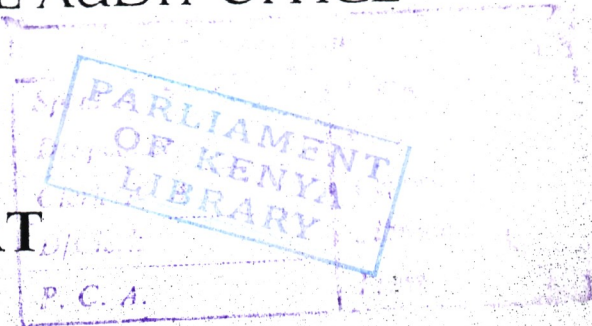


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



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

**ON**

**FINANCIAL STATEMENTS OF  
INDUSTRIAL AND COMMERCIAL  
DEVELOPMENT CORPORATION  
FOR THE YEAR ENDED  
30 JUNE 2009**

CC

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2009



# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

<b>CONTENTS</b>	<b>Page</b>
Corporate information	1
Report of the directors	2
Statement of directors' responsibilities	3
Report of the independent auditors'	4 - 5
Income statement	6
Balance sheet	7
Cash flow statement	8
Statement of changes in equity	9
Notes to the financial statements	10 - 40

1	Introduction
2	Chapter 1: The History of Mathematics
3	Chapter 2: The Foundations of Mathematics
4	Chapter 3: The Development of Mathematics
5	Chapter 4: The Applications of Mathematics
6	Chapter 5: The Future of Mathematics
7	Conclusion
8	Index

# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## CORPORATE INFORMATION

### DIRECTORS

Kent Libiso	Chairman - Retired 19 June 2009
Martin K. Muragu	Chairman - Appointed 9 September 2009
I.B. Mogaka	Executive Director
James G. Kahiu	Retired 31 August 2009
Abung'ana Khasiani	Retired 31 August 2009
Elias N. Birichi	Retired 31 August 2009
Abdirahman Yare Haji	
Albert Ruturi	Appointed 20 January 2009
Bernard G. Njuguna	Appointed 1 October 2009
Richard N. Wanjalla	Appointed 1 October 2009
Mohamed A. Mohamed	Appointed 1 October 2009
Permanent Secretary, Ministry of Trade	Alternate: Margaret M. Byama, HSC
Permanent Secretary, Treasury	Alternate: Daniel Mutua

### SECRETARY

Grace M. Magunga  
PO Box 45519  
00100 Nairobi

### AUDITORS

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

### REGISTERED OFFICE

Uchumi House  
Aga Khan Walk  
PO Box 45519  
00100 Nairobi

### BANKERS

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

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

# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2009

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 2009 in accordance with Section 15(4) of the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445).

1. Principal activities

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

2. Results for the year

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

3. Dividends

The directors do not recommend the payment of a dividend for the year ended 30 June 2009 (2008 – Nil).

4. Directors

The directors of the Corporation who served since 1 July 2008 are set out on page 1.

5. Auditors

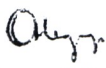
The Controller and Auditor-General is responsible for the statutory audit of the Corporation's books of account in accordance with Sections 14 and 39(i) of the Public Audit Act, 2003 which empowers the Controller and Auditor-General to nominate other auditors to carry out the audit on his behalf.

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

6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on

BY ORDER OF THE BOARD

  
Grace M. Magunga  
Secretary

Date: 14<sup>th</sup> December 2009

# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of ICDC set out on pages 6 to 40 which comprise the balance sheet at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors responsibility includes: determining that the basis of accounting described in note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the ICDC Act the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the Directors to ensure the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation.

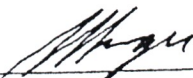
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the ICDC Act.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

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

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

### **Approval of the financial statements**

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

  
Chairman

  
Executive Director





## **KENYA NATIONAL AUDIT OFFICE**

### **REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2009**

The financial statements of Industrial and Commercial Development Corporation set out at pages 6 to 40 which comprise the Balance Sheet as at 30 June 2009, the Income Statement, the Statement of Changes in Equity, and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by KPMG Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

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

#### **Responsibility of the Controller and Auditor General**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

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

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

#### **1. Provision for doubtful debts**

As disclosed in Note 17 to the financial statements, and as previously reported, the balance sheet as at 30 June 2009 reflects non-current and current portion of loan balances of Kshs.127,808,329 (2008 – Kshs.69,491,656) and Kshs.624,005,357 (2008 – 339,282,784) respectively. The balances are net of provision for bad and doubtful debts of Kshs.11,041,557,313 (2008 – Kshs.9,670,868,390) in respect of loans outstanding as at 30 June 2009. As similarly noted in the previous year, most of the loans were not adequately secured and have been performing poorly, hence exposing the Corporation to the risk of loss. The Management has, however, explained that the bulk of the non-performing loans were advanced between 1960s and 1990s when the Corporation was expected by the Government to play a social dimension role. As a result of this, the Corporation could not revise its lending policies on timely basis with a view to averting accumulation of non-performing loans.

In view of the inadequacy of security in respect of the old loans and lack of reliable loan repayments terms, it has not been possible to confirm the recoverability of the outstanding loans for which a provision of Kshs. 11,041,557,313 has been made in the financial statements.

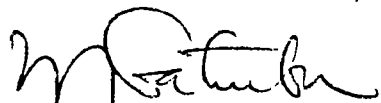
#### **2. Grants and Loans**

- (i) Disclosed in Note 25 are grants and loans totalling Kshs.948,941,930 (2008 – Kshs.1,002,494,140). The respective loan agreements were not however made available and therefore the terms of such agreements could not be verified. As in the previous year, the Corporation has explained that there were no formal agreements between ICDC and the Government, and that a reconciliation of the loans balance is under process to determine the quantum and treatment of Government obligations in the books. In addition, the grants and loans balance includes managed funds totalling Kshs.96,870,390, which were on-lent to companies that are no longer performing. Similar to the previous year, no provision for losses in respect of these managed funds has been made in the financial statements.

- (ii) According to information available, the Corporation charged interest expense amounting to Kshs.8,447,815 during the year. However, the basis of the expense could not be ascertained.
- (iii) The grants have been disclosed under non-current liabilities contrary to International Accounting Standard No. 20 – Accounting for Government Grants and Disclosure of Government Assistance, which requires that such grants be credited directly to reserves.

### Opinion

Except for the foregoing reservations, in my opinion, the financial statements give a true and fair view of the financial position of the Corporation as at 30 June 2009, of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Industrial & Commercial Development Corporation Act (Cap. 445 of the Laws of Kenya).



