

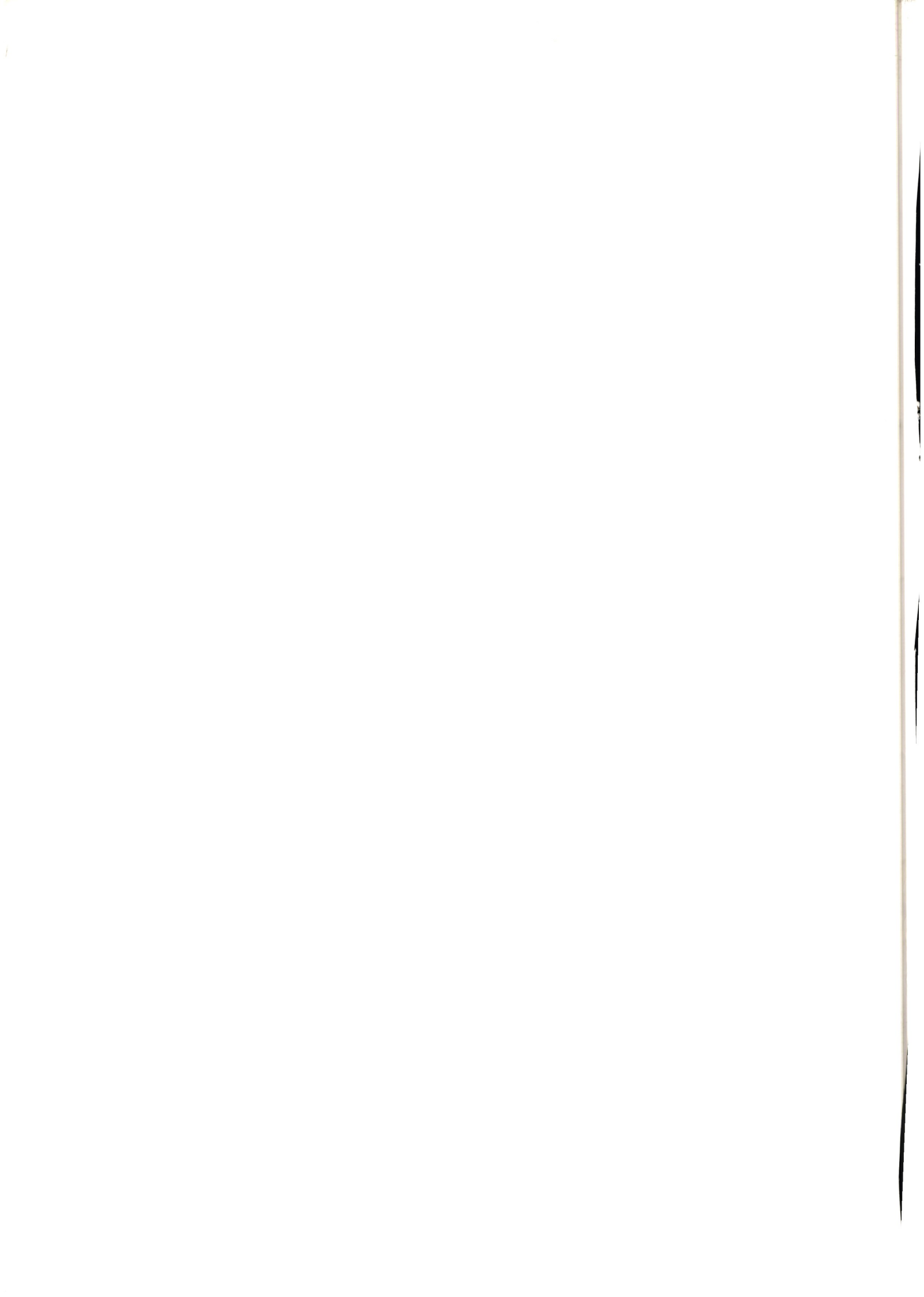
ICDC Investment  
Company Limited

DEPARTMENT  
OF KENYA  
LIBRARY



annual report and accounts  
FY2003/2004

657.452  
ICDC



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**KENYA NATIONAL ASSEMBLY**

Accession: 10012715

Call No: 657.452/11CD



*"We are committed to being the investment vehicle of choice through the prudent allocation of assets to continuously create and enhance shareholder value"*



## corporate information / maelezo juu ya kampuni

<b>BOARD OF DIRECTORS</b>	J N Muguiyi (Chairman - joined 10 December 2003) C J Kirubi Industrial & Commercial Development Corporation (ICDC) J M Munene (Alternate to ICDC) T K Wainaina (resigned 6 August 2004) J P N Simba (resigned 10 December 2003) M Mwangola F M Thuo I O Awuondo K W Getao The Permanent Secretary, Ministry of Trade and Industry M C Rotich (Alternate to Permanent Secretary, Ministry of Trade and Industry)
<b>COMPANY SECRETARY</b>	P K Mwangi P O Box 10518 00100 - Nairobi
<b>REGISTERED OFFICE</b>	International House Mama Ngina Street P O Box 10518 00100 - Nairobi
<b>AUDITORS</b>	Deloitte & Touche "Kirungii" Ring Road, Westlands P O Box 40092 00100 - Nairobi
<b>BANKERS</b>	Commercial Bank of Africa Limited P O Box 30437 00100 - Nairobi  Standard Chartered Bank Kenya Limited P O Box 40310 00100 - Nairobi  Citibank NA P O Box 30711 00100 - Nairobi
<b>LAWYERS</b>	Simba & Simba Advocates P O Box 10312 00100 - Nairobi  Mboya and Wangong'u Advocates P O Box 74041 00200 - Nairobi

## board of directors / halmashauri ya wakurugenzi



*Seated from left;* **Margaret W. Mwangola** - Director/Mkurugenzi, **Margaret C. Rotich** - Alt. Director/Mkurugenzi (Representing PS, Ministry of Trade & Industry)  
**James N. Muguiyi** - Chairman/Mwenyekiti, **Dr. Katherine W. Getao** - Director/Mkurugenzi

*Standing from left;* **Isaac O. Awuondo** - Director/Mkurugenzi, **Peter K. Mwangi** - Ag. Managing Director/ Kaimu Mkurugenzi Mkuu,  
**Francis M. Thuo** - Director/Mkurugenzi, **Chris J. Kirubi** - Director/Mkurugenzi,  
**Eng. Joseph M. Munene** - Alt. Director/Mkurugenzi (Representing ICDC)



## management team / timu ya wasimamizi



*Seated from left;* **Risper D. Alaro** - Financial Accountant, **Anita W. King'ori** - Personal Assistant to MD and Human Resources Officer,

*Standing from left;* **Peter K. Mwangi** - Acting Managing Director, **David O. Owino** - Research Analyst,  
**James M. Mworira** - Management Accountant, **Michael Sumba** - Risk Manager

# notice of the annual general meeting / ilani ya mkutano

NOTICE IS HEREBY GIVEN that the 37th Annual General Meeting of the Company will be held on Wednesday, 8th December 2004 at the Grand Regency Hotel, Nairobi at 11.00a.m. for the following purposes: -

## ORDINARY BUSINESS

1. The Secretary to read the notice convening the meeting.
2. To confirm the minutes of the 36th Annual General Meeting held on Wednesday, 10th December 2003.
3. To receive and consider the Audited Financial Statements for the financial year ended 30th June 2004 together with the Directors' and Auditors' reports thereon.
4. To declare a First and Final Dividend of Kshs 3.00 per share in respect of the year ended 30th June 2004.
5. To approve the Directors' remuneration for the year ended 30th June 2004.
6. (a) To re-elect the Permanent Secretary, Ministry of Trade and Industry, a director retiring by rotation, who being eligible, offers himself for re-election.  
  
(b) To re-elect Mr. Isaac Odundo Awuondo, a director retiring by rotation, who being eligible, offers himself for re-election.
7. Special Notice pursuant to Sections 142 and 186 (5) of the Companies Act having been received by the Company, of the intention to move a resolution that Mr. F.M. Thuo continues in office as a Director of the Company for a period of one year notwithstanding his having attained the age of 70 years, to consider and if thought fit, pass the following resolution as an ordinary resolution.  
  
"That pursuant to Section 186 (5) of the Companies Act, Mr. F.M. Thuo who has attained the age of 70 continues in office as a Director of the company for a period of one year notwithstanding his having attained such age."
8. To note that Deloitte & Touche, having expressed their willingness, continue in office as the auditors of the company, in accordance with the provisions of section 159(2) of the Companies Act (Cap 486) and to authorize the Directors to fix their remuneration.

ILANI INATOLEWA KWAMBA MKUTANO MKUU WA MWAKA wa thelathini na saba wa kampuni hii utafanywa siku ya Jumatano, tarehe 8 Desemba, 2004 katika hoteli ya Grand Regency, Nairobi saa tano asubuhi kwa madhumuni ya kutekeleza shughuli zifuatazo:-

## SHUGHULI ZA KAWAIDA

1. Katibu kusoma ilani ya mkutano.
2. Kuthibitisha kumbukumbu za Mkutano Mkuu wa Mwaka wa thelathini na sita uliofanywa siku ya Jumatano tarehe 10 Desemba 2003.
3. Kupokea na kufikiria Hesabu zilizokaguliwa za mwaka uliomalizika tarehe 30 Juni 2004.
4. Kuamua malipo ya Mgao wa kwanza na wa mwisho wa Shilingi 3.00 kwa kila hisa ya mwaka uliomalizika tarehe 30 Juni, 2004.
5. Kuthibitisha malipo ya Wakurugenzi kwa mwaka uliomalizika tarehe 30 Juni, 2004.
6. a) Kumchagua Katibu Mkuu, Wizara ya Biashara na Viwanda, ambaye anastaafu kwa zamu, na kwa vile anaweza kuchaguliwa tena anajitolea kuchaguliwa.  
  
b) Kumchagua tena Bw Isaac Odundo Awuondo, ambaye anastaafu kwa zamu, na kwa vile anaweza kuchaguliwa tena anajitolea kuchaguliwa.
7. Ilani maalum chini ya vifungu nambari 142 na 185 (5) vya sheria za makampuni imepokewa na kampuni kwa madhumuni ya kupitisha azimio kwamba Bwana F.M. Thuo ataendelea kuwa mkurugenzi wa kampuni kwa muda wa mwaka mmoja ijapokuwa amehitimu miaka sabini, kutafakari na ikiwa sawa, kupitisha azimio hili kama azimio la kawaida.  
  
"Kwamba kufuatia kifungu nambari 186 (5) cha sheria za makampuni, Bwana F.M. Thuo ambaye amehitimu miaka sabini ataendelea kuwa mkurugenzi wa kampuni kwa muda wa mwaka mmoja ijapokuwa amehitimu umri huo."
8. Kufahamishwa kwamba kwa kuwa Deloitte & Touche Wakaguzi wa Hesabu, walidhihirisha hiari yao, wataendelea na kazi hiyo kufuatia kifungu nambari 159 (2) cha sheria za Makampuni (Sehemu ya 486) vilevile; kuidhinisha Wakurugenzi waweke kipimo cha ada ya Wakaguzi wa Hesabu.

## notice of the annual general meeting / ilani ya mkutano

### ANY OTHER BUSINESS

9. To transact any other business which may be transacted at an Annual General Meeting.

### BY ORDER OF THE BOARD



Peter K. Mwangi  
Company Secretary  
NAIROBI

16 October 2004

### PLEASE NOTE:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the company.

### SHUGHULI ZINGINE

9. Kutekeleza shughuli zingine zozote ambazo zaweza kutekelezwa kweneye Mkutano Mkuu wa kila Mwaka.

### KWA AMRI YA HALMASHAURI YA WAKURUGENZI



Peter K. Mwangi  
Katibu  
NAIROBI

16 Oktoba 2004

### KUMBUSHO:

Mwanachama anayestahili kuhudhuria na kupiga kura kwenye Mkutano Mkuu ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi huyo si lazima awe mwanachama wa kampuni hii.



Staff members of ICDCI, in conjunction with Habitat for Humanity Kenya, laying the foundation for a low-cost house in Embu .

## chairman's statement / taarifa ya mwenyekiti

It is my pleasure to present to you my first report as Chairman of your company. Over the last year, your company has undergone several changes in both the board and management but I am glad to report that the company's operations have continued without interruption. The business and financial performance for the year to 30 June 2004 was very good despite the less than satisfactory performance of the Kenyan economy.

### Economic Environment

During the year under review, the business environment in the country remained very challenging. The economy registered only modest growth in the face of political uncertainty, rising energy costs, unfavourable weather patterns, negative travel advisories against Kenya and strained relations with our development partners.

### Investment Climate

During the year there was limited direct investment in the domestic economy and consequently only a few jobs were created. Disposable income therefore remained constrained and consumer purchasing power continued to decline.

Activity at the Nairobi Stock Exchange increased over the year. Total market capitalization increased by 53.4% from Kshs 178.54 billion as at 30 June 2003 to Kshs 274.41 billion as at 30 June 2004. During the same period, the NSE 20 share index gained 36.4% to stand at 2639.75 on 30 June 2004 up from 1934.96 on 30 June 2003. These increases were driven by improving share prices on most counters as no additional companies were listed during the year.

Over the year your company's share price increased by 31% from Kshs51 to close the year at Kshs67. The market capitalization increased from Kshs2.80 billion to Kshs3.68 billion.

### Financial Results for FY 2003/2004

Despite the difficulties encountered during the financial year, your company performed very well. The following is a summary of the key highlights of the financial results.

- Investment Income up 60% to Kshs 355 million
- Expenses contained at Kshs 80 million
- Operating Profit up 95% to Kshs 274 million

Ni fahari kuu kwangu kuwasilisha ripoti yangu ya kwanza kama Mwenyekiti wa kampuni yenu. Kampuni yenu imekuwa na mabadiliko kadhaa kwenye halmashauri ya wakurugenzi na pia katika usimamizi mwakani walakini ni furaha kwangu kueleza kuwa shughuli zimeendelea bila ukingamishi wowote. Matokeo ya biashara na ya kifedha wa mwaka uliokwisha tarehe 30 Juni 2004 yalikuwa ya kufana licha ya kuwa hali ya uchumi humu nchini haikuwa ya kuridhisha.

### Hali ya Mazingira ya Uchumi

Mazingira ya biashara humu nchini ilikuwa ya kutatanisha katika mwaka huu tunaochungua. Uchumi humu nchini ulikua kwa wastani hukukikabiliana na hali duni ya kisiasa, kuongezeka kwa bei ya bidhaa za kawi, ukame, toleo la onyo juu ya usalama ya wageni wanaozuru Kenya, na kuzoroteka kwa uhusiano na mashirika ya kimaendeleo.

### Mazingira ya Uchumishaji

Mwaka huu uingizaji wa rasilimali humu nchini ulikuwa duni na kwa hivyo nafasi chache ya kazi zilibuniwa. Mapato yaliendelea kuzoroteka na kusababisha kupunguka kwa ununuzi.

Shughuli katika soko la hisa iliongezeka katika kipindi hiki. Thamani ya hisa kwa jumla iliongezeka kwa asilimia 53.4 kutoka shilingi bilioni 178.54 mnamo tarehe 30 Juni 2003 hadi shilingi bilioni 274.41 hapo tarehe 30 Juni 2004. Katika kipindi hicho kiwango cha soko la hisa cha kampuni 20 bora (NSE 20 share index) kiliimarika kwa asilimia 36.4 hadi 2639.75 mnamo tarehe 30 Juni 2004. Ongezeko hilo lilitokana na kuimarika kwa bei ya hisa kwa kuwa hakuna kampuni mpya iliyosajiliwa katika kipindi hiki.

