rationalisation costs are stated after charging:		
Depreciation	15,131,020	16,494,590
Amortisation – prepaid leases	122,610	122,610
Amortisation – intangible assets	1,040,380	1,151,520
Directors' emoluments: - Salary and benefits	5,800,520	3,581,010
- Gratuity	1,209,054	3,447,300
Auditors' remuneration	<u>2,100,000</u>	<u>1,197,900</u>
8. RATIONALISATION COSTS		
This relates to a staff retrenchment and rationalisation programme which was effected during the previous year.		
9. PROFIT ON SALE OF INVESTMENTS		
The Corporation disposed off 15,643,425 shares held in Eveready Batteries (East Africa) Limited during the year through an Initial Public Offer. This reduced the investment in Eveready Batteries (East Africa) Limited by the Corporation from 52,227,000 to 36,583,575 shares. The Corporation made a gain of KShs 128,838,980 on disposal.		
10. TAXATION		
(a) Income tax expense	2007	2006
	KShs	KShs
Current tax at 30%	-	-
Deferred tax expense	-	-
	<u>-</u>	<u>-</u>

	2007 KShs	2006 KShs
12. INVESTMENT IN ASSOCIATED COMPANIES		
Investment in shares:		
Quoted on the Nairobi Stock Exchange	2,431,130,740	1,293,528,040
Unquoted	<u>1,708,170,306</u>	<u>2,209,444,960</u>
	4,139,301,046	3,502,973,000
Less: Impairment losses	<u>(204,281,360)</u>	<u>(215,930,240)</u>
	<u>3,935,019,686</u>	<u>3,287,042,760</u>

13. GOVERNMENT SECURITIES AND SHORT TERM DEPOSITS

(a) Treasury bonds – Held to Maturity

	2007 KShs	2006 KShs
Maturing after 90 days	<u>68,398,815</u>	<u>70,000,000</u>

The effective interest rate on treasury bonds at 30 June 2007 was 7.2% (2006 – 7.0%).

(b) Maturing within 90 days	2007 KShs	2006 KShs
Treasury bills	68,616,876	122,450,000
Short term deposits	<u>597,409,991</u>	<u>466,105,290</u>
	<u>666,026,867</u>	<u>588,555,290</u>

The weighted average effective interest rate on treasury bills at 30 June 2007 was 6.9% and on short term deposits was 7.1%.

14. LOANS

	2007 KShs	2006 KShs
(a) Outstanding loans		
Large and medium loans		
Subsidiary companies	216,670,200	216,670,200
Associate companies	-	<u>245,000</u>
	216,670,200	216,915,200
Less: Impairment losses (Note 14 (b))	<u>(216,670,200)</u>	<u>(216,670,200)</u>
Total large and medium loans	<u>-</u>	<u>245,000</u>

14 LOANS (Continued)

(a) Outstanding loans (continued)	2007 KShs	2006 KShs
Small loans		
Commercial	4,932,273,850	4,321,310,380
Property	439,387,600	372,792,200
Industrial	2,281,693,880	1,957,258,670
Machinery	296,720,690	253,642,630
ICDC/General Motors Kenya Limited/ Kenya Breweries Limited	15,182,980	15,879,350
Personal loans	2,221,580	10,476,350
ICDC – Kenya Bus Services Limited	4,230,850	22,500,850
ICDC – South Nyanza Sugar Corporation Limited	-	260,130
Hire purchase	6,192,820	8,946,500
Corporate	<u>660,229,760</u>	<u>530,258,560</u>
	8,638,134,010	7,493,325,620
Less: Impairment losses (Note 14 (b))	<u>(8,330,364,242)</u>	<u>(7,228,459,580)</u>
Total small loans	<u>307,769,768</u>	<u>264,866,040</u>
Total loans	<u>307,769,768</u>	<u>265,111,040</u>

Classified as:

Due within one year	255,196,340	191,804,960
Due after one year	<u>52,573,428</u>	<u>73,306,080</u>
Total loans	<u>307,769,768</u>	<u>265,111,040</u>

The weighted average effective interest rate on loans and advances at 30 June 2007 was 9.27% (2006 - 9%).