**A.S.M. Gatumbu**  
**CONTROLLER AND AUDITOR GENERAL**

**Nairobi**

**15 March 2010**



# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 KShs	2008 KShs
<b>Income</b>			
Operating income	7	2,146,921,933	1,845,785,304
Other income	8	<u>23,492,582</u>	<u>13,063,964</u>
		<u>2,170,414,515</u>	<u>1,858,849,268</u>
<b>Expenses</b>			
Administration and establishment expenses	9	( 234,177,802)	( 233,567,914)
Impairment losses	10	<u>(1,702,571,084)</u>	<u>(1,226,782,271)</u>
		<u>(1,936,748,886)</u>	<u>(1,460,350,185)</u>
<b>Operating profit</b>		<b>233,665,629</b>	<b>398,499,083</b>
Finance charges	11	<u>( 8,447,815)</u>	<u>( 8,447,820)</u>
<b>Profit before tax</b>		<b>225,217,814</b>	<b>390,051,263</b>
Income tax expense	13	<u>-</u>	<u>-</u>
<b>Profit after tax</b>		<b><u>225,217,814</u></b>	<b><u>390,051,263</u></b>

The notes set out on pages 10 to 40 form an integral part of the financial statements.

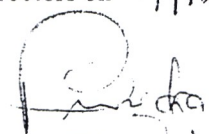
# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## BALANCE SHEET AS AT 30 JUNE 2009

	Note	2009 KShs	2008 KShs
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in quoted companies	14	2,202,599,482	3,655,748,567
Investment in other companies	15	5,384,190,098	5,486,555,585
Investment in Government securities	16(a)	68,423,100	68,423,100
Loans	17(a)	127,808,329	69,491,656
Advances	18	-	2,060,705
Intangible assets	19	16,169,296	691,896
Prepaid operating leases	20	8,925,144	9,046,412
Property and equipment	21	<u>714,031,919</u>	<u>663,412,489</u>
		<u>8,522,147,368</u>	<u>9,955,430,410</u>
<b>Current assets</b>			
Loans	17(a)	624,005,357	339,282,784
Related companies current accounts	22	15,924,034	32,670,195
Sundry debtors	23	123,473,008	211,909,096
Government securities and short term deposits	16(b)	835,529,598	866,746,530
Bank and cash balances		<u>24,900,384</u>	<u>21,648,733</u>
		<u>1,623,832,381</u>	<u>1,472,257,338</u>
<b>TOTAL ASSETS</b>		<b><u>10,145,979,749</u></b>	<b><u>11,427,687,748</u></b>
<b>RESERVES, GRANTS AND LIABILITIES</b>			
<b>Reserves</b>			
Capital reserves	24	1,909,590,447	1,909,590,447
Fair value reserves	24	6,666,952,651	8,132,301,736
Retained earnings		<u>394,319,021</u>	<u>169,101,207</u>
		<u>8,970,862,119</u>	<u>10,210,993,390</u>
<b>Grants and non-current liabilities</b>			
Grants and loans	25	<u>948,941,930</u>	<u>1,002,494,140</u>
<b>Current liabilities</b>			
Creditors	26	101,175,700	89,200,218
Dividend payable	27	<u>125,000,000</u>	<u>125,000,000</u>
		<u>226,175,700</u>	<u>214,200,218</u>
<b>TOTAL RESERVES, GRANTS AND LIABILITIES</b>		<b><u>10,145,979,749</u></b>	<b><u>11,427,687,748</u></b>

The financial statements on pages 6 to 40 were approved by the Board of Directors on 4/12/2009 and were signed on its behalf by:

  
\_\_\_\_\_  
Chairman

  
\_\_\_\_\_  
Executive Director

The notes set out on pages 10 to 40 form an integral part of the financial statements.

# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## CASHFLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 KShs	2008 KShs
<b>Cash flow from operating activities</b>			
Cash generated from operations	28(a)	<u>417,491,809</u>	<u>361,901,830</u>
<b>Investing activities</b>			
Investment in equity		-	( 98,256,520)
Purchase of property and equipment		( 71,515,369)	( 26,623,268)
Purchase of intangible asset		( 16,169,302)	-
Proceeds from sale of equipment/property		3,206,118	-
Loans advanced and interest charged thereon		(343,039,246)	( 26,953,496)
Change in investment in treasury bonds		-	( 24,285)
Decrease/(increase) in advance - Other companies		<u>2,060,705</u>	<u>9,657,315</u>
<b>Cash outflows from investing activities</b>		<b><u>(425,457,094)</u></b>	<b><u>(142,200,254)</u></b>
<b>Financing activities</b>			
Repayment of Government of Kenya loans		20,000,000	( 20,000,000)
Decrease in other loans		-	( 1,000,000)
<b>Cash outflows from financing activities</b>		<b><u>( 11,552,185)</u></b>	<b><u>( 12,552,180)</u></b>
<b>Increase in cash and cash equivalents</b>	28(b)	<b><u>( 27,965,281)</u></b>	<b><u>207,149,396</u></b>

The notes set out on pages 10 to 40 form an integral part of the financial statements.

**INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Capital reserves KShs	Fair value reserves KShs	Retained earnings KShs	Total reserves KShs
<b>2008:</b>				
At 1 July 2007				
- As previously stated	1,826,318,569	4,229,644,470	(305,427,644)	5,750,535,395
Prior year adjustment on fair value	-	3,567,821,344	-	3,567,821,344
Prior year adjustment on reversal of impairment for loans and advances	-	-	74,051,176	74,051,176
<b>At 1 July 2007 – As restated</b>	<b>1,826,318,569</b>	<b>7,797,465,814</b>	<b>(231,376,468)</b>	<b>9,392,407,915</b>
Excess depreciation on revaluation	(10,426,412)	-	10,426,412	-
Fair value adjustment	-	334,835,922	-	334,835,922
Profit for the year	-	-	390,051,263	390,051,263
Revaluation surplus on land and buildings	93,698,290	-	-	93,968,290
<b>At 30 June 2008</b>	<b><u>1,909,590,447</u></b>	<b><u>8,132,301,736</u></b>	<b><u>169,101,207</u></b>	<b><u>10,210,993,390</u></b>
<b>2009:</b>				
At 1 July 2008	1,909,590,447	8,132,301,736	169,101,207	10,210,993,390
Fair value adjustment	-	(1,465,349,085)	-	(1,465,349,085)
Profit for the year	-	-	225,217,814	225,217,814
<b>At 30 June 2009</b>	<b><u>1,909,590,447</u></b>	<b><u>6,666,952,651</u></b>	<b><u>394,319,021</u></b>	<b><u>8,970,862,119</u></b>

The notes set out on pages 10 to 40 form an integral part of the financial statements.

# INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. REPORTING ENTITY

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

Uchumi House  
Aga Khan Walk  
PO Box 45519  
00100 Nairobi GPO

### 2. BASIS OF PREPARATION

#### (i) *Statement of compliance*

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

#### (ii) *Basis of measurement*

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

#### (iii) *Use of estimates and judgements*

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

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

#### (iv) *Functional and presentation currency*

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Consolidation

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

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

#### (b) Foreign currency transactions

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

#### (c) Property and equipment

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

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

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

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

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

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

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

#### (d) Intangible assets

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

(e) **Capital reserves**

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

(f) **Managed funds**

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

(g) **Income**

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

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

(h) **Prepaid operating leases**

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

(i) **Financial instruments**

(i) *Classification*

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

*Financial assets at fair value through profit and loss*

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

*Loans and receivables*

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

(i) **Financial instruments (continued)**

(i) *Classification - continued*

*Held-to-maturity*

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

*Available-for-sale*

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

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

(ii) *Recognition and measurement*

The Corporation recognises assets on the date it commits to purchase the asset. From this date, any gains or losses arising from changes in fair value of the assets are recognised directly in the equity and for financial assets at fair value through profit and loss.

(iii) *Derecognition*

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

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

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

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

At each balance sheet date the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset.

(i) **Financial instruments (continued)**

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

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

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

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

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

(j) **Offsetting of financial assets and liabilities**

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

(k) **Taxation**

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

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

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

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

**(l) Grants and donations**

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

**(m) Employee benefits**

*(i) Pension obligations*

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

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

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

*(ii) Employee entitlements*

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

**(n) Provisions**

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

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

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

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

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

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

**(p) Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and treasury bills maturing within three months from date of acquisition.

**(q) Related party transactions**

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

**(r) Finance charges**

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

**(s) Comparatives**

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

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2009, and have not been applied in preparing these financial statements:

- Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The revised IAS 1, which becomes mandatory for the Corporation's 2010 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Corporation plans to provide total comprehensive income in a single statement of comprehensive income for its 2010 financial statements.

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

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Corporation's 2010 financial statements. The revised IAS 23 is not expected to have a significant impact on the financial statements because the Corporation does not have borrowing costs.

- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes:

The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

Contingent consideration will be measured at fair value, with subsequent changes therein recognised in income statement.

Transaction costs, other than share and debt issue costs, will be expensed as incurred.

Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in income statement.

Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Corporation's 2010 financial statements, will be applied prospectively. The revised IFRS 3 is not expected to have a significant impact on the financial statements

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Corporation in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Corporation loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in income statement. The amendments to IAS 27, which become mandatory for the Corporation's 2010 financial statements, are not expected to have a significant impact on the financial statements.
- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Corporation's 2010 financial statements, is not expected to have any effect on the financial statements because the Corporation has not entered into any public – to – private service concession.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Corporation's 2010 financial statements, is not expected to have any impact on the financial statements because the Corporation does not have any customer loyalty programmes.

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

- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14, which becomes mandatory for the Corporation's 2010 financial statements, is not expected to have any impact on the financial statements because the Corporation does not operate a Defined Benefit Scheme.
- The International Accounting Standards Board made certain amendments to existing standards as part of its annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Corporation's 2010 financial statements. The Corporation does not expect these amendments to have any significant impact on the financial statements.

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

(a) **Critical accounting estimates and assumptions**

(i) ***Income taxes***

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

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

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

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

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### (a) Critical accounting estimates and assumptions (continued)

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

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

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

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

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

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

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

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

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### (a) Critical accounting estimates and assumptions (continued)

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

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

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

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

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

#### 5. FINANCIAL RISK MANAGEMENT

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

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

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

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

##### (a) Credit risk

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Management of credit risk

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

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

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

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

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

(i) Credit risk exposure

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

	2009 Gross carrying Amount KShs'000	2009 Impairment losses KShs'000	2009 Net carrying amount KShs'000	2008 Net carrying amount KShs'000
Investments in quoted companies	2,209,551,431	(6,951,949)	2,202,599,482	3,655,748,567
Investments in other companies	5,696,820,619	(312,630,521)	5,384,190,098	5,486,555,585
Loans	11,793,370,998	(11,041,557,313)	751,813,685	408,774,440
Advances	88,213,613	(88,213,613)	-	2,060,705
Related companies current accounts	825,596,383	(809,672,349)	15,924,034	32,670,195
Sundry debtors	232,570,933	(109,097,925)	123,473,008	211,909,096
	<b>20,846,123,977</b>	<b>(12,368,123,670)</b>	<b>8,478,000,307</b>	<b>9,797,718,588</b>

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) Ageing of financial assets

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

30 June 2009: (KShs)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<b>ASSETS</b>						
Investments in quoted companies	-	-	-	-	2,202,599,482	2,202,599,482
Investments in other companies	-	-	-	-	5,384,190,098	5,384,190,098
Long term loans	-	-	-	127,808,329	-	127,808,329
Government securities	-	-	-	-	68,423,100	68,423,100
Current portion of loans receivable	-	-	624,005,357	-	-	624,005,357
Other companies current accounts	-	-	15,924,033	-	-	15,924,033
Sundry debtors	-	-	123,473,008	-	-	123,473,008
Short term deposits	-	835,529,598	-	-	-	835,529,598
Cash and cash equivalents	24,900,384	-	-	-	-	24,900,384
<b>Total</b>	<b>24,900,384</b>	<b>835,529,598</b>	<b>763,402,398</b>	<b>127,808,329</b>	<b>7,655,212,680</b>	<b>9,406,853,389</b>

30 June 2008: (KShs)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<b>ASSETS</b>						
Investments in quoted companies	-	-	-	-	3,655,748,567	3,655,748,567
Investments in other companies	-	-	-	179,444,310	5,307,111,275	5,486,555,585
Long term loans	-	-	-	69,491,656	-	69,491,656
Advances	-	-	-	2,060,705	-	2,060,705
Government securities	-	-	71,470,511	-	68,423,100	139,893,611
Current portion of loans receivable	-	-	339,282,784	-	-	339,282,784
Other companies current accounts	-	-	32,670,195	-	-	32,670,195
Sundry debtors	-	-	211,909,096	-	-	211,909,096
Short term deposits	-	795,276,019	-	-	-	795,276,019
Cash and cash equivalents	21,648,733	-	-	-	-	21,648,733
<b>Total</b>	<b>21,648,733</b>	<b>795,276,019</b>	<b>655,332,586</b>	<b>250,996,671</b>	<b>9,031,282,942</b>	<b>10,754,536,951</b>

(iii) Impairment losses

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

	Balance brought forward	Additions during the year	Write backs during the year	Write offs/Adjustments during the year	Balance carried forward
Investments in quoted companies	6,951,956	-	-	-	6,951,956
Investments in other companies	257,127,161	55,503,360	-	-	312,630,521
Loans	9,670,868,390	1,638,992,600	(116,826,462)	(151,477,211)	11,041,557,317
Advances	137,270,429	2,986,793	(51,566,202)	(477,406)	88,213,614
Other companies current accounts	844,064,397	-	(13,808,301)	(20,583,746)	809,672,350
Sundry debtors	155,617,367	4,131,827	(25,098,647)	(25,552,622)	109,097,925
<b>Total</b>	<b>11,071,899,700</b>	<b>1,688,957,030</b>	<b>(194,642,062)</b>	<b>(198,090,985)</b>	<b>12,368,123,683</b>

(b) Liquidity risk

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 2 years. This excludes the servicing of financial obligations which are separately planned for. Also excluded are the potential impacts of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

The responsibility for managing daily liquidity assessment resides with the Financial Controller. However, the balance sheet liquidity management resides with the Corporation's Finance and Investment Committee.