Bei ya hisa ya kampuni yenu iliongezeka kwa asilimia 31 kutoka shilingi 51 hadi shilingi 67 mwishoni mwa kipindi hicho. Thamani ya hisa za kampuni iliongezeka kutoka shilingi bilioni 2.80 hadi shilingi bilioni 3.68.

### Matokeo ya Mwaka 2003/2004

Licha ya matatizo yaliyokabiliwa kampuni yenu iliwahi kufanikiwa katika kipindi hiki. Kwa mukhtasari hivi ni vidokezi juu ya matokeo ya kampuni.

- Mapato ya uchumishaji ongezeko la asilimia 60 hadi shilingi milioni 355
- Gharama ya matumizi ilibaki kuwa shilingi milioni 80

James N. Muguiyi  
Chairman/Mwenyekiti

## chairman's statement / taarifa ya mwenyekiti

- Share of Associate Company Profits up 1% to Kshs 72 million
- Profit before Tax up 72% to Kshs 348 million
- Profit after Tax up 52% to Kshs 241 million
- Earnings Per Share up 52% to Kshs 4.39

The investment income of the group comprises dividend, interest and rental income as well as capital gains. The 60% improvement in investment income over the previous financial year was largely attributable to significant capital gains realized from disposal of certain quoted investments to take advantage of a buoyant stock market. The total gains on disposal of investments for the year was Kshs 232 million.

This resulted in a 95% improvement of operating profits to Kshs 274 million from Kshs 141 million recorded in the previous financial year.

The group's share of profits of associate companies improved slightly by 1.4% to Kshs 71.5 million from Kshs 70.5 million. This improvement was realized despite the poor performance of some of our key associate companies. There were significant improvements in the performance of the other associate companies, especially in the beverage and financial sectors, which more than compensated for the losses recorded by three of our associate companies. The group's expenses were contained at the previous year's level of Kshs 80 million.

Profit before tax was up 72% to Kshs 348 million from the Kshs 203 million recorded in the previous year. Profit after tax and earnings per share were up 52% to Kshs 241 million and Kshs 4.39 respectively.

### Dividends

The directors are recommending for your approval at the company's next Annual General Meeting, a first and final dividend of Kshs 3.00 per share. This is an increase of 36% over the dividend paid in respect of the previous financial year of Kshs 2.20 per share. The increased dividend payout reflects the director's confidence in the future earnings potential for your company and the desire to share the rewards of good performance with our shareholders. We intend to continue with our prudent dividend policy that balances a competitive payout with the need to re-invest part of our earnings for future growth.

### Investment Activity

Over the year, the total asset value of the portfolio grew by 10% from Kshs 3.123 billion to Kshs 3.408 billion on 30 June 2004. This overall increase was largely driven by an increase in the carrying amounts of our unquoted investments as well as additional investments made in the course of the year.

The market value of the quoted investments decreased marginally by about 3% on the back of a 45% decline in the value of our holding in Uchumi Supermarkets Limited from Kshs 476 million in June 2003 to Kshs 262 million as at 30 June 2004.

- Faida ongezeko la asilimia 95 hadi milioni 274
- Sehemu ya faida ya kampuni shirika ongezeko la asilimia 1 hadi milioni 72
- Faida kabla ya kutozwa ushuru ongezeko la asilimia 72 hadi milioni 348
- Faida baada ya Kutozwa ushuru ongezeko la asilimia 52 hadi milioni 241
- Faida kwa kila hisa ongezeko la asilimia 52 hadi milioni 4.39

Mapato ya uchumishaji hujumuisha migao ya faida, mazao ya riba na kodi za upangaji na pia kwa kupitia mauzo ya hisa. Ongezeko la asilimia 60 kwa mapato ya uchumishaji juu ya mwaka uliopita ilitokana na uuzaji wa baadhi ya hisa za kampuni zilizoordheshwa katika soko la hisa wakati ambapo hali ya soko la hisa ilikuwa nzuri. Faida kutoka kwa mauzo hayo ilikuwa shilingi milioni 232.

Hii ilisababisha kuongezeka kwa faida kwa asilimia 95 hadi shilingi milioni 274 juu ya shilingi milioni 141 ya mwaka uliopita.

Migao ya faida kwa kampuni shirika yaliimarika kwa asilimia 1.4 kufikia shilingi milioni 71.5 kutoka shilingi milioni 70.5. Hali hiyo iliwezekana licha ya kuwa baadhi ya kampuni shirika muhimu kutopata matokeo bora ya kifedha. Mashirika mengine yaliimarika vyema hasa kwenye utengenezaji wa viburudisho na pia mashirika ya fedha, na kufidia hasara ambayo mashirikika yetu tatu yalipata. Gharama ya matumizi ya kampuni ilibaki kuwa shilingi milioni 80 sawa na ulivyokuwa mwaka uliopita.

Faida kabla ya utozaji wa ushuru iliongezeka kwa asilimia 72 kufikia shilingi milioni 348 kutoka shilingi milioni 203 iliyopatikana mwaka uliopita. Faida baada ya ushuru iliongezeka kwa asilimia 52 hadi shilingi milioni 241, ilihali faida kwa kila hisa iliongezeka kwa kiwango hicho hadi shilingi 4.39.

### Mgao

Wakurugenzi wanapendekeza ulipaji wa mgao wa kwanza na wa mwisho wa shilingi 3.00 kwa kila hisa mtakaoidhinisha kwenye mkutano ujao wa mwaka. Hii ni ongezeko kwa asilimia 36 dhidi ya malipo ya mwaka uliopita wa shilingi 2.20 kwa kila hisa. Nyongeza ya ulipaji wa mgao ni hakikisho ya imani ya wakurugenzi kwa matokeo mema ya kampuni yenu kwa siku za usoni na nia yao ya kuwagawia faida hizo. Tutaendeleza sera hiyo ya busara ya ulipaji unayotilia maanani uwekaji akiba zitakazotumiwa kukuza kampuni kwa siku za usoni.

### Shughuli ya Uchumishaji

Katika kipindi hiki thamani ya rasilimali yetu kwa jumla iliimarika kwa asilimia 10 kutoka shilingi bilioni 3,123 hadi shilingi bilioni 3,408 hapo tarehe 30 Juni 2004. Kwa jumla nyongeza hiyo ilisababishwa na kuimarika kwa rasimali katika kampuni maalum;



# chairman's statement / taarifa ya mwenyekiti

The total investments made during the year amounted to Kshs 254.2 million out of which about Kshs 64.8 million was invested in 2 unquoted companies with the bulk being invested in UAP Provincial Insurance Company Limited (UAP). An amount of Kshs 189.4 million was invested in several quoted companies out of which Kshs 175.8 million (93%) was invested in Kenya Commercial Bank Limited (KCB). We believe that KCB offers an attractive opportunity with strong growth potential in the coming years.

Over the year, several sales of quoted shares were undertaken to take advantage of the bullish market on the Nairobi Stock Exchange. Disposals were effected on nine counters but over 80% of the capital gains realized arose from the sale of shares in East Africa Breweries Limited (EABL). Your board and management took the decision to realize some of the very handsome gains in our books as a result of the very strong share price performance of EABL. We still retain a substantial holding in EABL which we believe is a solid, well managed company which generates considerable cash and remains an attractive investment.

## Review of Performance

The financial year to 30 June 2004 was the first in our 5-year strategic plan, which was developed jointly by the board and management following a Strategic Planning Retreat in May 2003. The performance during the year was broadly in line with our expectations and forecasts. The financial results exceeded the targets set for the year in terms of investment income, operating profit and earnings per share.

The company's performance also compared well against the benchmarks set in the Strategic Plan for several key performance indicators. A return on investment of 12% was achieved against a target of 10%. The cost - income ratio was 24% against target maximum of 25% set in the plan.

## Subsidiary Company

The subsidiary company Kenya National Properties Limited, recorded a 132% improvement in pre-tax profits which rose from Kshs 9.5 million the previous year to Kshs 22.2 million. The improvement was largely driven by a revaluation surplus of Kshs 13.9 million which resulted from the appreciation in value of Kimathi House.

The improvement in value of the property is as a result of the board's and management's efforts to rehabilitate Kimathi House which began in 2001. The refurbishment of the building continues. The external redecoration has been completed and attention is currently directed towards interior redecoration and improvements to the pavement area around the building.

Rental income declined by 5% from Kshs 20.1 million the previous year to Kshs 19.1 million. We expect rental income to improve significantly in the current year as the letting position improves from the current occupancy level of about 68%. The current occupancy level is transitory and is the effect of our deliberate efforts to improve the quality of the tenants in the building.

## Associate Companies

During the year we were pleased by the coming on board of UAP as an associate company in the month of March 2004. Additional investment of Ksh 63 million in the company increased our shareholding from 16.57% to 23.69% by the end of the year.

na pia kununuliwa kwa rasilimali zingine mwaka huu. Thamani ya hisa za kampuni zilizooodheshwa ilishuka kwa karibu asilimia 3 kufuatia kushuka kwa rasilimali yetu kwenye Uchumi Supermarkets Limited (Uchumi) kutoka shilingi milioni 476 hapo Juni 2003 hadi shilingi milioni 262 hapo tarehe 30 Juni 2004.

Kwa jumla rasilimali ya shilingi milioni 254.2 zilinunuliwa mwaka huu ambapo karibu shilingi milioni 64.8 ni katika kampuni 2 maalum hasa kampuni ya bima ya UAP Provincial Insurance Company Limited (UAP). Rasilimali ya shilingi milioni 189.4 zilinunuliwa katika kampuni zinazooodheshwa ambapo shilingi milioni 175.8 (asilimia 93) ni katika Kenya Commercial Bank Limited (KCB). Tunaamini kuwa benki ya KCB ni ya kuvutia na yenye uwezo wa kuimarika zaidi katika siku zijazo.

Mwaka huu hisa kadhaa za kampuni zilizooodheshwa ziliuzwa kwa kuwa soko la hisa la Nairobi ilikuwa ya kuvutia. Mauzo hayo yalikuwa katika vitengo tisa, walakini zaidi ya asilimia 80 ya faida ilitokana na uuzaji wa hisa za East African Breweries Limited (EABL). Halmashauri ya wakurugenzi yenu na wasimamizi walliamua kuuza mmojawapo ya rasilimali yetu bora kwa sababu ya bei nzuri ya hisa za EABL. Hata hivyo bado tunamiliki kiwango kikubwa katika EABL ambayo tunaamini ni kampuni thabiti, ina usimamizi bora, huzalisha fedha na ni rasilimali ya kutamaniwa.

## Uchambuzi wa Utendaji

Mwaka wa fedha wa hadi tarehe 30 June 2004 ulikuwa mwaka wa kwanza wa kipindi cha miaka 5 ya utendaji kulingana na mbinu na mpango ya kampuni iliyobuniwa na halmashauri ya wakurugenzi na wasimamizi kwenye kikao maalum iliyofanyika Mei 2003. Utendaji uliunda jinsi ilivyotarajiwa. Matokeo ya hesabu ya fedha yalizidi makadirio ya mwaka kwenye mapato ya uchumishaji, faida na faida kwa kila hisa.

Utendaji wa kampuni ulikuwa bora ukilinganishwa na malengo kadha yaliyopitishwa katika kikao hicho. Faida kwa rasilimali kufika asilimia 12 dhidi ya lengo la kupata asilimia 10, kipimo cha gharama kutimu asilimia 24 dhidi ya lengo ya kutimu asilimia 25 kama ilivyobuniwa.

## Kampuni Tanzu

Kampuni tanzu ya Kenya National Properties ilijipatia faida kabla ya kutozwa ushuru iliyoimarika ya asilimia 132, ongezeko kutoka shilingi milioni 9.5 mwaka uliopita hadi shilingi milioni 22.2. Hii ni kutokana na kupanda kwa thamani la jengo la Kimathi kwa shilingi milioni 13.9.

Kuimarika huku kulipitia ukarabati uliofanyiwa jengo la Kimathi na wakurugenzi pamoja na wasimamizi ambayo ilianza mwaka 2001.

Ukarabati huo bado unaendelea. Mapambo ya sehemu za nje imekamili na kwa hivi sasa tunaangazia sehemu za ndani pamoja na maeneo ya wapita njia katika jengo hilo.

## Kampuni Mashirika Yetu

Katika kipindi hiki ni fahari kwetu kwa kampuni ya UAP kujiunga kama shirika mnamo Machi 2004. Ununuzi zaidi ya rasilimali ya shilingi milioni 63 kwenye kampuni hiyo uliongeza umiliki wetu kutoka asilimia 16.57 hadi asilimia 23.69 mwakani.

UAP ni kampuni ya bima inayosimamiwa na wasimamizi waliohitimu na imeendelea kufanya vyema hivi karibuni. Walakini

## chairman's statement / taarifa ya mwenyekiti

UAP is a solid local insurance company run by professional and competent management that has performed well in recent years. However, because the financial year for UAP ends in December we have not consolidated the share of the company's earnings in our accounts for the year to June 2004. This was necessary in order to maintain consistency in our treatment of associate companies with financial years ending in December. We therefore expect the contribution of UAP to filter through and strengthen our earnings starting in the current financial year.

Our four associate companies in the Coca Cola bottling business - Nairobi Bottlers, Flamingo Bottlers, Mt. Kenya Bottlers and Rift Valley Bottlers - recorded improved performances during the year. The price roll-back effected nationally by the Coca Cola company in August 2003 reduced the retail price on the 300 ml package by 25% from Kshs 20 to Kshs 15 per bottle. This reduction made the product more affordable to consumers and resulted in an increase in revenues and earnings for the bottlers.

Aon Minet Insurance Brokers also recorded an improvement in operating and financial performance with the pre-tax earnings growing substantially over the previous year.

Our three other associate companies posted disappointing results during the year. Mather & Platt recorded a marginal loss for the year down from a break-even position the previous year. We believe there exists opportunities to create significant synergies between Mather & Platt and the other group companies to considerably enhance the performance of the business. Efforts to generate the synergies will be intensified in the current year.

The last financial year was the worst ever for Uchumi Supermarkets in its 28 year history. The retailer recorded a pre-tax loss of Kshs 654 million on a net turnover of Kshs 7.96 billion. Our share of this loss amounted to Kshs 162.9 million.

The causes of this poor performance we believe have been correctly diagnosed and action is being taken by the board and management of the company to address all the issues that are key to the success of the business. Wide-ranging restructuring measures have been initiated and by the end of the current financial year we expect to see changes at all levels from the shareholding structure through the board and management and down to the operational level. A refinancing plan that includes the raising of both debt and equity has been adopted by the board and is currently under implementation. The first phase of the debt-raising program has been successfully completed. We have advanced Kshs 80 million as a shareholder loan to Uchumi to help finance working capital requirements. This was done alongside the other major shareholders in the company, Industrial and Commercial Development Corporation (ICDC) and KWA Holdings (EA) Limited (KWAL).

The injection of new capital into the business is crucial in order to bring down to manageable levels the outstanding amounts owing to both the company's bankers and its suppliers. Discussions are also ongoing with potential strategic equity partners who we hope will add the much-needed retail expertise into the business.

kwa kuwa mwaka wa fedha ya UAP unaisha Desemba hatukutilia maanani mgao wa sehemu ya faida kwa hesabu zetu za mwaka ulioisha 30 Juni 2004. Ilitubidi kufanya hivyo ili kudemisha msimamo juu ya kampuni ambazo miaka ya fedha huisha Desemba. Kwa hivyo tunatarajia mchango wa UAP kwa mapato yetu kuanzia mwaka wa 2004/05.