(b) Impairment losses on loans and advances

As at 1 July	7,445,130,161	6,638,279,060
Increase in impairment	1,197,095,271	945,546,710
Write backs	<u>(95,190,990)</u>	<u>(138,695,990)</u>
	<u>8,547,034,442</u>	<u>7,445,129,780</u>
Comprising of:		
Large and medium loans	216,670,200	216,670,200
Small loans	<u>8,330,364,242</u>	<u>7,228,459,580</u>
Total loans	<u>8,547,034,442</u>	<u>7,445,129,780</u>

15. ADVANCES

Subsidiary companies	65,981,410	60,125,500
Other companies	<u>92,466,650</u>	<u>88,718,090</u>
	158,448,060	148,843,590
Less: Impairment losses	<u>(146,730,040)</u>	<u>(146,730,040)</u>
	<u>11,718,020</u>	<u>2,113,550</u>

16. INTANGIBLE ASSETS

	2007 KShs	2006 KShs
Cost		
At 1 July 2006 and 2005	4,304,170	3,489,440
Additions	<u>-</u>	<u>814,730</u>
At 30 June	<u>4,304,170</u>	<u>4,304,170</u>
Amortisation		
As at 1 July 2006 and 2005	1,151,520	-
Charge for the year	<u>1,040,380</u>	<u>1,151,520</u>
At 30 June	<u>2,191,900</u>	<u>1,151,520</u>
Net book value at 30 June	<u>2,112,270</u>	<u>3,152,650</u>

17. PREPAID OPERATING LEASES

Cost		
At 1 July 2006 and 2005	<u>10,618,900</u>	<u>10,618,900</u>
Amortisation		
At 1 July 2006 and 2005	1,328,610	1,206,000
Charge for the year	<u>122,610</u>	<u>122,610</u>
At 30 June	<u>1,451,220</u>	<u>1,328,610</u>
Net book value at 30 June	<u>9,167,680</u>	<u>9,290,290</u>

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

18. PROPERTY AND EQUIPMENT

2007	Buildings KShs	Motor vehicles KShs	Furniture and office equipment KShs	Total KShs
Cost/valuation				
At 1 July 2006	606,301,710	38,278,950	98,956,160	743,536,820
Additions	-	11,374,640	1,782,580	13,157,220
Disposals	-	(16,972,260)	(5,024,710)	(21,996,970)
At 30 June 2007	<u>606,301,710</u>	<u>32,681,330</u>	<u>95,714,030</u>	<u>734,697,070</u>
Comprising:				
Cost	28,277,680	32,681,330	95,714,030	156,673,040
Valuation	<u>578,024,030</u>	-	-	<u>578,024,030</u>
	<u>606,301,710</u>	<u>32,681,330</u>	<u>95,714,030</u>	<u>734,697,070</u>
Depreciation				
At 1 July 2006	68,104,820	36,398,400	77,584,390	182,087,610
Charge for the year	8,542,810	2,008,420	4,579,790	15,131,020
On disposal	-	(16,972,260)	(5,024,710)	(21,996,970)
At 30 June 2007	<u>76,647,630</u>	<u>21,434,560</u>	<u>77,139,470</u>	<u>175,221,660</u>
Net book value				
At 30 June 2007	<u>529,654,080</u>	<u>11,246,770</u>	<u>18,574,560</u>	<u>559,475,410</u>
At 30 June 2006	<u>538,196,880</u>	<u>1,880,550</u>	<u>21,371,770</u>	<u>561,449,210</u>

18. PROPERTY AND EQUIPMENT (Continued)

2006	Buildings KShs	Motor vehicles KShs	Furniture and office equipment KShs	Total KShs
Cost/valuation				
At 1 July 2005	606,301,710	38,278,950	98,160,710	742,741,370
Additions	-	-	1,463,430	1,463,430
Adjustments	-	-	(667,980)	(667,980)
At 30 June 2006	<u>606,301,710</u>	<u>38,278,950</u>	<u>98,956,160</u>	<u>743,536,820</u>
Comprising:				
Cost	28,277,680	38,278,950	98,956,160	165,512,790
Valuation	<u>578,024,030</u>	-	-	<u>578,024,030</u>
	<u>606,301,710</u>	<u>38,278,950</u>	<u>98,956,160</u>	<u>743,536,820</u>
Depreciation				
At 1 July 2005	59,574,360	33,557,540	70,045,860	163,177,760
Charge for the year	8,530,460	2,840,860	5,123,270	16,494,590
Adjustments on revalued amounts	-	-	2,415,260	2,415,260
At 30 June 2006	<u>68,104,820</u>	<u>36,398,400</u>	<u>77,584,390</u>	<u>182,087,610</u>
Net book value				
At 30 June 2006	<u>538,196,890</u>	<u>1,880,550</u>	<u>21,371,770</u>	<u>561,449,210</u>
At 30 June 2005	<u>546,727,350</u>	<u>4,721,410</u>	<u>28,114,850</u>	<u>579,563,610</u>

The revaluation of Uchumi House was carried out on 30 June 1998 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 68,143,300 (2006 – KShs 44,744,110). If they had been depreciated at existing rates, a notional depreciation charge of KShs 15,436,580 (2006 – KShs 10,230,680) would have resulted.