The table below analyses financial liabilities into relevant maturity based on the remaining period at 30 June 2008 to the contractual maturity date.

30 June 2009: (KShs)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>LIABILITIES</b>	-	-	-	-	-	-
Grant and loans	-	-	-	-	948,941,929	948,941,929
Creditors	-	2,310,000	35,000,000	63,865,701	-	101,175,701
Dividends payable	-	-	-	-	125,000,000	125,000,000
<b>Total liabilities</b>	-	2,310,000	35,000,000	63,865,701	1,073,941,929	1,175,117,630
<b>30 June 2008: (KShs)</b>						
<b>LIABILITIES</b>						
Grant and loans	-	-	-	-	1,002,494,141	1,002,494,141
Creditors	-	2,100,000	30,000,000	-	57,100,218	89,200,218
Dividends payable	-	-	-	-	125,000,000	125,000,000
<b>Total liabilities</b>	-	2,100,000	30,000,000	-	1,184,594,359	1,216,694,359

(c) Market risk

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

(i) Interest rate risk

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

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

5 FINANCIAL RISK MANAGEMENT (Continued)

INTEREST RATE RISK ANALYSIS

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

2009:	Effective interest rate %	On demand KShs	Due within 3 months KShs	Due between 3 and 12 months KShs	Due between 1 and 5 years KShs	Due after 5 years KShs	Non interest bearing KShs	Total KShs
<b>Assets</b>								
Non current assets								
Investments in quoted companies	-	-	-	-	-	-	2,202,599,482	2,202,599,482
Investments in other companies	-	-	-	-	-	-	5,384,190,098	5,384,190,098
Investment in Government securities	14.35	-	-	-	68,423,100	-	-	68,423,100
Loans	10.39	-	-	127,808,329	-	-	-	127,808,329
Intangible assets	-	-	-	-	-	-	16,169,296	16,169,296
Prepaid operating lease rentals	-	-	-	-	-	-	8,925,144	8,925,144
Property and equipment	-	-	-	-	-	-	714,031,919	714,031,919
<b>Total- non current assets</b>				<b>127,808,329</b>	<b>68,423,100</b>		<b>8,325,915,939</b>	<b>8,522,147,368</b>
<b>Current assets</b>								
(Other companies' current accounts	-	-	-	-	-	-	15,924,034	15,924,034
Sundry debtors	-	-	-	-	-	-	123,473,008	123,473,008
Loans	10.39	-	-	624,005,357	-	-	-	624,005,357
Government securities & short term investments	8.5	-	835,529,598	-	-	-	-	835,529,598
Bank and cash balances	-	-	-	-	-	-	24,900,384	24,900,384
<b>Total current assets</b>			<b>835,529,598</b>	<b>624,005,357</b>			<b>164,297,426</b>	<b>1,623,832,381</b>
<b>Total assets</b>			<b>835,529,598</b>	<b>624,005,357</b>	<b>127,808,329</b>	<b>68,423,100</b>	<b>8,490,213,365</b>	<b>10,145,979,749</b>
<b>Reserves, grants and liabilities</b>								
Reserves							8,970,862,119	8,970,862,119
<b>Grants and non current liabilities</b>								
Grants and Government of Kenya loans	5.29	-	-	-	948,941,929	-	-	948,941,929
<b>Current liabilities</b>								
Creditors	-	-	-	-	-	-	101,175,701	101,175,701
Dividends payable	-	-	-	-	-	-	125,000,000	125,000,000
<b>Total reserves, grants &amp; liabilities</b>					<b>948,941,929</b>		<b>9,197,037,825</b>	<b>10,145,979,749</b>
<b>Interest sensitivity gap</b>			<b>835,529,598</b>	<b>624,005,357</b>	<b>127,808,329</b>	<b>(880,518,829)</b>	<b>(706,824,460)</b>	

5 FINANCIAL RISK MANAGEMENT (Continued)

INTEREST RATE RISK ANALYSIS

2008:	Effective interest rate %	On demand KShs	Due within 3 months KShs	Due between 3 and 12 months KShs	Due between 1 and 5 years KShs	Due after 5 years KShs	Non interest bearing KShs	Total KShs
<b>Assets</b>								
Non current assets	-	-	-	-	-	-	3,665,748,567	3,665,748,567
Investments in quoted companies	-	-	-	-	-	-	5,486,555,585	5,486,555,585
Investments in other companies	7.8	-	-	-	68,423,100	-	-	68,423,100
Investment in Government securities	9.27	-	-	-	69,491,656	-	-	69,491,656
Loans	19.6	-	-	-	2,060,705	-	-	2,060,705
Advances	-	-	-	-	-	-	691,896	691,896
Intangible assets	-	-	-	-	-	-	9,046,412	9,046,412
Prepaid operating lease rentals	-	-	-	-	-	-	663,412,489	663,412,489
Property and equipment	-	-	-	-	-	-	9,825,454,949	9,825,454,949
<b>Total- non current assets</b>	-	-	-	-	<b>71,552,361</b>	<b>68,423,100</b>	-	<b>9,955,430,410</b>
<b>Current assets</b>								
Other companies' current accounts	-	-	-	-	-	-	32,670,195	32,670,195
Sundry debtors	-	-	-	-	-	-	211,909,096	211,909,096
Loans	9.27	-	-	339,282,784	-	-	-	339,282,784
Government securities & short term investments	8.13	-	866,746,530	-	-	-	21,648,733	866,746,530
Bank and cash balances	-	-	-	-	-	-	266,228,024	266,228,024
<b>Total current assets</b>	-	-	<b>866,746,530</b>	<b>339,282,784</b>	-	-	<b>10,091,682,973</b>	<b>11,427,687,748</b>
<b>Total assets</b>	-	-	<b>866,746,530</b>	<b>339,282,784</b>	<b>71,552,361</b>	<b>68,423,100</b>	-	<b>11,427,687,748</b>
<b>Reserves, grants and liabilities</b>								
Reserves	-	-	-	-	-	-	10,210,993,390	10,210,993,390
<b>Grants and non current liabilities</b>	5.3	-	-	-	-	1,002,494,140	-	1,002,494,140
Grants and Government of Kenya loans	-	-	-	-	-	-	-	-
<b>Current liabilities</b>	-	-	-	-	-	-	89,200,218	89,200,218
Creditors	-	-	-	-	-	-	125,000,000	125,000,000
Dividends payable	-	-	-	-	-	-	214,200,218	214,200,218
<b>Total reserves, grants &amp; liabilities</b>	-	-	-	-	-	<b>1,002,494,140</b>	<b>10,425,193,608</b>	<b>11,427,687,748</b>
<b>Interest sensitivity gap</b>	-	-	<b>866,746,530</b>	<b>339,282,784</b>	<b>71,552,361</b>	<b>(934,071,040)</b>	<b>(333,510,630)</b>	-