Kampuni zetu nne za Coca Cola - Nairobi Bottlers, Flamingo Bottlers, Mt. Kenya na Rift Valley Bottlers- zilijipatia mapato yaliyoimarika mwaka huu. Kampuni ya Coca Cola ilipungua bei ya bidhaa zake mwezi wa Agosti ambapo bei ya chupa ya soda ya kipimo 300ml ilipunguka kwa asilimia 25 kutoka shilingi 20 hadi shilingi 15 kwa kila chupa. Hii iliwezesha wanunuzi kuweza kumudu jambo lililopeleka kuongezeka kwa mapato kwa kampuni hizo.

Pia kampuni ya AON Minet Insurance Brokers iliimarisha mapato yake huku faida kabla ya ushuru ikiongezeka kwa kipimo cha juu yakilinganishwa na yale ya mwaka uliopita.

Kampuni zetu zingine tatu hazikufanya vyema kipindi hiki. Kampuni ya Mather & Platt ilipata hasara na hivyo kufanya vibaya kuliko mwaka uliopita. Tunaimani kuwa kuna matumaini ya ushirika wa karibu kati ya Mather & Platt na mashirika yetu mengine ili kuinua biashara ya kampuni hii.

Mwaka wa fedha uliokwisha ulikuwa mbaya kwa Uchumi Supermarket katika historia yake ya miaka 28. Kampuni hiyo ilipata hasara kabla ya kutozwa ushuru wa shilingi milioni 654 kutokana na mauzo ya shilingi bilioni 7.96. Hasara hiyo ilituharimu shilingi milioni 162.9

Mambo yaliyosababisha hasara hiyo yametambuliwa kwa haraka na hatua zimechukuliwa na halmashauri na wasimamizi ili kurekebisha mambo hayo muhimu ili kufanikisha biashara. Hatua kadhaa ya urekebishaji zimechukuliwa na tunatarajia kuona mabadiliko mwisho wa mwaka huu kuanzia muundo ya umilikaji wa hisa hadi halmashauri ya wakurugenzi, wasimamizi hadi uendeshaji wa kazi. Mpango wa kuchanga fedha kupitia mikopo na uuzaji wa hisa imeidhinishwa na wakurugenzi na inaendelea kutekelezwa. Hatua ya kwanza ya kujipatia mkopo imekamilika. Tumekopesha Uchumi shilingi milioni 80 tukiwa wenye hisa wao ili kusaidia kumudu gharama ya matumizi. Tulishirikiana na wenyehisa wenye wengine wakubwa katika kampuni hiyo, Industrial Commercial Development Corporation (ICDC) na KWA Holdings (EA) Limited (KWAL) katika shughuli hiyo.

Fedha hizo zitawezesha kampuni hiyo kumudu kulipia mikopo ya Benki na madeni mengine. Pia majadiliano yanaendelea ili kushirikisha kampuni nyingine yenye ujuzi katika biashara hiyo.

Pia kuna mpango wa kuajiri wasimamizi wa hali ya juu. Afisa mkuu ametambuliwa ambaye atashikilia hatamu ya uongozi wa shughuli zote na pia kupunguza gharama ya matumizi.

Ushirikiano na uaminivu uliodhihirishwa na wafanyi biashara pamoja na wanunuzi wakati mambo yalikuwa magumu kwa



The other on-going changes include recruitment of a new top management team. A new CEO has been identified to take over the leadership of the company at management level and spearhead all the other operational improvements and cost-cutting initiatives.

The unwavering support and loyalty demonstrated by both suppliers and customers of Uchumi during the very difficult period the company has been going through has been very encouraging. We believe it affirms the equity built over the years in Uchumi as a premier Kenyan brand.

As the single largest shareholder in Uchumi, we believe that the restructuring efforts will lead to a successful turnaround of the company. We are fully committed to the strategy adopted by the board and management of the company and will support their efforts every step of the way.

KWAL, our associate company in the wines and spirits business, also recorded a worse loss than the one recorded in the previous year. Recovery going forward will hinge on efforts to strengthen the financial management of the company, improve capacity utilization and contain costs.

KWAL, was one of the thirteen state corporations in the pilot programme for the newly introduced performance contracts for parastatals. A performance contract for the 9 months between October 2004 and June 2005 was signed between the board and the parent Ministry on 1st October 2004. The objective of the performance contracts is to improve the management of public enterprises by granting boards autonomy to act in the best interests of their organisations without undue political interference while holding them accountable for performance against pre-agreed targets. We are confident that the introduction of performance contracts will lead to improved results for KWAL.

## Other Portfolio Companies

Dividend income from the non-associate companies declined by 22% to Ksh 81 million from Kshs 104 million the previous year. The drop was mainly because of a decline in the dividend payment from the likes of Eveready Batteries, NAS Airport Services and Carbacid Investments Limited. Eveready continues to bear the brunt of illegal trading in counterfeit and contraband products. NAS saw its earnings come under pressure due to reduction in flights following the negative travel advisories against Kenya. The dividend paid by Carbacid in the previous year had been exceptional and was not matched by their payout in the year under review.

Additionally, purely on account of a difference in the timing of the declaration, no dividend from General Motors was recognised during the year.

## Fixed Income Investments

Our holding of treasury bonds decreased by 14% from Kshs 152 million on 30 June 2003 to Kshs 130 million on 30 June 2004. The decrease was as a result of certain bonds that matured within the period. The average interest earned on the bond holdings is about 13.8%. The proceeds from retirement of the bonds were not re-invested at maturity because of the low interest rates prevailing during the year. Interest income for the period declined by 19% to Kshs 17.6 million due to the retirement of part of the bond portfolio.

## Board of Directors

There were several changes to the board of your company during the year. Mr. John P.N. Simba resigned as a director on 10th

Uchumi umekuwa wa kutia moyo. Tunaamini jambo hili ni ishara ya umaarufu wa Uchumi humu nchini.

Kama wenyehisa wakuu katika Uchumi tunaamini kuwa mabadiliko hayo yatawezesha kampuni hiyo kuanza kufanya vyema. Tunakubaliana na mbinu na hatua zilizochukuliwa na wakurugenzi na wasimamizi wa kampuni hiyo na tutawaunga mkono kikamilivu.

Kampuni yetu nyingine shirika, KWAL inayotengeneza pombe kali pia ilipata hasara zaidi kuliko ilivyokuwa kwaka uliopita. Urekebishaji wa hali hii katika miaka ijayo, utahusu kuimarika kwa usimamizi wa fedha ya kampuni, ongezeko la uzalishaji na kupunguzwa kwa gharama za matumizi.

KWAL ilikuwa mmojawapo ya mashirika ya serikari kumi na tatu yaliyopewa masharti ya utendaji. Kantarasi ya miezi 9 ilitiwa sahihi baina ya wakurugenzi wa kampuni hiyo na wizara inayohusika hapo mnamo tarehe 1 Oktoba 2004. Madhumuni ya hiyo kantarasi ni kuinua usimamizi wa mashirika ya serikali kwa kupatia wakurugenzi uwezo zaidi ya usimamizi bila kuingiliwa na siasa na kuhitajika kupata matokeo kulingana na viwango waliowekewa. Tunahakika kuwa masharti haya yatapelekea KWAL kuinua matokeo yake.

## Mashirika Mengine

Mgao wa faida ya mashirika mengine ulipunguka kwa asilimia 22 hadi shilingi milioni 81 kutoka shilingi milioni 104 mwaka uliopita. Upungufu huo ilitokana na Eveready Batteries, NAS Airport Services, Carbacid Investment. Eveready bado inakubaliana na ushindani kutoka bidhaa bandia inayoingizwa nchini kimagendo. Mapato ya NAS ilipunguka kufuatia kusimamishwa kwa safari kadhaa za ndege kwa sababu ya vitisho vya ukaidi. Mgao wa mwaka uliopita wa Carbacid ulikuwa wa kipekee na haikufikiwa na malipo ya mwaka huu.

Mgao ya General Motors haijatihiwa maanani kwa sababu ya kuchelewa kwa wakati wa ulipaji.

## Rasilmali zenye Mapato hakika

Umiliki wa hati za serikali ulipunguka kwa asilimia 14 kutoka shilingi milioni 152 hapo Juni 30, 2003 hadi shilingi milioni 130 hapo Juni 30, 2004. Upungufu huo ulitokana na kuimarika hadi kikomo wa hati hizo. Riba inayopatikana kutokana na hati hizo ni asilimia 13.8.

Fedha zilizopatikana kutokana na kuimarika kwa hati hizo hazikutumiwa kwa ununuzi wa hati zengine mpya kwa sababu kipimo cha riba za hati zilishuka mwakani. Mapato ya riba ilishuka kwa asilimia 19 hadi shilingi milioni 17.6.

## Halmashauri ya Wakurugenzi

Kulikuwa na mabadiliko kadha katika halmashauri mwaka huu. Bw. John P.N. Simba alijiuzulu tarehe 10 Desemba 2003. Bw. Simba alihudumu kwa ustadi kama mkurugenzi kwa miaka 12 baada ya kujiunga nasi mwaka 1991. Tunamshukuru kwa mchango wake.

Bi. Margaret Rotich, Mkurugenzi wa Viwanda alijiunga kama mkurugenzi wa zamu kwa niaba ya Katibu wa Wizara ya Biashara na Viwanda, nafasi ilikuwa ikishikiliwa na Bi. Pamela Dede. Tunamkaribisha kwenye halmashauri.

# chairman's statement / taarifa ya mwenyekiti

December 2003. Mr. Simba had rendered distinguished service to the company as a director for 12 years having joined the board in 1991. We thank him for his immense contribution.

Mrs. Margaret Rotich, the Director of Industry, joined the board in August 2004 as the alternate director to the Permanent Secretary, Ministry of Trade and Industry in place of Ms. Pamela Dede. We welcome her to the board.

## Management

Mr. Tony Wainaina, who was the Managing Director and Chief Executive Officer, left the company on 6 August 2004. He resigned for personal reasons in order to rejoin his family who had been living in the United Kingdom for several years. During his 5-year tenure, Mr. Wainaina provided very strong leadership that led to significant growth and good performance of the company. We thank him most sincerely for his great contribution to the company and wish him all the best in his future endeavors.

The board is in the process of recruiting a successor to Mr. Wainaina. Executive selection consultants have been mandated to spearhead the process of head hunting a high calibre professional both locally and in the region. This process is nearing its conclusion.

In the meantime, the board has appointed Mr. Peter K. Mwangi, who has been Company Secretary and Investment Manager as the Acting Managing Director. The management team remains focused and motivated to deliver superior results. Further additions to the team will be made in the course of the current financial year to strengthen the internal capacity within the company especially in the area of risk management.

## Corporate Governance

Your board remains committed to upholding the very highest standards of corporate governance. We recognize that good governance is essential in ensuring superior corporate performance. We continue to advocate for adherence to the globally recognized tenets of good governance in all our associate and other portfolio companies.

Since the last report, we have taken several steps to further enhance the standards of corporate governance in your company.

A Nomination and Governance Committee was established by the Board on February 25th 2004. This brings the total number of committees to three. Terms of reference for all three committees were also developed and approved by the board.

In addition, a Board Charter and Board Work Plan were developed to guide the board in the discharge of its functions. A statement on the extent to which your company complies with the principles of good corporate governance is included elsewhere in this Annual Report.

## Wasimamizi

Bw. Tony Wainaina ambaye amekuwa mkurugenzi na msimamizi mkuu alijiuzulu mnamo tarehe 6 Agosti 2004. Alijiuzulu kutokana na sababu za kibinafsi ili kujiunga na jamii yake ambao wamekuwa wakiishi Uingereza kwa muda mrefu. Kwa wakati wa zamu yake ya miaka 5, Bw. Wainaina aliongoza kampuni kwa ustadi na kupeleka kampuni kupiga hatua imara kimaendeleo. Tunamshukuru sana kwa mchango wake na kumtakia mema kwa siku sijazo.

Halmashauri ya wakurugenzi wanajishughulisha na uajiri wa afisa mwingine mkuu kuchukua nafasi ya Bw. Wainaina. Wataalamu wamepeva jukumu la kumchagua mtu aliyehitimu wa humu nchini ama katika eneo hili. Jukumu hili linakaribia kukamilika.

Kwa wakati huu halmashauri imemteua Bw. Peter K. Mwangi ambaye amekuwa Katibu wa kampuni na Meneja wa Rasilmali kuwa kaimu Mkurugenzi Mkuu. Kundi la wasimamizi bado wako na nia ya mapato bora. Ongezeko zaidi kwa kundi hilo itafanyika mwaka huu ili kuimarisha zaidi usimamizi hasa katika ukadiriaji wa madhara.

## Usimamizi wa Kimashirika

Wakurugenzi wanathamini sana usimamizi wa hali ya juu. Tunaamini kwamba usimamizi wa hali ya juu ni muhimu kwa minajili ya utendaji mwema. Tunatilia mkazo usimamizi aina hiyo katika mashirika yetu yote.

Tangu tulipotoa taarifa iliyopita, tumechukua hatua ya kuinua hadhi ya usimamizi.

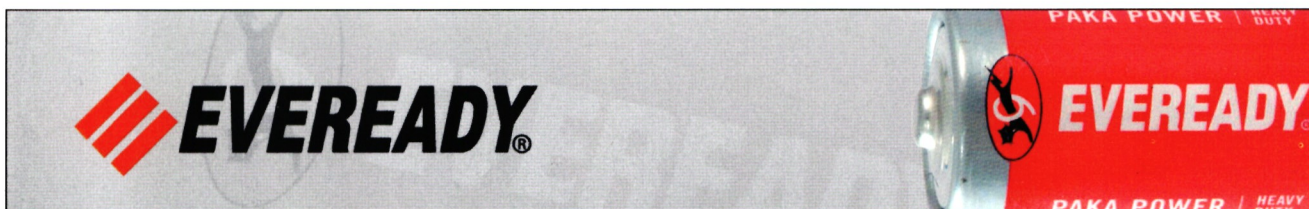
Kamati iliundwa na wakurugenzi ili kushughulikia uajiraji na uongozi. Hii itafanya kamati zilizobuniwa kuwa tatu. Jukumu ya kamati hizo pia iliidhinishwa na wakurugenzi.

Zaidi ya hayo hati ilitayarishwa kuhusu jinsi wakurugenzi wanatakiwa kuendesha shughuli za kampuni. Tumeguzia kwengineko kwenye ripoti ya mwaka kuhusu namna wakurugenzi wanavyoendesha shughuli za kampuni.

## Wajibu wa Kampuni Kwa Jamii

Kampuni yenu inatilia maani haja ya kuwa mfano mwema kwa kuhimiza wajibu wake kwa wahusika wote katika jamii. Tunashughulikia kwa makini mambo tatu muhimu ya utendaji bora wa kifedha ukizingatia utunzi bora wa mazingira na kuwepo na haki katika jamii kama kipimo cha utendaji wa uwekaji rasilmali. Pia sisi hutafuta nafasi ya njia ya kusaidia jamii kwa kuinua hali ya maisha yao hasa wale wasiobahatika.

Mwakani wasimamizi na wafanya kazi wa kampuni walijiunga na shirika la Habitat ambalo linajishughulisha na mambo ya ujenzi wa vikao bora kwa jamii wasiojiweza, katika ujenzi wa nyumba huko Embu katika mkoa wa mashariki.



## chairman's statement / taarifa ya mwenyekiti

### Corporate Social Responsibility

Your company remains committed to being a model corporate citizen that takes very seriously its obligations to all its stakeholders and the wider society at large. We continue to pay attention to the triple bottom line - financial prosperity coupled with a regard for environmental quality and social equity - as a measure of the results of our investment activities. We also proactively seek opportunities to give back to society by engaging with communities to improve the lives of especially the less fortunate members of our society.