	2007 KShs	2006 KShs
19. SUBSIDIARY COMPANIES' CURRENT ACCOUNTS		
Current accounts	940,748,580	949,303,370
Less: Impairment losses	<u>(883,555,017)</u>	<u>(872,730,440)</u>
	<u>57,193,563</u>	<u>76,572,930</u>
20. SUNDRY DEBTORS		
Dividends receivable	110,396,440	20,840,870
Receivable from Uchumi House tenants	39,357,882	33,532,770
Recoverable expenses from subsidiaries and associates	61,326,107	61,643,180
Other debtors	<u>103,446,190</u>	<u>101,658,220</u>
	314,526,619	217,675,040
Less: Impairment losses	<u>(225,901,387)</u>	<u>(160,326,720)</u>
	<u>88,625,232</u>	<u>57,348,320</u>
21. GRANTS AND LOANS		
(a) From Government of Kenya		
<i>Grants:</i>		
Government grants	529,971,270	529,971,270
<i>Loans:</i>		
At 1 July 2006 and 2005	451,691,060	468,763,870
Interest for the year	7,927,190	7,927,190
Repayment during the year	<u>-</u>	<u>(25,000,000)</u>
	<u>459,618,250</u>	<u>451,691,060</u>
From KFW of West Germany		
<i>Loans:</i>		
At 1 July 2006 and 2005	23,936,170	23,415,540
Interest for the year	<u>520,630</u>	<u>520,630</u>
Sub total KFW of West Germany	<u>24,456,800</u>	<u>23,936,170</u>
Total grants and loans	<u>1,014,046,320</u>	<u>1,005,598,500</u>

Soya Oil & Food Industries

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.

21. GRANTS AND LOANS (Continued)

(b) 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 1(f):

	2007 KShs	2006 KShs
Kenya Taitex Mills Limited (in liquidation) – equity	42,000,000	42,000,000
Rift Valley Textiles Limited (in receivership) – equity	43,400,000	43,400,000
Kenatco Transport Corporation 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 Corporation Limited – equity	<u>10,000,000</u>	<u>10,000,000</u>
	<u>138,870,390</u>	<u>138,870,390</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.

	2007 KShs	2006 KShs
22. OTHER LOANS		
East African Development Bank	-	30,000,000
Commercial Bank of Africa	-	64,996,000
Borrowing for Small Irrigation Development Project	<u>1,000,000</u>	<u>1,000,000</u>
	<u>1,000,000</u>	<u>95,996,000</u>
Classified as:		
Payable after one year	1,000,000	22,660,000
Payable within one year	-	<u>73,336,000</u>
Total other loans	<u>1,000,000</u>	<u>95,996,000</u>
23. CREDITORS		
General creditors	24,775,276	31,420,750
Rent deposit	<u>11,740,000</u>	<u>7,723,220</u>
	<u>36,515,276</u>	<u>39,143,970</u>

24. **DIVIDENDS PAYABLE TO GOVERNMENT OF KENYA**

The amount relates to dividends declared out of profits for past years upto June 1999. Since that time, the Corporation has been actively pursuing the issue of restructuring of its balance sheet 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 balance sheet and thereby conclusively address the issue of dividends due to the Government.