5 FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

Sensitivity analysis on interest rates

An increase of 1 percentage point in interest rates at the reporting date would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2008:

Effect in Shillings

	<u>Income statement</u>	
	2009 KShs	2008 KShs
Loans and advances	7,518,137	4,083,222

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

(ii) *Equity prices*

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

At 30 June 2009, if the prices of all equity investments had increased/decreased by 5% with all other variables held constant, the increase in net assets available for benefits for the year would have been KShs 110,129,974 (2008 – KShs 182,787,429) higher/lower.

5 FINANCIAL RISK MANAGEMENT (Continued)

Equity prices (Continued)

This is analysed in the table below:

Equity	No of shares	Market price 2009	Market Value 2009	Price changes analysis (5%) 2009
<b>Commercial and Services</b>				
Safaricom Limited	2,975,200	3.25	9,669,400	483,470
Kenya Airways Limited	53,500	24.00	1,284,000	64,200
Access Kenya Limited	82,000	25.25	2,070,500	103,525
			<b>13,023,900</b>	<b>651,195</b>
<b>Finance and Investment</b>				
Nation Media Group	14,600	144.00	2,102,400	105,120
Centum Investments Company Ltd	129,304,130	16.05	2,075,331,287	103,766,564
Standard Chartered Bank Ltd	14,700	144.00	2,116,800	105,840
Jubilee Holdings Limited	15,000	130.00	1,950,000	97,500
Barclays Bank of Kenya	39,200	55.00	2,156,000	107,800
			<b>2,083,656,487</b>	<b>104,182,824</b>
<b>Industrial and Allied</b>				
Eveready Batteries Limited	36,583,575	2.60	95,117,295	4,755,865
British American Tobacco	17,000	172.00	2,924,000	146,200
Kenya Power & Lighting Ltd	12,200	146.00	1,781,200	89,060
Total Kenya Limited	93,600	31.00	2,901,600	145,080
East African Breweries Ltd	21,300	150.00	3,195,000	159,750
			<b>105,919,095</b>	<b>5,295,955</b>
<b>Total</b>			<b>2,202,599,482</b>	<b>110,129,974</b>

(iii) *Currency risk*

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

**(d) Operational risk**

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

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

The ultimate accountability for operational risk management within the Corporation rests with the Board of Directors. Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk.

**(e) Capital management**

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

## 6. FINANCIAL ASSETS AND LIABILITIES AND THEIR FAIR VALUES

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

	Held for trading KShs	Held to maturity KShs	Loans and receivables KShs	Available-for-sale KShs	Other amortised cost KShs	Total carrying amount KShs	Fair values KShs
<b>As at 30 June 2009</b>							
<b>Assets</b>							
Investments in quoted companies	-	-	-	2,202,599,482	-	2,202,599,482	2,202,599,482
Investments in other companies	-	-	-	5,384,190,098	-	5,384,190,098	5,384,190,098
Investments in Government securities	-	68,423,100	-	-	-	68,423,100	68,423,100
Loans	-	-	751,813,685	-	-	751,813,685	751,813,685
Current accounts	-	-	-	-	15,924,034	15,924,034	15,924,034
Sundry debtors	-	-	-	-	123,473,008	123,473,008	123,473,008
Short term deposits	-	-	-	-	835,529,598	835,529,598	835,529,598
Cash and cash equivalents	-	-	-	-	24,900,384	24,900,384	24,900,384
<b>Total assets</b>	-	<b>68,423,100</b>	<b>751,813,685</b>	<b>7,586,789,580</b>	<b>999,827,024</b>	<b>9,406,853,389</b>	<b>9,406,853,389</b>
<b>Liabilities and shareholders' funds</b>							
Government loans and grants	-	-	-	-	948,941,929	948,941,929	948,941,929
<b>Total liabilities</b>	-	-	-	-	<b>948,941,929</b>	<b>948,941,929</b>	<b>948,941,929</b>
<b>As at 30 June 2008</b>							
<b>Assets</b>							
Investments in quoted companies	-	-	-	3,655,748,567	-	3,655,748,567	3,655,748,567
Investments in other companies	-	-	-	5,486,555,585	-	5,486,555,585	5,486,555,585
Investments in Government securities	-	139,893,611	-	-	-	139,893,611	139,893,611
Loans	-	-	408,774,440	-	-	408,774,440	408,774,440
Advances	-	-	-	-	-	2,060,705	2,060,705
Current accounts	-	-	-	-	32,670,195	32,670,195	32,670,195
Sundry debtors	-	-	-	-	211,909,096	211,909,096	211,909,096
Short term deposits	-	-	-	-	795,276,019	795,276,019	795,276,019
Cash and cash equivalents	-	-	-	-	21,648,733	21,648,733	21,648,733
<b>Total assets</b>	-	<b>139,893,611</b>	<b>410,835,145</b>	<b>9,142,304,152</b>	<b>1,061,504,043</b>	<b>10,754,536,951</b>	<b>10,754,536,951</b>
<b>Liabilities and shareholders' funds</b>							
Government loans and grants	-	-	-	-	1,002,494,140	1,002,494,140	1,002,494,140
<b>Total liabilities</b>	-	-	-	-	<b>1,002,494,140</b>	<b>1,002,494,140</b>	<b>1,002,494,140</b>