During the year our staff members joined Habitat for Humanity Kenya in its initiative of building homes for low income families. They engaged themselves actively in the construction of a low-cost house in Embu.

We also started working with youth from Mukuru wa Njenga slums in Nairobi. The company donated sporting uniform and equipment to Rekebicho FC which is a football club that brings together the youth from the area. As the name suggests, the idea behind the formation of the team was to provide an alternative to anti-social behaviour that the youth previously were tempted to get into due to lack of opportunities to channel their energies in more constructive directions. We fully intend to continue with our support and involvement with the team in the years ahead.

### Risk Management

The board and management are alive to the need to enhance our ability to manage the risks confronting the business. We have identified numerous sources of risk that continue to engage our attention. Of particular concern is the underlying business risk especially of our associate companies. The volatility in earnings of an associate has a major impact on your company's reported performance. We have taken measures to ensure that potential risks are identified early enough to allow pre-emptive action to be taken. Whenever possible, and without prejudice to the economics of our business, the accounting exposure will be reduced to minimize the impact of an under performing associate company on our financial results.

### Strategy

We will continue to pursue our strategy of aggressively seeking out attractive investment opportunities to increase the level of diversification in our portfolio.

Our approach is built around the four key strategic thrusts of:

- Alliances and Partnerships: we will continue to build relationships with like-minded investors both locally and in the region with a view to taking a joint approach to investment opportunities. We are exploring opportunities for strategic alliances for investment in the telecommunications industry
- Corporate Governance and Public Image: we will commit ourselves to continuously enhance the standards of corporate governance and business ethics and to continuously improve the profile of the company as a responsible investor in the market;
- Internal Capacity Development: we will continuously develop our people to meet the challenges of the business and improve performance; and
- Capital Raising: we will continuously explore the best means available to the company for raising additional capital to take advantage of available investment opportunities.

Zaidi ya hayo tulianzisha uhusiano na vijana kutoka kibanda cha Mukuru kwa Njenga mjini Nairobi. Kampuni ilitoa mchango wa bidhaa za mchezo kwa Rekebicho FC, ambayo ni timu ya mbira inayoleta pamoja vijana kutoka eneo hilo. Jinsi jina linavyo-oelezea, wazo lililopelekea kuundwa kwa timu ni kutoa nafasi kwa vijana ili wakome kujiingiza katika tabia mbaya kwa sababu ya kukosa la kufanya. Nia yetu ni kuendeleza uhusiano huo kwa siku zijazo.

### Uthibiti wa Madhara

Wakurugenzi pamoja na wasimamizi wanatambua haja ya kuimarisha uwezo wa kukabiliana ma madhara yanayotukabili. Tumetambua madhara yanayotukabili. Muhimu zaidi ni hasara kutoka mashirika yetu. Hali wasiwasi ya mapato yao hudhuru matokeo ya kampuni yenu. Tumechukua hatua ili kuweza kutambua madhara kabla ya kutokea. Ili kuhifadhi biashara yetu kutokana na hasara hizo tumepunguza umiliki wetu katika kampuni hizo ambazo hazifanyi vyema.



Mr. P. K. Mwangi donating sports uniform to Rekebicho FC.

### Mbinu ya Utendaji

Tutaendea mbinu ya utafutaji wa rasilimali yanayovutia ili kusambaza rasilimali zetu.

Tunatumia nguzo hizi zifuatazo:

- Ushirika na uhusiano: Tulaendelea kujenga uhusiano kati yetu na wale wenye mawazo kama yetu humu nchini na katika eneo hili tukiwa na nia ya kuweka rasilimali kwa pamoja. Hasa tunatafuta nafasi bora za uhusiano za kutuwezesha kuchumisha fedha katika sekta ya mawasiliano.
- Usimamizi ya hali ya juu pamoja na jina zuri: Tutahakikisha kwamba usimamizi wa hali ya juu unazingatiwa na kuinua jina yetu kama kampuni ya kuheshimika.

## chairman's statement / taarifa ya mwenyekiti

### Future Prospects

We look to the future with optimism. Your company's portfolio has proved its resilience and strength year after year. We believe that this is a reflection of the diversified nature of the underlying investments.

Our focus over the coming year will be on strengthening the performance of the poorly performing associate companies. Any improvements in the financial performance of both Uchumi and KWAL will go straight towards improving our bottom-line. We strongly believe that the various measures being put in place in the two companies will lead to successful turnarounds of the two businesses in the medium term.

We will also focus on investment opportunities especially in infrastructure, utilities and the financial services sector. We also remain on the look out for any opportunities that may arise out of the Government's divestiture programme.

Opportunities in any of our target sectors are likely to require heavy capital investment and so we will be initiating plans for a major capital raising exercise within the course of the current financial year. We hope that you, our shareholders, will support us when the time comes.

### Appreciation

I would like to sincerely thank my fellow directors for their cooperation and guidance. Since I joined the board in December 2003, they have made it easy for me to find my bearing in the company and within the board. I truly appreciate their wise counsel and advice.

The management and staff of the company have all worked very hard and with great motivation to achieve outstanding results in yet another demanding year. It would be remiss of me not to mention the support the company has received from the Capital Markets Authority, the Nairobi Stock Exchange and the entire stockbrokerage and institutional investor fraternity. To all of them we express our gratitude and hope that the relationships we have built will endure.

Finally, I would like to thank all of you as shareholders for your continued support and commitment to our company.

God bless you all.



James N. Muguiyi  
Chairman

16 October 2004

- Kuendeleza usimamizi wa kampuni: Tutaendelea kujenga maarifa miongoni mwa maafisa wetu kuwawezesha kukabili matatizo na kuinua utendaji, na mwisho,

- Mchango wa fedha: Tutaendelea kutafuta njia bora ya kuchangisha fedha ili kunufaika kutokana na hali nzuri ya uchu-mishaji.

### Matarajio ya Siku za Usoni

Tunaangazia siku zijazo kwa matumaini. Rasilimali ya kampuni yenu imedhihirisha ustahimilivu kutoka mwaka hadi mwaka. Tunaamini hii ni kionyeshi cha usambazaji wa rasilimali yaliyomo. Matokeo bora kutoka Uchumi na KWAL yatawezesha kuimarika kwa faida zetu. Tunaamini kuwa hatua zinazichukuliwa na kampuni hizo zitawawezesha kampuni hizo kurejelea faida kwa wakati usiokuwa mrefu.

Pia tunanua kuweka rasilimali kwenye sekta ya mbali mbali kama vile sekta ya mawasiliano na huduma na ya fedha. Pia tutakuwa macho kwa nafasi zozote bora zitakazojitokeza wakati serikali inapobinafsisha mashirika zake.

Nafasi zozote tunazonua zitahitaji fedha nyingi na hivyo tutabuni njia ya kuchangisha fedha mwaka huu. Tunaimani kuwa nyinyi wenyehisa mutatusaidia wakati ukifika.

### Shukrani

Ningependa kushukuru wakurugenzi wenzangu kwa ushirikiano na mwelekeo. Tangu nilipojiunga na halmashauri mnamo Desemba 2003, wamerahisisha kazi yangu na kufanya niwe na mwelekeo mwema wa kampuni. Ninawashukuru kwa mawaidha yao ya busara.

Wasimamizi pamoja na wafanyi kazi wote wa kampuni walitia bidii na kuwezesha kampuni kufanya vyema zaidi mwakani. Haitakuwa vyema kukosa kutaja ushirikiano kutoka Capital Markets Authority, Soko la hisa la Nairobi, na washirika wote. Kwao wote tunatoa shukrani na ni matumaini yetu kuwa uhusiano tuliojenga utadumu.

Mwisho ningependa kuwashukuru nyote wenyehisa kwa ushirikiano wenu na imani kwa kampuni.

Mungu awabariki nyote.



James N. Muguiyi  
Mwenyekiti

16 Oktoba 2004



## statement on corporate governance

### Governance

Governance refers to the process and structure used to direct and manage the affairs of a company towards enhancing business propriety and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of other stakeholders. It is underpinned by the principles of openness, integrity and accountability.

### Commitment to Good Corporate Governance

Corporate governance as the process by which organizations are directed, controlled and held to account places responsibility for overall business strategy, practices and policies on the board of directors. The directors of ICDC Investment Company Limited (ICDCI) remain committed to upholding the very highest standards of corporate governance and business ethics.

This commitment is demonstrated in continuous and consistent focus on actions that are geared towards ensuring full compliance with all relevant laws as well as with the "Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya" issued by the Capital Markets Authority.

### Championing Corporate Governance in Associate and other Companies

The directors are firmly of the view that the company must promote adherence to the very highest standards of corporate governance in all companies in the portfolio where ICDCI either has control or exerts significant influence. To this end ICDCI must strive to act as a model by exemplifying generally accepted corporate practice and espousing the internationally developed principles of good corporate governance.

The directors fully support the aims and objectives of the Kenya Shareholders Association in seeking to empower shareholders in listed companies to raise the standards of corporate governance in those companies.

### Board of Directors

The board of directors meets regularly to direct and manage the company's business according to essential standards of good corporate governance.

Except for direction and guidance on general policy, the board has delegated authority for the conduct of day-to-day business to the Chief Executive Officer. It however retains responsibility for establishing and maintaining the company's overall system of internal controls over finan-

cial, operational and compliance issues and monitoring the performance of management.

### Board Charter

The board is guided in the discharge of its functions by a clearly documented Board Charter. The Charter defines the governance framework within which the board exists and works and sets out specific responsibilities to be discharged by the board and directors collectively as well as the roles and responsibilities incumbent upon directors as individuals.

### Board Work Plan

The full board meets at least four times a year, and has a formal schedule of matters reserved for it. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

### Board Composition

The directors continue to review the mix of skills, competencies and gender represented on the board and believe that the current composition of the board has a good balance of capable and reputable persons from a diversity of backgrounds. The directors are therefore of the view that the board is well placed to take the business forward.

### Committees of the Board

The board has three standing committees all of which are guided by clear Terms of Reference. The committees are instrumental in monitoring company operations, systems and internal controls.

### Audit Committee

The Audit Committee has been in operation since September 1999 and meets at least three times a year. Its members are:

Eng. Joseph Munene (Chairman)  
Mr. Christopher Kirubi  
Mrs. Margaret Rotich  
Mrs. Margaret Mwangola  
Mr. Isaac Awuondo

The Audit Committee plays a key role in ensuring financial management, statutory audit, financial reporting, internal control, risk management and compliance issues are given the attention they deserve.



## statement on corporate governance

The Committee receives periodic input and reports from the group's external auditors. In addition, the Committee regularly reviews and considers changes to improve the group's security, internal control and risk management processes.

### Investment Committee

The Investment Committee has been in operation since April 1994 and meets at least four times a year. Its members are:

Mr. Christopher Kirubi (Chairman)  
Mr. James Muguiyi  
Mr. Francis Thuo  
Mr. Isaac Awuondo  
Eng. Joseph Munene

The Investment Committee plays a key role in providing leadership in the achievement of competitive returns on the company's equity and fixed income capital by investing in attractive local and regional investment opportunities.

The Committee also provides clear guidelines on investment policies, procedures and objectives for enabling a consistent and structured, research-based and risk-sensitive approach to value investing.

In addition, the Committee reviews the company's detailed strategic investment plans and monitors and critically reviews the operational and financial performance of the company against key performance indicators.

### Nomination and Governance Committee

The Nomination and Governance Committee was established by the board on 25th February 2004. The Committee meets at least four times a year. Its members are:

Mr. Isaac Awuondo (Chairman)  
Eng. Joseph Munene  
Mr. James Muguiyi  
Dr. Katherine Getao

The Nomination and Governance Committee plays a key role in ensuring that the company adheres to the highest standards of corporate governance. The Committee also

considers the size, composition and remuneration of the board and proposes names of prospective non-executive directors to the board.

The Committee also recommends to the board the recruitment, promotion, remuneration, termination and other significant issues related to executive directors and senior managers.

### Directors Training

The directors have continued to upgrade their skills and knowledge by taking part in formal training programmes on corporate governance as well as general training for directors. Since the date of the last report one more director has been trained and certified by the Centre for Corporate Governance. In addition, another director has now qualified as a trainer for the training of directors' course.

### Non-Executive Directors

Eight of the nine directors, including the Chairman, are non-executive directors. All non-executive directors have specific fixed terms of appointment not exceeding three years and are subject to periodic reappointment in accordance with the company's Articles of Association.

On appointment, each director receives information about the company and is advised of the legal, regulatory and other obligations of a director of a listed company. They have access to the Company Secretary, who is responsible for ensuring that board procedures are followed and that applicable laws and regulations are complied with.

The remuneration for non-executive directors consists of fees for their services in connection with board and committee meetings. They are not eligible for pension scheme membership and do not participate in any of the company's bonus or other incentive schemes. There were no loans advanced to directors at any time during the year.

Information and disclosures relating to the aggregate amount of emoluments and compensation received by the directors for their services in the financial year to 30 June 2004 are contained in note 4 to the financial statements on page 32 in this Annual Report.



## statement on corporate governance

### **Communication**

The company places a great deal of importance on communication with its shareholders and the financial markets in general and issues notices in the press of its half yearly and yearly financial results. There are also investor and press briefing sessions after the release of the results.

The group publishes a full Annual Report and Accounts. The full Report and Accounts are distributed to all shareholders and on request to other parties who have an interest in the group's performance. Shareholders also have direct access to the company and management responds on an on-going basis to numerous letters from shareholders and interested parties on a wide range of issues. Regular communication with shareholders also takes place via the company's website.

### **Internal Controls**

The board has a collective responsibility for the establishment and maintenance of a system of internal controls that provides reasonable assurance of effective and efficient operations. However, it recognizes that any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The board attaches great importance to maintaining a strong control environment and the company's system of internal control includes the assessment of non-financial risks and control. The board has reviewed the company's internal control policies and procedures and is satisfied that appropriate procedures are in place.

### **Risk Management**

The company ensures that there are written policies and procedures to identify and manage risk including operational risk, balance sheet management, market and credit risk on an ongoing basis. Appropriate focus is given to the risks facing the various economic sectors, individual companies and financial instruments in the portfolio.

### **Business Conduct**

The company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. The board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

### **Performance Reporting**

The business performance of the company is reported regularly to its management and the board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

### **Going Concern**

The directors confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis when preparing the financial statements.

### **Ethical Standards**

ICDCI believes in integrity and strong ethical values as a way of doing business. Matters relating to the conduct and core values are currently incorporated in the company's personnel policies and procedures. Employees must refrain from taking part in or exerting influence in any transaction in which their own interest may conflict with the best interest of the group.

## report of the directors / ripoti ya wakurugenzi

The directors present their report together with the audited financial statements for the year ended 30 June 2004.

### ACTIVITIES

The group's principal activity remains engagement in investment activities.

### RESULTS

	Shs'000
Profit before taxation	348,451
Taxation	(107,101)
Net profit after taxation	241,350
Dividend	(164,986)
Retained profit for the year	<u>76,364</u>

### DIVIDEND

The directors recommend the payment of a first and final dividend of Shs 3.00 per share (2003 – Shs 2.20 per share).

### DIRECTORS

The current members of the board are as shown on page 2.

J. P. N. Simba and T. P. K. Wainaina ceased to be directors of the company on 10th December 2003 and 6th August 2004 respectively.

Mr J. N. Muguiyi was elected a director and chairman of the board on 10th December 2003.