25. **NOTES TO THE CASH FLOW STATEMENT**

	2007	2006
(a) Reconciliation of profit before taxation to net cash inflow from operating activities	KShs	KShs
Profit before tax and rationalisation costs	377,403,605	93,913,370
Adjustments for:		
Depreciation	15,131,020	16,494,590
Amortisation – prepaid leases	122,610	122,610
Amortisation – intangible assets	1,040,380	1,151,520
Interest expense	13,130,030	28,337,300
Gain on disposal of equity	(128,838,980)	-
Gain on disposal of property and equipment	(2,463,300)	-
Provision for losses on equity investments	(11,743,090)	(6,951,950)
Decrease in creditors	(2,628,694)	(40,388,900)
Increase in debtors	(31,276,912)	301,793,250
Decrease in subsidiary companies current accounts	<u>19,379,367</u>	<u>(43,497,620)</u>
Net cash inflow from operating activities	<u>249,256,036</u>	<u>350,974,170</u>
(b) Analysis of cash and cash equivalents		Change in the year
	2007	2006
	KShs	KShs
Government securities and short		
Term investments	666,026,867	588,555,290
Bank and cash balances	<u>15,219,000</u>	<u>53,610,230</u>
	<u>681,245,867</u>	<u>642,165,520</u>
		<u>39,080,347</u>

26. **BANK OVERDRAFT**

The Corporation has overdraft facilities of KShs 40,000,000 and KShs 30,000,000 with Kenya Commercial Bank Limited and Commercial Bank of Africa Limited respectively, which are secured by legal charge over L.R. No.209/7408 Nairobi and L.R. No.MN/V/3711 Mombasa, respectively.

27. RELATED PARTY TRANSACTIONS

(a) 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 21.

(b) Investment in subsidiaries and associate 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 11 and 12.

Dividends earned during the year are as follows:

	2007 KShs	2006 KShs
Subsidiary companies	31,348,250	61,951,880
Associate companies	<u>200,630,590</u>	<u>49,649,900</u>
	<u>231,978,840</u>	<u>111,601,780</u>

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

(c) Advances to subsidiaries and associate 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 15 and 19.

(d) Compensation to executive management

	2007 KShs	2006 KShs
Short term compensation benefits (salaries)	5,800,520	3,581,010
Executive Director's gratuity	<u>1,209,054</u>	<u>3,447,300</u>
	<u>7,009,574</u>	<u>7,028,310</u>

(e) Loans and advances to staff

Directors	3,301,780	3,364,720
Staff and management	<u>65,141,070</u>	<u>63,926,420</u>
	<u>68,442,850</u>	<u>67,291,140</u>

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

INTEREST RATE RISK ANALYSIS

This 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.

2007	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
		KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000		
Assets														
Non current assets														
Investments in subsidiary companies	-	-	-	-	-	-	-	-	-	-	1,206,370,680	-	1,206,370,680	
Investments in associate companies	-	-	-	-	-	-	-	-	-	-	3,935,019,686	-	3,935,019,686	
Investment in Government securities	7.20%	-	-	-	-	-	-	-	-	68,398,815	-	-	68,398,815	
Loans	9.27%	-	-	-	-	-	-	52,573,428	-	-	-	-	52,573,428	
Advances	-	-	-	-	-	-	-	11,718,020	-	-	-	-	11,718,020	
Intangible assets	-	-	-	-	-	-	-	-	-	-	2,112,270	-	2,112,270	
Prepaid operating lease rentals	-	-	-	-	-	-	-	-	-	-	9,167,680	-	9,167,680	
Property and equipment	-	-	-	-	-	-	-	-	-	-	559,475,410	-	559,475,410	
Total- non current assets								64,291,448		68,398,815	5,712,145,726		5,844,835,989	
Current assets														
Subsidiary companies' current accounts	-	-	-	-	57,193,563	-	-	-	-	-	-	-	57,193,563	
Sundry debtors	-	-	-	-	88,625,232	-	-	-	-	-	-	-	88,625,232	
Loans	9.27%	-	-	-	255,196,340	-	-	-	-	-	-	-	255,196,340	
Government securities & short term investments	7.00%	-	666,026,867	-	-	-	-	-	-	-	-	-	666,026,867	
Bank and cash balances	-	-	-	-	-	-	-	-	-	-	-	-	15,219,000	
Total current assets					666,026,867		401,015,135		64,291,448		68,398,815		5,712,145,726	
Total assets					15,219,000		15,219,000		15,219,000		15,219,000		15,219,000	
Reserves, grants and liabilities														
Reserves	-	-	-	-	-	-	-	-	-	-	5,750,535,395	-	5,750,535,395	
Grants and non current liabilities														
Grants and Government of Kenya loans	5.30%	-	-	-	-	-	-	1,014,046,320	-	-	-	-	1,014,046,320	
Other loans	-	-	-	-	-	-	-	-	-	1,014,046,320	-	-	1,014,046,320	
Current liabilities														
Creditors	-	-	-	-	-	-	-	-	-	-	36,515,276	-	36,515,276	
Dividends	-	-	-	-	-	-	-	-	-	-	125,000,000	-	125,000,000	
Total reserves, grants & liabilities								1,014,046,320		1,014,046,320	5,913,050,671		6,927,096,991	
Interest sensitivity gap								666,026,867		401,015,135	64,291,448		(945,647,505)	
													(200,904,945)	