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

	2009 KShs	2008 KShs
<b>7. INCOME</b>		
Dividends	81,391,659	327,355,550
Interest on loans and advances	1,656,770,503	1,217,287,192
Application fees	7,016,000	2,074,400
Valuation fees and other services	5,046,875	420,033
Write back on provision for investments	-	7,716,613
Rental income	79,995,057	66,630,315
Interest on deposits	83,372,206	68,686,580
Write back on provision for sundry debtors and related companies' current accounts	116,503,167	21,344,821
Write back on provisions for loans and advances	<u>116,826,466</u>	<u>134,269,800</u>
	<b><u>2,146,921,933</u></b>	<b><u>1,845,785,304</u></b>
<b>8. OTHER INCOME</b>		
Profit on disposal of equipment	3,206,118	-
Sundry income	<u>20,286,464</u>	<u>13,063,964</u>
	<b><u>23,492,582</u></b>	<b><u>13,063,964</u></b>
<b>9. ADMINISTRATION AND ESTABLISHMENT EXPENSES</b>		
Staff costs	114,062,077	99,665,650
Directors' fees and other	10,988,770	7,045,873
Rent and rates	4,544,150	4,852,793
Audit fees	2,310,000	2,100,000
Revaluation loss on furniture and office equipment	3,171,001	-
Depreciation	17,838,060	16,384,479
Amortisation – prepaid leases	121,268	121,268
Amortisation – intangible assets	691,902	1,420,374
Repairs and maintenance	3,780,021	3,864,918
Insurance	2,889,825	2,742,338
Bank charges	861,899	1,096,755
Printing and stationery	1,547,832	1,362,864
Water and electricity	15,442,184	11,238,244
Publicity and advertising	7,431,515	3,357,350
Telephone and telex	2,374,493	1,802,201
Donations and other contributions	120,000	455,000
Travelling and subsistence	5,625,298	4,139,888
Motor vehicle running	1,903,173	2,078,394
Professional expenses	3,135,766	7,705,218
Computer expenses	3,077,337	3,720,277
Legal fees	8,383,131	4,458,109
Provision for legal case	5,000,000	30,000,000
Uchumi House security	6,552,000	6,084,865
VAT and other taxes	6,222,430	7,682,386
Subscriptions	786,433	847,209
Uchumi House administration	3,905,838	7,351,111
Other	<u>1,411,399</u>	<u>1,990,350</u>
	<b><u>234,177,802</u></b>	<b><u>233,567,914</u></b>

The number of employees at the end of the year was 65 (2008 – 64).

Included in staff costs are contributions to a defined contribution retirement benefit plan. During the year, the company expenses KShs 4,812,623 (2008 – KShs 4,111,820) in contributions payable.

	2009 KShs	2008 KShs
<b>10. IMPAIRMENT LOSSES</b>		
Arising from:		
Small loans	1,638,992,600	1,197,885,124
Equity investments	55,503,358	-
Sundry debtors	<u>8,075,126</u>	<u>28,897,147</u>
	<b><u>1,702,571,084</u></b>	<b><u>1,226,782,271</u></b>
<b>11. FINANCE CHARGES</b>		
Interest on Government of Kenya loans	<u>8,447,815</u>	<u>8,447,820</u>
<b>12. PROFIT BEFORE TAXATION</b>		
Profit before taxation is stated after charging:		
Depreciation	17,838,060	16,384,479
Amortisation – prepaid leases	121,268	121,268
Amortisation – intangible assets	691,902	1,420,374
Directors’ emoluments: - Personal remunerations	9,661,288	6,012,200
- Gratuity	1,327,482	1,327,482
Auditors’ remuneration	<u>2,310,000</u>	<u>2,100,000</u>
<b>13. TAXATION</b>		
<b>Income tax expense</b>		
Current tax at 30%	-	-
Deferred tax expense	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

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

	2009 KShs ‘000	2008 KShs ‘000
Accounting profit before taxation	<u>225,217,814</u>	<u>390,051,263</u>
Computed tax using the applicable tax rate at 30%	67,565,344	117,015,379
Non-deductible costs and non-taxable income	( 59,938,115)	( 33,541,736)
Deferred income tax not recognised	<u>( 7,627,229)</u>	<u>( 83,473,643)</u>
<b>Income tax expense</b>	<u>-</u>	<u>-</u>

A deferred tax asset estimated at KShs 2,371,536,171 (2008 – KShs 2,466,843,917) has not been recognised in these financial statements as the directors are of the opinion that the benefit will not crystallise in the foreseeable future.

13. TAXATION (Continued)

Deferred tax asset - unrecognised

The movement in the deferred tax asset is as follows:

2009:	At 1 July 2008 KShs	Movement in the year KShs	At 30 June 2009 KShs
Property and equipment	( 2,863,969)	3,344,844	480,875
Provisions	(2,166,764,459)	84,335,673	(2,082,428,786)
Tax losses	( 297,215,489)	7,627,229	(289,588,260)
	<u>(2,466,843,917)</u>	<u>95,307,746</u>	<u>(2,371,536,171)</u>
2008:	At 1 July 2007 KShs	Movement in the year KShs	At 30 June 2008 KShs
Property and equipment	( 522,837)	( 2,341,132)	( 2,863,969)
Provisions	( 2,483,950)	(2,164,280,509)	(2,166,764,459)
Tax losses	371,405,023	( 668,620,512)	(297,215,489)
	<u>368,398,236</u>	<u>(2,835,242,153)</u>	<u>(2,466,843,917)</u>
14. INVESTMENT IN QUOTED COMPANIES		2009 KShs	2008 KShs
Investment in shares		3,662,700,523	3,662,700,523
Less: Revaluation losses		(1,460,101,041)	( 6,951,956)
		<u>2,202,599,482</u>	<u>3,655,748,567</u>
15. INVESTMENT IN OTHER COMPANIES			
Investment in shares		5,743,682,746	5,743,682,746
Less: Impairment losses		( 359,492,648)	( 257,127,161)
		<u>5,384,190,098</u>	<u>5,486,555,585</u>
16. GOVERNMENT SECURITIES AND SHORT TERM DEPOSITS			
(a) Treasury bonds – Held to Maturity		2009 KShs	2008 KShs
Maturing after 90 days		<u>68,423,100</u>	<u>68,423,100</u>

The effective interest rate on treasury bonds at 30 June 2008 was 14.35% (2008 – 8.13%).

16. GOVERNMENT SECURITIES AND SHORT TERM DEPOSITS (Continued)

	2009	2008
	KShs	KShs
(b) <b>Maturing within 90 days</b>		
Treasury bills	-	71,470,511
Short term deposits	<u>835,529,598</u>	<u>795,276,019</u>
	<b><u>835,529,598</u></b>	<b><u>866,746,530</u></b>

The weighted average effective interest rate on treasury bills at 30 June 2009 was 7.81% and on short term deposits was 8.5%.