In accordance with article 86 of the Articles of Association, PS, Ministry of Trade & Industry and I. O. Awuondo retire by rotation and, being eligible, offer themselves for re-election.

F. M. Thuo has attained the age of 70 and retires in accordance with section 186(2) of the Companies Act. Special notice has been received pursuant to section 142 of the Companies Act, and a resolution will be considered at the Annual General Meeting to propose his re-election as a director of the Company in accordance to section 186 (5) of the Companies Act.

### AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of section 159 (2) of the Companies Act (Cap 486).

### BY ORDER OF THE BOARD

Secretary  
Nairobi  
16 October 2004

Wakurugenzi wanatoa ripoti yao na maelezo ya hesabu zilizokaguliwa ya mwaka ulioisha tarehe 30 Juni 2004.

### SHUGHULI

Shughuli muhimu za kampuni zimeendelea kuwa ni shughuli za uwekaji rasilimali na uzalishaji wa pesa.

### MATOKEO

	Shs'000
Faida kabla ya ushuru	348,451
Kodi iliotozwa	(107,101)
Faida baada ya kutoa fungu la ushuru mgao	241,350
	(164,986)
Faida baada ya kutoa mgao	<u>76,364</u>

### MGAO

Wakurugenzi wamependekeza malipo ya mgao wa kwanza na wa mwisho wa mwaka kuwa Shilingi 3.00 kwa kila hisa (mwaka wa 2003– ulilipwa Shilingi 2.20 kila hisa).

### WAKURUGENZI

Halmashauri ya Wakurugenzi wameonyeshwa kwenye ukurasa wa 2.

J. P. N. Simba na T.P.K. Wainaina walijiuzulu kama wakurugenzi wa kampuni mnamo tarehe 10 Desemba 2003 na tarehe 6 Agosti 2004.

Bw. J. N. Muguiyi alichaguliwa kama mkurugenzi na mwenyekiti wa halmashauri mnamo tarehe 10 Desemba 2003.

Kufuatia sharti 86 la kanuni za kampuni, Katibu, Wizara ya Biashara na Viwanda na Bw. I. O. Awuondo wanastaa-fu kwa zamu, na kwa vile wanaweza kuchaguliwa tena, wamjitolea kuchaguliwa.

Bw. F. M. Thuo amehitimu miaka 70 na anastaafu kulingana na kifungu 186(2) cha Sheria za Makampuni. Taarifa maalum imepokewa kufuatia kifungu 142 ya Sheria za Makampuni, na azimio litazingatiwa katika mkutano mkuu ya kumchagua tena kama mkurugenzi kulingana na kifungu 186(5) ya Sheria za Makampuni.

### WAKAGUZI

Deloitte & Touche, baada ya kudhihirisha hiari yao, waten-delea na kazi ya uhasibu kufuatia kifungu nambari 159 (2) cha Sheria za Kampuni (sehemu 486).

### KWA AMRI YA HALMASHAURI

Katibu  
Nairobi  
16 Oktoba 2004

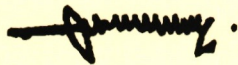


## statement of directors responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group 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.

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



James N. Muguiyi  
Chairman  
16 October 2004



Isaac O. Awuondo  
Director  
16 October 2004

## independent auditors' report

to the members of ICDC Investment Company Limited

# Deloitte.

**Deloitte & Touche**  
**Certified Public Accountants (Kenya)**  
"Kirungii"  
Ring Road, Westlands  
P. O. Box 40092 - GPO 00100  
Nairobi  
Kenya

Tel : + (254-20) 444 1344/05-12  
Fax : + (254-20) 444 8966  
Dropping Zone No. 92  
E-mail : admin@deloitte.co.ke

We have audited the financial statements on pages 21 to 47 for the year ended 30 June 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

### Respective responsibilities of directors and auditors

As described on page 19, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

### Basis of opinion

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

### Opinion

In our opinion:

- a. proper books of account have been kept by the company and the company's balance sheet is in agreement therewith;
- b. the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2004 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.



16 October 2004

Audit. Tax. Consulting. Financial Advisory.

A member firm of  
**Deloitte Touche Tohmatsu**

Partners: D.M. Ndonge H. Gadhoke\* D. C. Hodges\* J.M. Kiarie M.M. Kisuu S.O. Onyango J.W. Wangai  
\*British

# consolidated income statement

for the year ended 30 June 2004

		2004	2003 (restated)
	Note	Shs'000	Shs'000
INCOME	3	<u>354,570</u>	<u>221,028</u>
EXPENSES			
Administrative expenses		(52,713)	(44,718)
Provision for appreciation in value of investments		-	16
Other operating expenses		<u>(27,590)</u>	<u>(35,732)</u>
		<u>(80,303)</u>	<u>(80,434)</u>
OPERATING PROFIT	4	274,267	140,594
FINANCE COSTS	5	(6,281)	(8,172)
MARKET GAIN ON INVESTMENT PROPERTY	11	8,938	-
SHARE OF PROFITS OF ASSOCIATED COMPANIES	16	<u>71,527</u>	<u>70,526</u>
PROFIT BEFORE TAXATION		348,451	202,948
TAXATION	7	<u>(107,101)</u>	<u>(43,799)</u>
NET PROFIT FOR THE YEAR	8	<u>241,350</u>	<u>159,149</u>
EARNINGS PER SHARE - Basic & Diluted	9	<u>Shs 4.39</u>	<u>Shs 2.89</u>
DIVIDENDS PER SHARE	10	<u>Shs 3.00</u>	<u>Shs 2.20</u>

# consolidated balance sheet

as at 30 June 2004

	Note	2004 Shs'000	2003 (restated) Shs'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Investment properties	11	250,000	239,356
Motor vehicle and equipment	12(a)	15,911	6,116
Prepaid operating lease rentals	13	39,503	40,126
Intangible assets	14	357	1,054
Investment in associates	16	1,381,319	1,205,133
Unquoted investments	17	525,940	606,636
Quoted investments	18	796,910	617,704
Government securities	19	129,982	151,713
		<u>3,139,922</u>	<u>2,867,838</u>
<b>Current assets</b>			
Due from related parties	20(a)	3,498	6,507
Receivables and prepayments	21	16,929	45,046
Taxation recoverable		3,704	1,179
Short term deposits	22	84,017	-
Bank balances		6,106	906
		<u>114,254</u>	<u>53,638</u>
<b>Total assets</b>		<u>3,254,176</u>	<u>2,921,476</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	23	274,976	274,976
Share premium		589,753	589,753
Investment revaluation reserve		705,929	532,302
Revenue reserves		1,260,894	1,184,530
Proposed dividend	10	164,986	120,989
		<u>2,996,538</u>	<u>2,702,550</u>
Shareholders equity			
<b>Non current liabilities</b>			
Deferred tax liability	24	60,496	56,926
<b>Current liabilities</b>			
Payables and accruals	25	12,365	13,242
Due to related parties	20(b)	1,841	1,570
Borrowings	26	160,000	128,794
Unclaimed dividends		22,747	18,394
Tax payable		189	-
		<u>197,142</u>	<u>162,000</u>
<b>Total equity and liabilities</b>		<u>3,254,176</u>	<u>2,921,476</u>

The financial statements on pages 21 to 47 were approved by the board of directors on 7 October 2004 and were signed on its behalf by:



James N. Muguiyi  
Chairman



Isaac O. Awuondo  
Director

# company balance sheet

as at 30 June 2004

		2004	2003 (restated)
	Note	Shs'000	Shs'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Investment properties	11	20,000	25,000
Motor vehicle and equipment	12(b)	10,013	6,116
Prepaid operating lease rentals	13	39,503	40,126
Intangible assets	14	357	1,054
Investment in subsidiary	15	180,629	173,230
Investment in associates	16	1,381,319	1,205,133
Unquoted investments	17	525,940	606,636
Quoted investments	18	796,910	617,704
Government securities	19	129,982	151,713
		3,084,653	2,826,712
<b>Current assets</b>			
Due from subsidiary company		4,703	681
Due from related parties	20(a)	974	6,665
Receivables and prepayments	21	5,844	30,448
Taxation recoverable		3,704	364
Short term deposits	22	84,017	-
Bank balances		6,065	608
		105,307	38,766
<b>Total assets</b>		3,189,960	2,865,478
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	23	274,976	274,976
Share premium		589,753	589,753
Investment revaluation reserve		682,645	509,018
Revenue reserves		1,284,178	1,207,814
Proposed dividend	10	164,986	120,989
		2,996,538	2,702,550
Shareholders equity		2,996,538	2,702,550
<b>Non current liabilities</b>			
Deferred tax liability	24	5,477	6,521
<b>Current liabilities</b>			
Payables and accruals	25	5,085	9,219
Due to a related party	20(b)	113	-
Borrowings	26	160,000	128,794
Unclaimed dividends		22,747	18,394
		187,945	156,407
<b>Total equity and liabilities</b>		3,189,960	2,865,478

The financial statements on pages 21 to 47 were approved by the board of directors on 7 October 2004 and were signed on its behalf by:



James N. Mugiuyi  
Chairman



Isaac O. Awuondo  
Director

# consolidated statement of changes in equity

for the year ended 30 June 2004

	Share capital Shs'000	Share premium Shs'000	Investment revaluation reserve Shs'000	Revenue reserves Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 July 2002						
- as previously stated	274,976	589,753	231,088	1,097,354	109,960	2,303,131
Prior year adjustment	-	-	-	49,016	-	49,016
As restated	274,976	589,753	231,088	1,146,370	109,960	2,352,147
Revaluation surplus for the year	-	-	272,121	-	-	272,121
Share of movement in equity reserves of associates	-	-	45,738	-	-	45,738
Dividends – 2002 declared	-	-	-	-	(109,960)	(109,960)
Capital gains realised on disposal	-	-	(16,645)	-	-	(16,645)
Net profit for the year	-	-	-	159,149	-	159,149
Proposed dividend-2003	-	-	-	(120,989)	120,989	-
At 30 June 2003	274,976	589,753	532,302	1,184,530	120,989	2,702,550
At 1 July 2003						
- as previously stated	274,976	589,753	532,302	1,135,664	120,989	2,653,684
Prior year adjustment	-	-	-	48,866	-	48,866
As restated	274,976	589,753	532,302	1,184,530	120,989	2,702,550
Revaluation surplus for the year	-	-	406,946	-	-	406,946
Share of movement in equity reserves of associates	-	-	(157,601)	-	-	(157,601)
Capital gains realised on disposal	-	-	(75,718)	-	-	(75,718)
Dividends - 2003 declared	-	-	-	-	(120,989)	(120,989)
Net profit for the year	-	-	-	241,350	-	241,350
Proposed dividend - 2004	-	-	-	(164,986)	164,986	-
At 30 June 2004	274,976	589,753	705,929	1,260,894	164,986	2,996,538

The prior year adjustment relates to the accounting treatment of long leasehold land as investment property following revisions to International Accounting Standard No. 40 Investment Property, which has been adopted early.

# company statement of changes in equity

for the year ended 30 June 2004

	Share capital Shs'000	Share premium Shs'000	Investment revaluation reserve Shs'000	Revenue reserves Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 July 2002 - as previously stated	274,976	589,753	207,804	1,120,638	109,960	2,303,131
Prior year adjustment	-	-	-	49,016	-	49,016
As restated	274,976	589,753	207,804	1,169,654	109,960	2,352,147
Revaluation surplus for the year	-	-	272,121	-	-	272,121
Share of movement in equity reserves of associates	-	-	45,738	-	-	45,738
Dividends - 2002 declared	-	-	-	-	(109,960)	(109,960)
Capital gains realised on disposal	-	-	(16,645)	-	-	(16,645)
Net profit for the year	-	-	-	159,149	-	(159,149)
Proposed dividend - 2003	-	-	-	(120,989)	120,989	-
At 30 June 2003	274,976	589,753	509,018	1,207,814	120,989	2,702,550
At 1 July 2003 - as previously stated	274,976	589,753	509,018	1,158,948	120,989	2,653,684
Prior year adjustment	-	-	-	48,866	-	48,866
As restated	274,976	589,753	509,018	1,207,814	120,989	2,702,550
Revaluation surplus for the year	-	-	406,946	-	-	406,946
Share of movement in equity reserves of associates	-	-	(157,601)	-	-	(157,601)
Capital gains realised on disposal	-	-	(75,718)	-	-	(75,718)
Dividends - 2003 declared	-	-	-	-	(120,989)	(120,989)
Net profit for the year	-	-	-	241,350	-	241,350
Proposed dividend - 2004	-	-	-	(164,986)	164,986	-
At 30 June 2004	274,976	589,753	682,645	1,284,178	164,986	2,996,538

The prior year adjustment relates to the accounting treatment of long leasehold land as investment property following revisions to International Accounting Standard No. 40 Investment Property, which has been adopted early.

# consolidated cash flow statement

for the year ended 30 June 2004

		2004	2003
	Note	Shs'000	Shs'000
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	27(a)	96,910	30,710
Interest paid		(6,282)	(8,172)
Taxation paid		(6,961)	(4,923)
Dividends received from associated companies		50,412	125,059
		<u>134,079</u>	<u>142,674</u>
Net cash generated from operating activities			
<b>INVESTING ACTIVITIES</b>			
Purchase of shares in associates		(62,967)	(206,103)
Purchase of other equity investments		(156,550)	(92,637)
Proceeds on disposal of investments		272,731	110,869
Proceeds on redemption of bond		-	12,250
Additions to investment property		(1,706)	(2,181)
Purchase of equipment		(12,207)	(1,527)
Proceeds on disposal of equipment		1,441	220
Purchase of intangible assets		(174)	(91)
		<u>40,568</u>	<u>(179,200)</u>
Net cash generated from/(used in) investing activities			
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(116,636)	(106,934)
		<u>58,011</u>	<u>(143,460)</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		58,011	(143,460)
<b>CASH AND CASH EQUIVALENTS AT 1 JULY</b>		<u>(127,888)</u>	<u>15,572</u>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	27(b)	<u>(69,877)</u>	<u>(127,888)</u>

# notes to the financial statements

## 1 ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies used remain the same as the previous year except for the early adoption of the revised International Accounting Standard No. 40, Investment properties, and are set out below.

### a. Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of equity investments and investment properties.

### b. Revenue recognition

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

### c. Consolidation

Subsidiary undertakings, being those companies in which the group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group and are no longer consolidated as from the date of disposal. All inter company transactions balances and unrealised surpluses and deficits on transactions with the subsidiary company have been eliminated.

The group financial statements reflect the result of the consolidation of the financial statements of the company and its wholly owned subsidiary, and include the group's share of the results of the associated companies.

### d. Investment properties

Investment properties are treated as long-term investments and are carried at market value determined, on a periodic basis, by external independent valuers. Changes in their carrying amounts are dealt with in the income statement. On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

The Investment property includes lease hold land and the International Accounting Standard No. 17 on leases requires lease hold land to be accounted for as an operating lease. However, the revised International Accounting Standard No. 40 allows lease hold land to be treated as an investment property. The directors believe that the financial statements will present a true and fair view if the lease hold land is treated as an investment property.

Although the revised International Accounting Standard No. 40 is effective on 1st January 2005, the directors have chosen early adoption of the revised standard.

### e. Motor vehicle and equipment

Motor vehicle and equipment are stated at cost less depreciation.

Depreciation is calculated to write off the cost of the motor vehicle and equipment in equal annual instalments over their estimated useful lives.

The annual rates in use are:

Motor vehicle and motor cycle	20%
Furniture, fittings and office equipment	10%
Computers	33.3%

## notes to the financial statements continued

### **f. Leasehold land**

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and are amortised over the period of the lease.