30. INTEREST RATE RISK ANALYSIS (Continued)

2006	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
	%	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Assets								
Non current assets								
Investments in subsidiary companies	-	-	-	-	-	-	1,430,125,280	1,430,125,280
Investments in associate companies	-	-	-	-	-	-	3,287,042,760	3,287,042,760
Investment in Government securities	7.20%	-	-	-	-	70,000,000	-	70,000,000
Loans	9.00%	-	-	-	73,306,080	-	-	73,306,080
Advances	-	-	-	-	2,113,550	-	-	2,113,550
Intangible assets	-	-	-	-	-	-	3,152,650	3,152,650
Prepaid operating lease rentals	-	-	-	-	-	-	9,290,290	9,290,290
Property and equipment	-	-	-	-	-	-	561,449,210	561,449,210
Total- non current assets								
		-	-	75,419,630	70,000,000	5,291,060,190	5,436,479,820	
Current assets								
Subsidiary companies' current accounts	-	-	-	76,572,930	-	-	-	76,572,930
Sundry debtors	-	-	-	57,348,320	-	-	-	57,348,320
Loans	-	-	-	191,804,960	-	-	-	191,804,960
Government securities & short term investments	7.00%	-	588,555,290	-	-	-	-	588,555,290
Bank and cash balances	-	53,610,230	588,555,290	325,726,210	-	-	-	53,610,230
Total current assets								
		53,610,230	588,555,290	325,726,210	75,419,630	70,000,000	5,291,060,190	6,404,371,550
Total assets								
		-	-	-	-	-	5,138,633,080	5,138,633,080
Reserves, grants & liabilities								
Reserves								
Grants and non current liabilities								
Grants and Government of Kenya loans	5.30%	-	-	-	-	1,005,598,500	-	1,005,598,500
Other loans	14.50%	-	-	21,660,000	-	-	1,000,000	22,660,000
Current liabilities								
Other loans	14.50%	-	-	-	73,336,000	-	-	73,336,000
Creditors	-	-	-	-	-	-	39,143,970	39,143,970
Dividends	-	-	-	-	-	-	125,000,000	125,000,000
Total reserves, grants and liabilities								
		-	-	73,336,000	-	-	164,143,970	237,479,970
Interest sensitivity gap								
		53,610,230	588,555,290	325,726,210	(19,576,370)	(935,598,500)	(12,716,860)	-

29. COMMITMENTS

	2007 KShs	2006 KShs
These include the following:		
Small loans	8,209,000	-
Large and medium loans - approved	50,000,000	-
Capital commitments - approved	48,891,500	14,786,040
Other	<u>-</u>	<u>4,421,980</u>
	<u>107,100,500</u>	<u>19,208,020</u>

30. CONTINGENT LIABILITIES

- (a) As at 30 June 2007, the Corporation had issued guarantees amounting to KShs 45,000,000 (2006 – KShs 35,000,000) in favour of third parties. No losses are expected from these guarantees.
- (b) The Corporation has been sued by third parties for claims amounting to KShs 202,000,673 (2006 – KShs 207,093,622) together with the interest thereon and costs of the suits. No provision has been made in these financial statements as the directors are of the opinion that no liability will crystallise.

31. FUTURE RENTAL COMMITMENT UNDER OPERATING LEASES

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

	2007 KShs	2006 KShs
Due within 1 year	45,260,516	34,425,443
After 1 year but less than 5 years	134,300,177	123,524,347
After 5 years	<u>8,302,593</u>	<u>22,341,367</u>
	<u>187,863,286</u>	<u>180,291,157</u>

32. CURRENCY RISK

The Corporation operates wholly within Kenya and its assets and liabilities are reported in the local currency. Although it maintains a foreign currency loan account, it had no significant foreign currency exposure as at 30 June 2007.

33. INCORPORATION

The Corporation is incorporated in Kenya under the ICDC Act (Cap 445).