17. LOANS

	2009	2008
	KShs	KShs
(a) <b>Outstanding loans</b>		
<b>Large and medium loans</b>		
Loans to significant companies	583,983,163	270,017,045
Less: Impairment losses (Note 17 (b))	<u>( 216,670,200)</u>	<u>( 216,670,200)</u>
<b>Total large and medium loans</b>	<b><u>367,312,963</u></b>	<b><u>53,346,845</u></b>
<b>Small loans</b>		
Commercial	6,211,910,471	6,921,821,318
Property	747,841,677	514,978,818
Industrial	3,053,953,920	1,421,288,200
Machinery	424,162,363	354,851,095
ICDC/General Motors Kenya Limited/ Kenya Breweries Limited	7,882,400	6,808,295
Personal loans	23,316,529	1,812,771
ICDC – Kenya Bus Services Limited	16,838,211	16,531,362
Hire purchase	42,615,594	1,952,143
Corporate	<u>680,866,670</u>	<u>569,581,783</u>
	11,209,387,835	9,809,625,785
Less: Impairment losses (Note 17 (b))	<u>(10,824,887,113)</u>	<u>(9,454,198,190)</u>
<b>Total small loans</b>	<b><u>384,500,722</u></b>	<b><u>355,427,595</u></b>
<b>Total loans</b>	<b><u>751,813,685</u></b>	<b><u>408,774,440</u></b>
<i>Classified as:</i>		
Due within one year	624,005,357	339,282,784
Due after one year	<u>127,808,329</u>	<u>69,491,656</u>
<b>Total loans</b>	<b><u>751,813,685</u></b>	<b><u>408,774,440</u></b>

The weighted average effective interest rate on loans and advances at 30 June 2009 was 10.39% (2008 - 9.279%).

17. LOANS (Continued)

	2009 KShs	2008 KShs
<b>(b) Impairment losses on loans</b>		
As at 1 July	9,670,868,390	8,472,983,266
Increase in impairment	1,638,992,600	1,313,051,547
Impairment losses no longer required	( 116,826,466)	( 115,166,423)
Loans written off	( 151,477,211)	-
	<b><u>11,041,557,313</u></b>	<b><u>9,670,868,390</u></b>
<b>Comprising of:</b>		
Large and medium loans	216,670,200	216,670,200
Small loans	<u>10,824,887,113</u>	<u>9,454,198,190</u>
<b>Total loans</b>	<b><u>11,041,557,313</u></b>	<b><u>9,670,868,390</u></b>

18. ADVANCES

Loans to significant companies	34,335,630	86,071,230
Other companies	<u>53,877,983</u>	<u>53,259,903</u>
	88,213,613	139,331,134
Less: Impairment losses	( 88,213,613)	(137,270,429)
	<u>-</u>	<u>2,060,705</u>

19. INTANGIBLE ASSETS

<b>Cost</b>		
As at 1 July 2009 and 2008	4,304,170	4,304,170
Additions in the year	<u>16,169,302</u>	-
As at 30 June 2009 and 2008	<u>20,473,472</u>	<u>4,304,170</u>
<b>Amortisation</b>		
As at 1 July 2008 and 2007	3,612,274	2,191,900
Charge for the year	<u>691,902</u>	<u>1,420,374</u>
As at 30 June 2009 and 2008	<u>4,304,176</u>	<u>3,612,274</u>
<b>Net book value at 30 June 2009 and 2008</b>	<b><u>16,169,296</u></b>	<b><u>691,896</u></b>

20. PREPAID OPERATING LEASES

<b>Cost</b>		
At 1 July 2009 and 2008	<u>9,167,680</u>	<u>9,167,680</u>
<b>Amortisation</b>		
At 1 July 2009 and 2008	121,268	-
Charge for the year	<u>121,268</u>	<u>121,268</u>
At 30 June	<u>242,536</u>	<u>121,268</u>
<b>Net book value at 30 June</b>	<b><u>8,925,144</u></b>	<b><u>9,046,412</u></b>

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

21. PROPERTY AND EQUIPMENT

2009:	Buildings KShs	Motor vehicles KShs	Furniture and office equipment KShs	Total KShs
<b>Cost/valuation</b>				
At 1 July 2008	639,879,963	32,741,331	105,749,704	778,370,998
Additions	47,592,032	-	23,923,337	71,515,369
Revaluation loss	-	-	(89,285,114)	( 89,285,114)
Disposals	-	( 9,289,981)	-	( 9,289,981)
At 30 June 2009	<u>687,471,995</u>	<u>23,451,350</u>	<u>40,387,923</u>	<u>751,311,268</u>
<b>Comprising:</b>				
Cost	76,447,399	23,451,350	-	99,898,749
Valuation	<u>611,024,596</u>	<u>-</u>	<u>40,387,923</u>	<u>651,412,519</u>
	<u>687,471,995</u>	<u>23,451,350</u>	<u>40,387,923</u>	<u>751,311,268</u>
<b>Depreciation</b>				
At 1 July 2008	10,251,131	23,709,487	80,997,891	114,958,509
Disposals	-	( 9,289,981)	-	( 9,289,981)
Depreciation written back on revaluation	-	-	( 86,227,240)	( 86,227,240)
Charge for the year	<u>10,321,784</u>	<u>2,286,928</u>	<u>5,229,349</u>	<u>17,838,060</u>
At 30 June 2009	<u>20,572,915</u>	<u>16,706,434</u>	<u>-</u>	<u>37,279,349</u>
<b>Net book value</b>				
At 30 June 2009	<u>666,899,080</u>	<u>6,744,916</u>	<u>40,387,923</u>	<u>714,031,919</u>
<b>2008:</b>				
<b>Cost/valuation</b>				
At 1 July 2007	606,301,710	32,681,330	95,714,030	734,697,070
Additions	16,527,593	60,001	10,035,674	26,623,268
Revaluation surplus	<u>17,050,660</u>	<u>-</u>	<u>-</u>	<u>17,050,660</u>
At 30 June 2008	<u>639,879,963</u>	<u>32,741,331</u>	<u>105,749,704</u>	<u>778,370,998</u>
<b>Comprising:</b>				
Cost	28,855,367	32,741,331	105,749,704	167,346,402
Valuation	<u>611,024,596</u>	<u>-</u>	<u>-</u>	<u>611,024,596</u>
	<u>639,879,963</u>	<u>32,741,331</u>	<u>105,749,704</u>	<u>778,370,998</u>
<b>Depreciation</b>				
At 1 July 2007	76,647,630	21,434,560	77,139,470	175,221,660
Depreciation written back on revaluation	( 76,647,630)	-	-	( 76,647,630)
Charge for the year	<u>10,251,131</u>	<u>2,274,927</u>	<u>3,858,421</u>	<u>16,384,479</u>
At 30 June 2008	<u>10,251,131</u>	<u>23,709,487</u>	<u>80,997,891</u>	<u>114,958,509</u>
<b>Net book value</b>				
At 30 June 2008	<u>629,628,832</u>	<u>9,031,844</u>	<u>24,751,813</u>	<u>663,412,489</u>

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

21. **PROPERTY AND EQUIPMENT (Continued)**

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

Included in the property and equipment are fully depreciated assets whose initial cost was KShs 11,804,680 (2008 – KShs 65,394,383). If they had been depreciated at existing rates, a notional depreciation charge of KShs 2,360,928 (2008 – KShs 16,228,645) would have resulted.