### **g. Investment in subsidiary**

Investment in the subsidiary is accounted for in the books of the company using the equity method of accounting

### **h. Investments in associated companies**

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings in which the group has between 20% and 50% of the voting rights and over which the group exercises significant influence but which it does not control.

Equity accounting involves recognising in the income statement the group's share of the results of the associates for the year. The group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates. Provisions are recorded for long-term impairment in value. A listing of the group's associated undertakings is shown in note 16.

### **i. Investments**

Quoted investments are stated at the middle market value as at 30 June. The unquoted investments are stated at the directors' estimate of their fair value using, in most cases, the share of the net assets of the companies, based on the latest available financial statements. The difference between valuation and cost is transferred to the investment revaluation reserve. Where valuation is below cost, the difference between valuation and cost is charged to the income statement if, in the opinion of the directors, the reduction in value is not considered temporary. On disposal of an investment, the difference between the net disposal proceeds and the costs is charged or credited to the income statement.

### **j. Government securities**

Government securities comprise treasury bonds, which are debt securities issued by the Government of Kenya. Treasury bonds are held to maturity and are stated at amortised cost.

### **k. Bad and doubtful debts**

Specific provision is made for all known bad and doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

### **l. Taxation**

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation and gazetted tax concessions given to the group.

Deferred income tax 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. Currently enacted tax rates are used to determine deferred income tax.

### **m. Employee entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the liability for annual leave accrued but not taken as at the balance sheet date.

## notes to the financial statements continued

### **n. Retirement benefit obligations**

The group operates a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. The scheme is administered by independent fund managers and is funded from contributions from both the employer and the employees.

The group also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The group's obligations under the scheme are limited to specific obligations legislated from time to time and are currently limited to a maximum of Shs 200 per month per employee.

The group contributions in respect of retirement benefit schemes are charged to the income statement in the year to which they relate.

### **o. Computer software development costs**

Generally, costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the company and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognized as assets are stated at cost less amortisation. Amortisation is calculated on a straight-line basis over the estimated useful lives not exceeding a period of 3 years.

### **p. Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

### **q. Financial instruments**

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument.

#### *Held to maturity investments*

Financial assets with fixed or determinable payments and fixed maturity where the group has the positive intent and ability to hold to maturity are measured at amortised cost.

#### *Financial assets held for trading*

Financial assets acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin are measured at their fair values.

#### *Available-for-sale financial assets*

Financial assets available for sale are measured at their fair values.

## notes to the financial statements continued

### *Trade receivables*

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year-end. Bad debts are written off when all reasonable steps to recover them have failed.

### *Bank borrowings*

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### *Trade payables*

Trade payables are stated at their nominal value.

### Impairment and uncollectability of financial assets

At each balance sheet date, all financial assets are subject to review for impairment.

If it is probable that the group will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in the income statement for the year.

### **r. Foreign currencies**

Assets and liabilities denominated in foreign currency are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling on the transaction dates. Differences on exchange are dealt with in the income statement.

### **s. Segmental reporting**

Segment income includes revenue directly attributable to a segment.

Segment investments comprise those investments that are directly attributable to the segment and can be allocated to the segment on a reasonable basis.

### **t. Comparatives**

Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparative figures have been adjusted for changes in presentation to ensure compliance with revisions to International Accounting Standard No. 40, Investment property which have been adopted early.

**2. SEGMENT INFORMATION**

**Primary reporting format- Business segments**

	Automotive	Beverage	Financial	Agricultural	Industrial & Allied	Services	Retail	Government securities	Property	2004 Total	2003 (restated) Total
	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs' 000
<b>INCOME</b>											
Dividend income	-	-	-	-	-	-	-	-	-	48,337	76,788
- unquoted investments	-	1,333	15,621	-	12,160	19,223	-	-	-	48,337	76,788
- quoted investments	-	18,836	7,635	415	2,579	3,176	-	-	-	32,641	27,403
Rent receivable	-	-	-	-	-	-	-	-	20,640	20,640	23,913
Interest receivable	-	-	-	-	-	-	-	17,565	-	17,565	21,648
Gain on disposal of investment	-	188,415	30,019	-	13,916	-	-	-	-	232,350	61,983
Other investment income	-	270	380	-	396	-	170	-	1,821	3,037	5,892
Share of results of associated companies (net of tax)	-	128,481	21,870	-	-	(1,785)	(174,029)	-	-	(25,463)	34,802
<b>INVESTMENTS</b>											
<b>Associates</b>											
Share of net assets	-	865,810	480,170	-	-	7,539	27,800	-	-	1,381,319	1,205,133
<b>Unquoted investments</b>											
Directors valuation (net assets)	398,137	29,453	5,000	-	42,956	50,394	-	-	-	525,940	606,636
<b>Quoted investments</b>											
Market value	-	291,151	373,150	6,836	74,290	51,483	-	-	-	796,910	617,704

**Secondary reporting format- Geographical segments**

The major part of the revenues of the company are derived from Kenya with income from other markets representing less than 5% of total income. Secondary segmental reporting is therefore not considered to be of any useful value.

## notes to the financial statements continued

	<b>2004</b>	2003
	<b>Shs'000</b>	Shs'000
<b>3 INCOME</b>		
Dividends receivable	80,978	104,191
Interest receivable	17,565	21,648
Rent receivable	20,640	23,913
Gain on disposal of investments	232,350	61,983
Write back of unclaimed dividends	-	3,401
Other income	3,037	5,892
	<b>354,570</b>	<b>221,028</b>
<b>4 OPERATING PROFIT</b>		
The operating profit is arrived at after charging:		
Directors' emoluments:		
Non-executive - fees	1,380	1,380
- other	2,160	2,160
Executive remuneration	11,660	11,606
Auditors' remuneration (including VAT)	1,485	1,441
Depreciation	2,006	2,012
Amortisation of leasehold land	623	623
Amortisation of intangible assets	871	793
Provision for bad and doubtful debts	3,047	8,143
Staff costs (Note 6)	19,225	16,099
and after crediting:		
Dividend income (gross) - quoted investments	(32,641)	(27,403)
- unquoted investments	(48,337)	(76,788)
Rent receivable	(20,640)	(23,913)
	<b>6,281</b>	<b>8,172</b>
<b>5 FINANCE COSTS</b>		
Interest on borrowings	<b>6,281</b>	<b>8,172</b>
<b>6 STAFF COSTS</b>		
Salaries	17,447	14,474
National Social Security Fund Contributions (NSSF)	24	24
Retirement benefit scheme contributions	2,037	1,809
Leave pay provision	(283)	(208)
	<b>19,225</b>	<b>16,099</b>

The average number of staff employed by the group was 10 (2003 – 10).

## notes to the financial statements continued

	<b>2004</b>	2003
	<b>Shs'000</b>	Shs'000
<b>7 TAX EXPENSE</b>		
(a) Current taxation based on adjusted profit for the year @ 30%	4,635	8,413
Deferred tax charge/(credit) (note 24)	3,570	(338)
Prior year underprovision	1,906	-
	10,111	8,075
Share of associated companies' taxation:		
Current taxation based on adjusted profit for the year	96,668	61,024
Prior year overprovision	(1,205)	(359)
	95,463	60,665
Deferred tax charge/(credit)	1,527	(22,394)
Prior year over provision	-	(2,547)
	1,527	(24,941)
Share of tax of associates (note16)	96,990	35,724
	107,101	43,799
 (b) Reconciliation of taxation expense to expected tax based on accounting profit;		
Accounting profit before taxation	370,448	202,948
Tax at the applicable rate of 30%	111,134	60,884
Tax effect of dividend income not taxable	(41,750)	(31,685)
Tax effect of income not taxable	(81,460)	(4,792)
Tax effect of expenses not deductible for tax purposes	118,476	22,298
Adjustment in respect of prior year (net)	701	(2,906)
	107,101	43,799

## notes to the financial statements continued

### 8 NET PROFIT FOR THE YEAR

A profit after taxation of Shs 241,350,000 (2003-Shs 159,149,000) has been dealt with in the books of ICDC Investment Company Limited.

### 9 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year. there were no potentially diluted shares at 30 June 2004 (2003-nil)

	<b>2004</b>	2003
Earnings (Shs)	241,350,000	159,149,000
Number of shares	54,995,183	54,995,183
Earnings per share (Shs)		
- Basic	4.39	2.89
- Diluted	4.39	2.89

### 10 PROPOSED DIVIDEND

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. At the annual general meeting to be held on 8th December 2004, a dividend in respect of 2004 of Shs 3.00 per share (2003 – Shs 2.20 per share) amounting to a total of Shs 164,986,000 (2003-Shs 120,989,000) will be proposed.

Payment of dividends is subject to withholding tax at a rate of 10% for non resident shareholders and 5% for resident shareholders.

	GROUP		COMPANY	
	2004	2003 (restated)	2004	2003 (restated)
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 July				
- as previously stated	162,156	159,975	17,800	17,800
Prior year adjustments				
- transfer from prepaid operating lease rental	11,350	11,350	156	156
- reinstatement of revaluation surplus	65,850	65,850	7,044	7,044
As restated	239,356	237,175	25,000	25,000
Revaluation surplus/(deficit)	8,938	-	(5,000)	-
Additions	1,706	2,181	-	-
At 30 June	250,000	239,356	20,000	25,000

The group's investment properties were revalued on an open market valuation basis as at 30 June 2004 by Lloyd Masika Limited, Registered Valuers and Estate Agents.

Investment property with a carrying value of Shs 230,000,000 (2003 – Shs 144,356,000) has been charged to secure banking facilities granted to the group (see note 26).

The prior year adjustment relates to the early adoption of the revised International Accounting Standard No. 40 - Investment Property. The revised standard now allows leasehold land to be treated as an investment property and therefore carried at market value in the balance sheet.

notes to the financial statements continued

**12 MOTOR VEHICLE AND EQUIPMENT**

**(a) GROUP**

	Motor vehicle and motor cycle Shs'000	Furniture and fittings Shs'000	Computers Shs'000	Office Equipment Shs'000	Total Shs'000
<b>COST</b>					
At 1 July 2003	3,943	4,743	2,523	1,605	12,814
Additions	5,881	-	428	5,898	12,207
Disposals	(3,943)	(55)	-	(74)	(4,072)
At 30 June 2004	<u>5,881</u>	<u>4,688</u>	<u>2,951</u>	<u>7,429</u>	<u>20,949</u>
<b>DEPRECIATION</b>					
At 1 July 2003	3,089	1,299	1,940	370	6,698
Charge for the year	1,016	471	362	157	2,006
Eliminated on disposal	(3,615)	(23)	-	(28)	(3,666)
At 30 June 2004	<u>490</u>	<u>1,747</u>	<u>2,302</u>	<u>499</u>	<u>5,038</u>
<b>NET BOOK VALUE</b>					
At 30 June 2004	<u>5,391</u>	<u>2,941</u>	<u>649</u>	<u>6,930</u>	<u>15,911</u>
At 30 June 2003	<u>854</u>	<u>3,444</u>	<u>583</u>	<u>1,235</u>	<u>6,116</u>

**(b) COMPANY**

	Motor vehicle and motor cycle Shs'000	Furniture and fittings Shs'000	Computers Shs'000	Office Equipment Shs'000	Total Shs'000
<b>COST</b>					
At 1 July 2003	3,943	4,743	2,523	1,605	12,814
Additions	5,881	-	428	-	6,309
Disposals	(3,943)	(55)	-	(74)	(4,072)
At 30 June 2004	<u>5,881</u>	<u>4,688</u>	<u>2,951</u>	<u>1,531</u>	<u>15,051</u>
<b>DEPRECIATION</b>					
At 1 July 2003	3,089	1,299	1,940	370	6,698
Charge for the year	1,016	471	362	157	2,006
Eliminated on disposal	(3,615)	(23)	-	(28)	(3,666)
At 30 June 2004	<u>490</u>	<u>1,747</u>	<u>2,302</u>	<u>499</u>	<u>5,038</u>
<b>NET BOOK VALUE</b>					
At 30 June 2004	<u>5,391</u>	<u>2,941</u>	<u>649</u>	<u>1,032</u>	<u>10,013</u>
At 30 June 2003	<u>854</u>	<u>3,444</u>	<u>583</u>	<u>1,235</u>	<u>6,116</u>

## notes to the financial statements continued

### 13 PREPAID OPERATING LEASE RENTALS

	<b>GROUP</b>	<b>COMPANY</b>
	Shs'000	Shs'000
<b>COST</b>		
At 1 July 2003		
- as previously stated	70,888	59,694
Prior year adjustment		
- transfer to investment property	<u>(11,401)</u>	<u>(207)</u>
As restated	<u>59,487</u>	<u>59,487</u>
 <b>AMORTISATION</b>		
At 1 July 2003		
- as previously stated	22,182	19,412
Prior year adjustment		
- transfer to investment property	<u>(2,821)</u>	<u>(51)</u>
As restated	19,361	19,361
Charge for the year	<u>623</u>	<u>623</u>
At 30 June 2004	<u>19,984</u>	<u>19,984</u>
 <b>CARRYING VALUE</b>		
At 30 June 2004	<u>39,503</u>	<u>39,503</u>
At 30 June 2003 (as restated)	<u>40,126</u>	<u>40,126</u>

notes to the financial statements continued

**14 INTANGIBLE ASSETS**

Computer  
software  
Shs'000

**GROUP AND COMPANY**

COST

At 1 July 2003	2,456	
Additions	<u>174</u>	

At 30 June 2004	<u>2,630</u>	
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AMORTISATION

At 1 July 2003	1,402	
Charge for the year	<u>871</u>	

At 30 June 2004	<u>2,273</u>	
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NET BOOK VALUE

At 30 June 2004	<u>357</u>	
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At 30 June 2003	<u>1,054</u>	
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**COMPANY**

<b>2004</b>	2003
	(Restated)
<b>Shs'000</b>	Shs'000

**15 INVESTMENT IN SUBSIDIARY**

Unquoted: At directors' valuation

Kenya National Properties Limited  
100% owned (Cost Shs 114,735,000)

<u>180,629</u>	<u>173,230</u>
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## notes to the financial statements continued

### 16 INVESTMENT IN ASSOCIATES

	GROUP		COMPANY	
	2004 Shs'000	2003 Restated Shs'000	2004 Shs'000	2003 Restated Shs'000
At 1 July	1,205,133	1,170,007	1,205,133	1,170,007
Share of results before tax	71,527	70,526	71,527	70,526
Share of tax (note 7)	(96,990)	(35,724)	(96,990)	(35,724)
	(25,463)	34,802	(25,463)	34,802
Share of movements in equity reserves	(157,601)	45,738	(157,601)	45,738
Dividends receivable	(40,260)	(130,103)	(40,260)	(130,103)
Acquisitions during the year	-	84,689	-	84,689
	981,809	1,205,133	981,809	1,205,133
Share of net assets of UAP Provincial Insurance Company Limited***	399,510	-	399,510	-
	<u>1,381,319</u>	<u>1,205,133</u>	<u>1,381,319</u>	<u>1,205,133</u>

notes to the financial statements continued

16 INVESTMENT IN ASSOCIATES (Continued)

Details of investment in associates

	Number of shares at		% owned	% owned	Cost at	Cost at	Share of net assets	
	30.6.04	30.6.03					30.6.04	30.6.03
<b>UNQUOTED</b>								
Aon Minet Insurance Brokers Ltd****	332,330	132,932	21.50	21.50	12,298	12,298	80,660	66,960
Flamingo Bottlers Ltd*	20,737	20,737	27.65	27.65	201,103	201,110	76,125	67,712
KWA Holdings Ltd*	25,373,936	25,373,936	26.43	26.43	17,235	17,235	79,531	321,672
Mather & Platt (Kenya) Ltd**	220,278	220,278	35.40	35.48	7,118	7,118	7,539	9,324
Mt Kenya Bottlers Ltd**	1,250,695	1,250,695	28.62	28.51	10,006	10,006	160,867	144,824
Nairobi Bottlers Ltd*	878,286	878,286	27.62	27.62	56,895	56,895	408,042	337,709
Rift Valley Bottlers Ltd**	2,695,820	2,656,412	46.79	46.10	63,815	61,965	141,245	82,174
UJAP Provincial Insurance Co Ltd***	10,167,462	6,627,501	23.69	16.67	154,045	-	399,510	-
					522,515	366,627	1,353,519	1,030,375
<b>QUOTED</b>								
Uchumi Supermarkets Ltd**	14,993,317	14,993,317	24.99	24.99	322,987	322,987	27,800	174,758
							1,381,319	1,205,133

The market value of Uchumi Supermarkets Limited as quoted on the Nairobi Stock Exchange as at 30 June 2004 was Shs 262,383,000 (2003 - Shs 476,038,000).

Shares in Uchumi Supermarkets Limited with a market value of Shs 201,839,400 (2003 - Shs 366,194,000) are held as security for banking facilities granted to the group (see note 26).

\*\*\* Transferred from unquoted shares (note 17). UJAP Provincial Insurance Company Limited became an associate when the company acquired an additional 3,539,961 shares (at a cost of Shs 62,568,810) increasing its shareholding to 23.69% (2003 - 16.57%) of the issued share capital of the company. The additional 3,539,961 shares acquired in UJAP Provincial Insurance Company Limited includes a bonus issue of 1,658,642 shares. The share of net assets for UJAP Provincial Insurance Company Ltd. were based on signed financial statements to 31 December 2003.

The share of results and net assets of the associates to 30 June 2004 were based on signed accounts to 31 December 2003 (\*) and draft accounts to 30 June 2004(\*\*). Signed financial statements to December 2003 (\*\*\*\*) have been used to consolidate AON Minet Insurance Brokers Ltd.

## notes to the financial statements continued

### 17 UNQUOTED INVESTMENTS GROUP AND COMPANY

	Number of shares at 1.7.03	Additions/ (disposal) in the year	Transfers in the year	Number of shares at 30.6.04	Cost at 1.7.03 Shs'000	Additions/ (disposals)/ (transfer) in the year Shs'000	Cost at 30.6.04 Shs'000	Directors' Valuation 30.6.04 Shs'000	Directors' Valuation 30.6.03 Shs'000
Capital Market Challenge Fund	50,000	-	-	50,000	5,000	-	5,000	5,000	5,000
Dawa Pharmaceuticals Ltd	250,000	-	-	250,000	5,000	-	5,000	-	-
Eveready Batteries (Kenya) Ltd	21,259	-	-	21,259	4,030	-	4,030	24,414	23,654
General Motors Kenya Ltd	279,300	-	-	279,300	184,536	-	184,536	398,137	357,581
Heritage Woollen Mills (K) Ltd	72,249	-	-	72,249	6,387	-	6,387	-	-
Kisii Bottlers Ltd	777,774	-	-	777,774	9,222	-	9,222	29,453	24,798
NAS Airport Services Ltd	73,056	-	-	73,056	7,397	-	7,397	50,919	79,304
UAP Provincial Insurance Company Limited	6,627,501	-	(6,627,501)*	-	91,476	(91,476)	-	-	97,757
<b>Total</b>					<b>313,048</b>	<b>(91,476)</b>	<b>221,572</b>	<b>507,923</b>	<b>588,094</b>
<b>OFFSHORE INVESTMENTS</b>									
Wildlife Works Inc (USA) – preferred stock	52,632	-	-	52,632	19,713	-	19,713	18,017	18,542
<b>Total</b>					<b>332,761</b>	<b>(91,476)</b>	<b>241,285</b>	<b>525,940</b>	<b>606,636</b>

\*Transferred to investment in Associates (note 16)

notes to the financial statements continued

18 QUOTED INVESTMENTS  
GROUP AND COMPANY

	Number of shares at 1.7.03	Additions/ (Disposals) in the year	Number of shares at 30.6.04	Cost at 1.7.03 Shs'000	Additions/ (disposals) in the year Shs'000	Cost at 30.6.04 Shs'000	Market Value at 30.6.04 Shs'000	Market Value at 30.6.03 Shs'000
Athi River Mining Ltd	-	6,500	6,500	-	130	130	-	-
Barclays Bank of Kenya Ltd	77,147	(61,342)	15,805	1,477	103	1,580	3,161	10,106
Bamburi Cement Company Ltd	100,000	-	100,000	4,553	-	4,553	7,950	8,000
Unilever Tea Kenya Ltd	28,827	-	28,827	5,428	-	5,428	2,032	2,220
British American Tobacco (Kenya) Ltd	6,419	(6,419)	-	170	(170)	-	-	629
BOC Kenya Ltd	18,000	-	18,000	272	-	272	2,466	1,359
Carbacid Investment Company Ltd	303,859	1,200	305,059	10,806	100	10,906	35,387	18,991
Crown Berger Kenya Ltd	83,600	(83,600)	-	1,370	(1,370)	-	-	1,542
East African Cables Ltd	45,000	-	45,000	155	-	155	1,440	540
East African Breweries Ltd.	1,200,568	(546,297)	654,271	85,779	(38,748)	47,031	291,151	271,328
East African Portland Cement Ltd	-	10,000	10,000	-	587	587	475	-
Firestone East Africa (1969) Ltd	420,000	-	420,000	5,446	-	5,446	4,221	5,439
Housing Finance Co. of Kenya Ltd	122,291	-	122,291	1,625	-	1,625	1,211	1,339
The Kenya Power and Lighting Co. Ltd	137,126	-	137,126	11,367	-	11,367	12,547	4,388
Kenya Commercial Bank Ltd	5,304,302	1,609,432	6,913,734	109,948	153,736	263,684	366,428	250,628
Kenya Airways Ltd	734,218	20,000	754,218	6,277	166	6,443	9,805	4,772
Kenya Oil Ltd	-	1,433	1,433	-	382	382	602	-
Nation Media Group Ltd	224,075	-	224,075	9,593	284	9,877	41,678	22,408
Rea Vipingo Plantations Ltd	9,600	(9,600)	-	94	(94)	-	-	45
Sasini Tea & Coffee Ltd	224,684	-	224,684	912	-	912	4,381	4,494
Standard Chartered Bank Kenya Ltd	16,437	1,643	18,080	1,030	670	1,700	2,350	1,529
Total Kenya Ltd	19,500	10,000	29,500	303	392	695	1,158	697
Unga Group Ltd	52,787	-	52,787	899	-	899	765	636
Williamson Tea Kenya Ltd	4,675	-	4,675	1,308	-	1,308	423	393
REGIONAL				258,812	116,168	374,980	789,754	611,483
British American Tobacco (Uganda) Ltd	140,000	-	140,000	7,000	-	7,000	7,156	6,221
Total				265,812	116,168	381,980	796,910	617,704

Quoted investments with a market value of Shs. 868,813,600 (2003 - Shs. 533,132,000) have been pledged to secure banking facilities granted to the group (see note 26).

## notes to the financial statements continued

	GROUP		COMPANY	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
<b>19 GOVERNMENT SECURITIES</b>				
Held to maturity:				
Treasury bonds – at amortised cost				
- maturing within one year	78,471	31,994	78,471	31,994
- maturing after one year but within five years	51,511	119,719	51,511	119,719
	<u>129,982</u>	<u>151,713</u>	<u>129,982</u>	<u>151,713</u>

The weighted average effective interest rate during the year on bonds was 13.8% (2003 – 13.6%).

	GROUP		COMPANY	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
<b>20 RELATED PARTY BALANCES</b>				
a) Due from related parties				
Funguo Registrars Ltd	-	561	-	561
Industrial & Commercial Development Corporation	621	-	621	158
Francis Thuo & Partners Ltd	-	5,946	-	5,946
Uchumi Supermarkets Ltd	2,877	-	353	-
	<u>3,498</u>	<u>6,507</u>	<u>974</u>	<u>6,665</u>
b) Due to a related party				
Industrial & Commercial Development Corporation	1,841	1,570	-	-
Kenya National Properties Ltd.	-	-	113	-
	<u>1,841</u>	<u>1,570</u>	<u>113</u>	<u>-</u>
<b>21 RECEIVABLES AND PREPAYMENTS</b>				
Dividends receivable	3,825	22,819	3,825	22,819
Sundry receivables and prepayments	3,925	6,883	1,204	6,303
Rent debtors	885	14,365	373	347
Recoverable expenses (service charges)	8,294	979	442	979
	<u>16,929</u>	<u>45,046</u>	<u>5,844</u>	<u>30,448</u>

## notes to the financial statements continued

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2004</b> Shs'000	2003 Shs'000	<b>2004</b> Shs'000	2003 Shs'000
<b>22 SHORT TERM DEPOSITS</b>				
Commercial Bank of Africa Limited	<u>84,017</u>	<u>-</u>	<u>84,017</u>	<u>-</u>

The average effective interest rate on short-term deposits at 30 June 2004 was 1.25% (2003 – Nil).

### 23 SHARE CAPITAL

GROUP AND COMPANY

Authorised:

60,000,000 ordinary shares of Shs 5 each

2004  
Shs'000

2003  
Shs'000

300,000

300,000

Issued and fully paid:

54,995,183 ordinary shares of Shs 5 each

274,976

274,976

### 24 DEFERRED TAX LIABILITY

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

The net deferred tax liability is attributable to the following items:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2004</b> Shs'000	2003 (Restated) Shs'000	<b>2004</b> Shs'000	2003 (Restated) Shs'000
Deferred tax liabilities:				
Accelerated capital allowances	346	-	-	-
Revaluation surplus	<u>60,370</u>	<u>57,689</u>	<u>5,784</u>	<u>7,284</u>
	<u>60,716</u>	<u>57,689</u>	<u>5,784</u>	<u>7,284</u>
Deferred tax assets:				
Accelerated capital allowances	-	(80)	(87)	(80)
Leave pay provision	(220)	(305)	(220)	(305)
Tax losses	-	(378)	-	(378)
	<u>(220)</u>	<u>(763)</u>	<u>(307)</u>	<u>(763)</u>
Net deferred tax liability	<u>60,496</u>	<u>56,926</u>	<u>5,477</u>	<u>6,521</u>

The movement on the deferred tax account is as follows:

At 1 July	56,926	57,264	6,521	7,131
Income statement charge/(credit) – note 7(a)	<u>3,570</u>	<u>(338)</u>	<u>(1,044)</u>	<u>(610)</u>
At 30 June	<u>60,496</u>	<u>56,926</u>	<u>5,477</u>	<u>6,521</u>

## notes to the financial statements continued

	GROUP		COMPANY	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
<b>25 PAYABLES AND ACCRUALS</b>				
Rent deposits	4,828	3,528	589	551
Sundry payables and accruals	6,804	8,698	3,763	7,652
Leave pay provision	733	1,016	733	1,016
	<u>12,365</u>	<u>13,242</u>	<u>5,085</u>	<u>9,219</u>
<b>26 BORROWINGS</b>				
<b>GROUP AND COMPANY</b>				
Bank overdraft	-	48,794	-	48,794
Short term loans	160,000	80,000	160,000	80,000
	<u>160,000</u>	<u>128,794</u>	<u>160,000</u>	<u>128,794</u>

The maturity period of the short term loans was 30 days. The short term loans are secured by 11,533,680 (2003 – 8,473,680) shares in Uchumi Supermarkets Limited, 500,000 shares (2003 – nil) shares in East African Breweries Limited and a legal charge over Kimathi House, one of the group's properties. The market value of the shares held as security at 30 June 2004 was Shs 764,514,000 (2003 – Shs 479,194,000).

The effective interest rates on borrowings at 30 June 2004 were:

	2004	2003
Bank overdrafts	-	5.5%
Short term loans	4.0%	5.0%

The group has undrawn committed borrowing facilities amounting to Shs 150,000,000 (2003 – Shs 81,206,000).

The undrawn facilities are secured by a legal charge over Kimathi House, one of the group's properties, 115,280 shares in East Afrcca Breweries Limited and 1,000,000 shares in Kenya Commercial Bank Limited.

## notes to the financial statements continued

	<b>2004</b>	2003
	<b>Shs'000</b>	Shs'000
<b>27 NOTES TO THE CASH FLOW STATEMENT</b>		
(a) Reconciliation of operating profit to net cash generated from operations		
Operating profit	274,267	140,594
Adjustments for:		
Depreciation	2,006	2,012
Amortisation of intangible assets	871	793
Amortisation of leasehold land	623	623
(Profit)/loss on disposal of equipment	(1,035)	477
Provision for appreciation in value of investments	-	(16)
Gain on disposal of investments	(232,350)	(61,983)
Written back of unclaimed dividend	277	(3,401)
Operating profit before working capital changes:	44,659	79,099
Decrease/(increase) in treasury bonds	21,731	(32,284)
Decrease in receivables and prepayments	28,117	18,604
Movement in related party balances	3,280	4,481
Decrease in payables and accruals	(877)	(39,190)
Cash generated from operations	96,910	30,710
(b) Analysis of balances of cash and cash equivalents		
Short term deposits	84,017	-
Bank balances	6,106	906
Borrowings	(160,000)	(128,794)
	(69,877)	(127,888)

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity at the balance sheet date and borrowings.

## notes to the financial statements continued

### GROUP & COMPANY

2004                      2003  
Shs'000                      Shs'000

#### 28 CAPITAL COMMITMENTS

Authorised but not contracted for	795	-
Authorised and contracted for	2,040	1,729

#### 29 RELATED PARTIES

The group transacts with companies related to it by virtue of common shareholding and also by virtue of common directors. These transactions are at arm's length and in the normal course of business. Amounts not settled as at balance sheet date are disclosed in note 20.

During the year the following transactions were entered into with the related parties.

	2004 Shs'000	2003 Shs'000
Purchase of goods/services		
Rent and service charge	2,194	2,194
Legal fees	-	118
Share registration services	8,309	4,202

## notes to the financial statements continued

### 30 OPERATING LEASE ARRANGEMENTS

#### The group as a lessor

Property rental income earned during the year was Shs 20,640,000 (2003 – Shs 23,913,000). At the balance sheet date, the group had contracted with tenants for the following future lease receivables:

	2004 Shs'000	2003 Shs'000
Within one year	18,604	18,553
In the second to fifth years inclusive	45,662	45,189
After five years	8,650	8,680
	<u>72,916</u>	<u>72,422</u>

Leases are negotiated for an average term of six years and rentals are reviewed annually. The leases are cancellable with no penalty when the tenants give three months notice to vacate the premises.

#### The group as a lessee

At the balance sheet date, the company had outstanding commitments under operating leases, which fall due as follows:

	2004 Shs'000	2003 Shs'000
Within one year	2,074	999
In the second to fifth year inclusive	8,296	1,925
	<u>10,370</u>	<u>2,924</u>

Operating lease payments represent rentals payable by the group for its office premises. Leases are negotiated for an average term of 5 years.

### 31 COUNTRY OF INCORPORATION

The group is incorporated in Kenya under the Companies Act.

### 32 CURRENCY

The financial statements are presented in Kenya Shillings thousands (Shs'000).