	2009 KShs	2008 KShs
<b>22. RELATED COMPANIES' CURRENT ACCOUNTS</b>		
Current accounts	825,596,383	876,734,592
Less: Impairment losses	<u>(809,672,349)</u>	<u>(844,064,397)</u>
	<b><u>15,924,034</u></b>	<b><u>32,670,195</u></b>
<b>23. SUNDRY DEBTORS</b>		
Dividends receivable	69,582,597	201,148,860
Receivable from Uchumi House tenants	40,710,140	41,065,310
Recoverable expenses from associate companies	40,802,139	45,986,485
Other debtors	<u>81,476,057</u>	<u>79,325,808</u>
	232,570,933	367,526,463
Less: Impairment losses	<u>(109,097,925)</u>	<u>(155,617,367)</u>
	<b><u>123,473,008</u></b>	<b><u>211,909,096</u></b>
<b>24. RESERVES</b>		

**Capital reserves**

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

**Fair value reserves**

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

25. **GRANTS AND LOANS**

	2009 KShs	2008 KShs
<b>From Government of Kenya</b>		
<i>Grants:</i>		
Government grants	529,971,270	529,971,270
<i>Loans:</i>		
At 1 July 2009 and 2008	447,545,440	459,618,250
Interest for the year	7,927,190	7,927,190
Sale tax conversion	( 42,000,000)	-
Repayment during the year	<u>( 20,000,000)</u>	<u>( 20,000,000)</u>
	<b><u>393,472,600</u></b>	<b><u>447,545,440</u></b>

25.	GRANTS AND LOANS (Continued)	2009 KShs	2008 KShs
	From KFW of West Germany		
	<i>Loans:</i>		
	At 1 July 2009 and 2008	24,977,430	24,456,800
	Interest for the year	<u>520,630</u>	<u>520,630</u>
	Sub total KFW of West Germany	<u>25,498,060</u>	<u>24,977,430</u>
	Total grants and loans	<u>948,941,930</u>	<u>1,002,494,140</u>

(a) From Government of Kenya

Soya Oil & Food Industries Ltd

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

Managed funds

Grants and loans include funds disbursed to the following companies being managed funds administered on behalf of the Government of Kenya, and against which no provision for losses is made in accordance with The Corporation's accounting policy stated in Note 2(f):

	2009 KShs	2008 KShs
Kenya Taitex Mills Limited (in liquidation) – equity	-	42,000,000
Rift Valley Textiles Limited (in receivership) – equity	43,400,000	43,400,000
Kenatco Transport Limited (in receivership) – equity	6,900,000	6,900,000
Kisumu Cotton Mills (1983) Limited (in liquidation) – equity	19,500,000	19,500,000
Pan African Vegetable Products Limited (in liquidation) – equity	1,265,000	1,265,000
Pan Vegetable Processors Limited – equity	15,805,390	15,805,390
South Nyanza Sugar Limited – equity	<u>10,000,000</u>	<u>10,000,000</u>
	<u>96,870,390</u>	<u>138,870,390</u>

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

26.	CREDITORS	2009 KShs	2008 KShs
	General creditors	86,759,376	76,358,897
	Rent deposit	<u>14,416,324</u>	<u>12,841,321</u>
		<u>101,175,700</u>	<u>89,200,218</u>

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

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

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

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

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

	2009	2008	
	KShs	KShs	
<b>(a) Reconciliation of profit before taxation to net cash inflow from operating activities</b>			
Profit before tax	225,217,814	390,051,263	
Adjustments for:			
Depreciation	17,838,060	16,384,479	
Amortisation – prepaid leases	121,268	121,268	
Amortisation – intangible assets	691,902	1,420,374	
Impairment loss on unquoted equity	55,503,360	-	
Interest on Government loans	8,447,815	-	
Gain on disposal of property and equipment	( 3,206,118)	-	
Effect of property, plant and equipment revaluation	3,057,874	-	
Increase/(decrease) in creditors	11,975,483	52,684,942	
Increase in sundry debtors	88,436,088	(123,283,864)	
Other adjustments on equity investment	( 7,337,899)	-	
Decrease in other companies current accounts	<u>16,746,161</u>	<u>24,523,368</u>	
<b>Net cash inflow from operating activities</b>	<b><u>417,491,809</u></b>	<b><u>361,901,830</u></b>	
<b>(b) Analysis of cash and cash equivalents</b>			<b>Change in</b>
	<b>2009</b>	<b>2008</b>	<b>the year</b>
	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
Government securities and short term investments	835,529,598	866,746,530	(31,216,932)
Bank and cash balances	<u>24,900,384</u>	<u>21,648,733</u>	<u>3,251,651</u>
	<b><u>860,429,982</u></b>	<b><u>888,395,263</u></b>	<b><u>(27,965,281)</u></b>

29. **BANK OVERDRAFT**

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

### 30. RELATED PARTY TRANSACTIONS

#### Grants and loans

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to finance the operation of the Corporation. The relevant balances are shown in Note 25.

#### Investment in other related companies

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

Dividends earned during the year are as follows:	2009 KShs	2008 KShs
Dividends (Note 7)	<u>81,391,659</u>	<u>327,355,350</u>

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

#### Advances to other related companies

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

Compensation to executive management	2009 KShs	2008 KShs
Short term compensation benefits (salaries)	10,988,770	6,012,200
Executive Director's gratuity	<u>1,488,000</u>	<u>1,327,482</u>
	<u>12,476,770</u>	<u>7,339,682</u>

#### Loans and advances to staff

Directors	733,035	2,269,121
Staff and management	<u>75,893,971</u>	<u>71,326,537</u>
	<u>76,627,006</u>	<u>73,595,658</u>

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

### 31. COMMITMENTS

These include the following:

	2009 KShs	2008 KShs
Small loans	15,200,000	-
Large and medium loans - approved	-	20,000,000
Capital commitments - approved	<u>33,457,834</u>	<u>95,171,167</u>
	<u>48,657,834</u>	<u>115,171,167</u>

### 32. CONTINGENT LIABILITIES

As at 30 June 2009, the Corporation had issued guarantees amounting to KShs 38,000,000 (2008 – KShs 38,000,000) in favour of third parties. No losses are expected from these guarantees. In addition, the Corporation has been granted letters of credit by banks amounting to KShs 8 million and USD 261,240 for purposes of purchasing lifts for Uchumi House.

The Corporation has been sued by third parties for claims amounting to KShs 1,913,974 (2008 – KShs 224,498,831) together with the interest thereon and costs of the suits. No provision has been made in these financial statements as the directors are of the opinion that no liability will crystallise.

### 33. FUTURE RENTAL COMMITMENT UNDER OPERATING LEASES

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

	2009 KShs	2008 KShs
Due within 1 year	68,959,142	65,106,517
After 1 year but less than 5 years	135,800,886	185,072,985
After 5 years	<u>2,962,003</u>	<u>13,299,773</u>
	<u>207,722,031</u>	<u>263,479,275</u>