## financial highlights

### GROUP INCOME STATEMENTS

Kshs '000	2004	2003	2002	2001	2000	1999	1998	1997
Investment income	354,570	221,028	153,975	124,375	178,650	173,541	173,116	111,304
Expenses	(80,303)	(80,434)	(64,478)	(73,398)	(41,387)	(25,424)	(27,189)	(27,442)
<b>Operating Profit</b>	<b>274,267</b>	<b>140,594</b>	<b>89,497</b>	<b>50,977</b>	<b>137,263</b>	<b>148,117</b>	<b>145,927</b>	<b>83,862</b>
Finance costs	(6,281)	(8,172)	(10,263)	(12,269)	-	(6,906)	(9,859)	(152)
Share of profits of associated companies	71,527	70,526	228,294	188,452	205,367	215,572	158,499	126,804
<b>Profit Before Tax</b>	<b>348,451</b>	<b>202,948</b>	<b>307,528</b>	<b>227,160</b>	<b>321,767</b>	<b>356,783</b>	<b>294,567</b>	<b>210,514</b>
<b>Profit After Tax</b>	<b>241,350</b>	<b>159,149</b>	<b>247,439</b>	<b>154,334</b>	<b>227,147</b>	<b>271,982</b>	<b>230,509</b>	<b>161,542</b>
<b>Earnings Per Share (Kshs)</b>	<b>4.39</b>	<b>2.89</b>	<b>4.85</b>	<b>3.35</b>	<b>4.93</b>	<b>7.67</b>	<b>8.16</b>	<b>8.58</b>
<b>Dividend Per Share (Kshs)</b>	<b>3.00</b>	<b>2.20</b>	<b>2.00</b>	<b>2.00</b>	<b>3.00</b>	<b>2.50</b>	<b>2.50</b>	<b>4.00</b>

### SUMMARY GROUP BALANCE SHEETS

Investment properties	250,000	239,356	159,975	325,000	380,000	380,000	380,000	380,000
Unquoted investments	1,879,984	1,637,011	1,491,011	1,466,149	1,311,861	1,257,246	975,373	765,491
Quoted investments	824,710	792,462	477,635	502,621	376,602	604,179	579,406	625,723
Fixed income securities	129,982	151,713	131,688	4,500	11,634	53,423	-	3,950
Others	55,771	47,296	58,496	8,362	8,212	-	-	-
<b>Total Assets</b>	<b>3,139,922</b>	<b>2,867,838</b>	<b>2,318,805</b>	<b>2,302,632</b>	<b>2,088,309</b>	<b>2,294,848</b>	<b>1,934,779</b>	<b>1,775,164</b>
Receivables & prepayments	24,131	52,732	41,844	54,386	92,451	118,734	28,455	41,844
Cash and cash equivalents	90,123	906	15,572	26,705	23,093	44,776	36,336	35,049
<b>Total Assets</b>	<b>3,254,176</b>	<b>2,921,476</b>	<b>2,414,780</b>	<b>2,387,723</b>	<b>2,203,853</b>	<b>2,458,358</b>	<b>1,999,570</b>	<b>1,852,057</b>
Share capital	274,976	274,976	274,976	230,156	191,820	188,389	141,292	94,186
Share premium & reserves	2,721,562	2,427,574	2,028,155	1,919,648	1,879,069	2,132,927	1,690,623	1,645,560
<b>Shareholders' Funds</b>	<b>2,996,538</b>	<b>2,702,550</b>	<b>2,303,131</b>	<b>2,149,804</b>	<b>2,070,889</b>	<b>2,321,316</b>	<b>1,831,915</b>	<b>1,739,746</b>
Non-current liabilities	60,496	56,926	37,791	69,901	84,268	86,344	126,872	73,371
Current liabilities	197,142	162,000	73,858	168,018	48,696	50,698	40,783	38,940
<b>Total Equity and Liabilities</b>	<b>3,254,176</b>	<b>2,921,476</b>	<b>2,414,780</b>	<b>2,387,723</b>	<b>2,203,853</b>	<b>2,458,358</b>	<b>1,999,570</b>	<b>1,852,057</b>

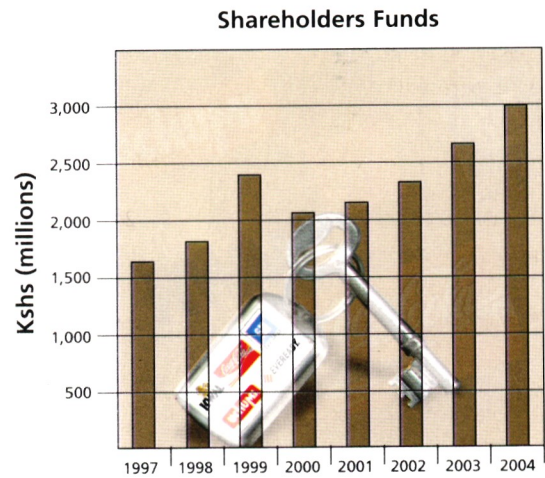
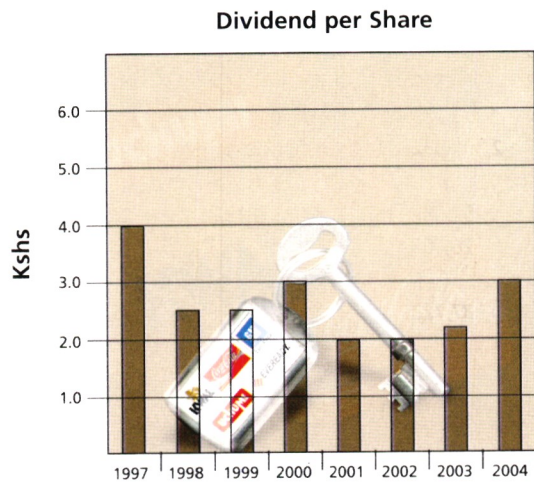
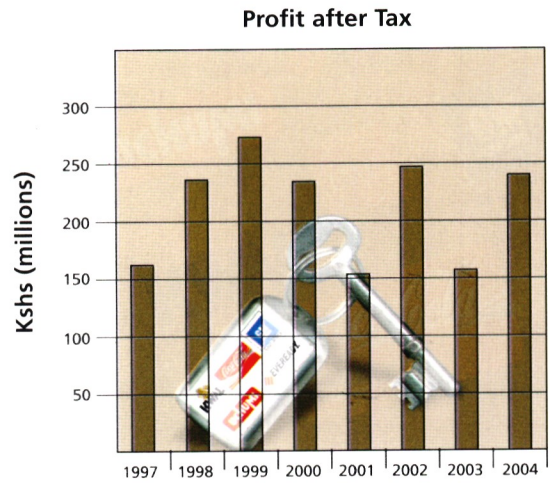
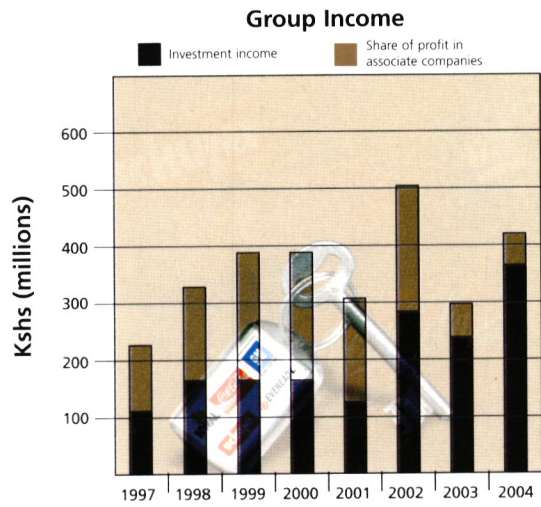
### KEY PERFORMANCE RATIOS

Return on assets	7%	5%	11%	6%	10%	11%	12%	9%
Return on equity	8%	6%	11%	7%	11%	12%	13%	9%
Cost-to-income ratio	24%	40%	49%	69%	23%	19%	21%	25%
Basic earning power ratio	11%	7%	14%	10%	15%	15%	15%	11%
Current ratio	0.58	0.33	1.30	0.48	2.37	3.23	1.59	1.97

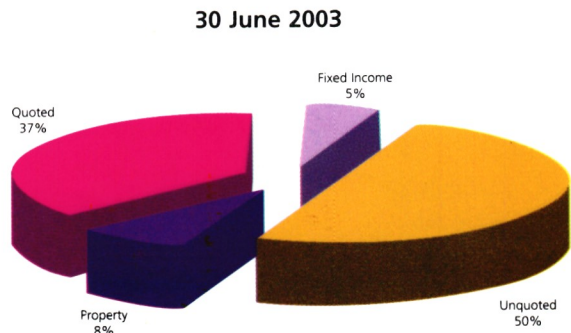
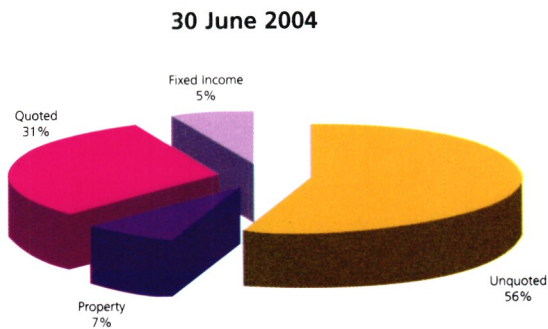
### INVESTOR RATIOS

Market price as at 30th June (Kshs)	67.00	51.00	19.00	47.75	49.50	48.00	39.25	52.00
Market capitalisation (Kshs '000)	3,684,665	2,804,745	969,342	2,197,980	2,278,535	1,702,272	1,109,127	979,524
Net asset value per share (Kshs)	54.50	49.14	45.14	46.70	44.99	65.46	64.83	92.36
Price-to-book ratio	1.23	1.04	0.42	1.02	1.10	0.73	0.61	0.56
P/E ratio	15.27	17.64	3.92	14.24	10.03	6.26	4.81	6.06
Dividend yield	4.48%	4.31%	11.34%	4.19%	5.02%	5.53%	7.64%	9.62%

# financial highlights



## Asset Allocation



## shareholding information

### TOP TEN SHAREHOLDERS

The top ten shareholders on the company's share register as at 30 June 2004 were as follows:

Name	Number of Shares Holding	Percentage
1 INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (ICDC)	12,930,413	23.51%
2 CHRISTOPHER J KIRUBI	9,415,872	17.12%
3 UAP PROVINCIAL INSURANCE COMPANY LIMITED	5,038,305	9.16%
4 KIRUMA INTERNATIONAL COMPANY LIMITED	3,021,213	5.50%
5 INTERNATIONAL HOUSE LIMITED	3,007,560	5.47%
6 OLD MUTUAL LIFE ASSURANCE COMPANY LIMITED	593,513	1.08%
7 BARCLAYS (Kenya) NOMINEES A/c 15621	588,048	1.07%
8 BARCLAYS (Kenya) NOMINEES A/c 15589	440,755	0.80%
9 STANBIC NOMINEES	280,448	0.51%
10 KENYA COMMERCIAL BANK A/c 22362	262,097	0.50%

### DIRECTOR'S SHAREHOLDING

The director's direct and indirect interests in the ordinary share capital of the company as at 30 June 2004 were as follows:

Name	Number of Shares Holding	Percentage
1 INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (ICDC)	12,930,413	23.51%
2 JAMES N MUGUIYI	16,563	0.03%
3 CHRISTOPHER J KIRUBI	12,525,781	22.78%
4 TONY K WAINAINA	Nil	0.00%
5 FRANCIS M THUO	11,194	0.02%
6 MARGARET MWANGOLA	6,348	0.01%
7 ISAAC O AWUONDO	16,068	0.03%
8 KATHERINE W GETAO	3,600	0.01%
9 PS, MINISTRY OF TRADE & INDUSTRY	Nil	0.00%

### CATEGORIZATION OF SHAREHOLDERS BY NUMBER OF SHARES HELD

The distribution of shareholders by number of shares held as at 30 June 2004 was as follows:

Shareholding	Number of Shareholders	Number of Shares held	Percentage Holding
1 Less than 1,000	14,524	4,800,247	8.73%
2 1,001-5,000	2,613	5,274,431	9.58%
3 5,001-10,000	318	2,254,355	4.08%
4 10,001-50,000	194	3,838,129	6.98%
5 50,001-100,000	28	1,997,055	3.63%
6 More than 100,000	22	36,830,966	66.97%
<b>TOTAL</b>	<b>17,699</b>	<b>54,995,183</b>	<b>100.00%</b>

## proxy form / fomu ya mwakilishi

I/We.....

of.....

being member(s) of ICDC Investment Company Limited, hereby appoint.....

.....

of.....

or failing him/her the duly appointed Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the 37th Annual General Meeting of the Company, to be held on Wednesday, 8 December 2004 at 11.00 a.m. or at any adjournment thereof.

As witness I/We lay my/our hand(s) this..... day of..... 2004

Signature.....

- Notes:**
1. This proxy form is to be delivered to the Secretary's office not later than 11.00 a.m. on Tuesday, 7 December 2004.
  2. In the case of a Corporation the proxy must be under the Common Seal or under the hand of an Officer or Attorney duly authorized.

---

Mimi/Sisi.....

wa.....

kwa kuwa mwanachama/wanachama wa ICDC Investment Company Limited nimemteua/tumemteua

.....

wa.....

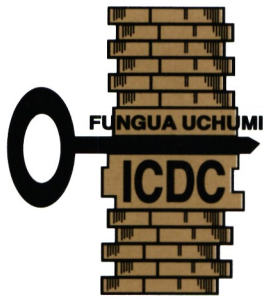
na kama hayuko, Mwenyekiti wa mkutano huu aliyeteuliwa kama ipasavyo awe mwakilishi wangu/wetu, anipigie kura kwa niaba yangu/yetu katika Mkutano Mkuu wa Thelathini na Saba wa kampuni hii utakaofanywa mnamo Jumatano tarehe 8 Desemba 2004 saa tano kamili asubuhi au tarehe yoyote nyingine itakayoahirishwa.

Kama ilivyoshuhudiwa kwa sahihi yangu/yetu siku hii ya.....mwezi..... 2004

Sahihi.....

- Maelezo:**
1. Uwakilishi huu upelekwe kwenye afisi ya Katibu kabla ya saa tano kamili asubuhi, Jumanne tarehe 7 Desemba 2004. Ukikosa kufika hautakuwa na haki yoyote.
  2. Kwa Shirika, lazima uwakilishi uwe na Muhuri wa Kawaida wa shirika hilo au uwe na sahihi ya Afisa au Mwakilishi aliyeidhinishwa.

FOLD 2  
PILI KUNJA HAPA



**THE COMPANY SECRETARY,  
ICDC INVESTMENT COMPANY LIMITED,**

INTERNATIONAL HOUSE, 5TH FLOOR, MAMA NGINA STREET,  
P.O Box 10518 - 00100  
NAIROBI, KENYA.

FOLD 1  
KWANZA KUNJA HAPA

FOLD 3  
HALAFU KUNJA HAPA

INSERT FLAP INSIDE  
SASA INGIZA KARATASI HII NDANI YA MKUNJO KAMA BAHASHA

*Our mission is to generate superior returns for our shareholders and contribute to the creation of wealth and employment in the region.*

*We do this primarily by making strategic investments, and instilling sound management, good corporate governance and best practice in our associate companies.*



**ICDC Investment Company Limited**

International House, 5th Floor, Mama Ngina Street  
P. O. Box 10518-00100 Nairobi, Kenya.

Tel: 254-020-252397, 333199 Fax: 254-020-223223  
E-mail: [info@icdci.co.ke](mailto:info@icdci.co.ke) Website: [www.icdci.co.ke](http://www.icdci.co.ke)