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REPORT

*Paper laid by
Leader of Majority
on 15/2/2018
Chumbi.*

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
INDUSTRIAL AND COMMERCIAL
DEVELOPMENT CORPORATION

FOR THE YEAR ENDED
30 JUNE 2017



**ANNUAL REPORT &
FINANCIAL STATEMENTS
2016/2017**

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CORPORATE INFORMATION

VISION

To Be Africa's World Class Development Finance Institution (DFI).

MISSION

To Be the Catalyst for Wealth Creation.

BRAND PROMISE

Creation of Sustainable Wealth.

CORE VALUES

Reliability, Customer Focus, Creativity, Integrity.

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
CORPORATION SECRETARY Grace M. Magunga PO Box 45519- 00100 Nairobi	Commercial Bank of Africa Limited Wabera Street P.O.Box 30437 – 00100 Nairobi
CORPORATE CONTACTS Telephone: (254) 020-2229213 (254) 020-2771000 Mobile: 0727534572/0736229213 Email: info@icdc.co.ke Website: www.icdc.co.ke	Co-operative Bank of Kenya Limited Uchumi House Aga Khan Walk P.O.Box 40310 – 00100 Nairobi
AUDITOR The Auditor-General PO Box 30084- 00100 Nairobi	

BOARD OF DIRECTORS' PROFILES

FRANCIS KIMEMIA EGH, CBS, HSC - **CHAIRMAN** (resigned 8 May 2017)



Mr. Francis Kimemia EGH, CBS, HSC was appointed Chairman of the ICDC Board of Directors on 18th March 2016. He resigned 8th May 2017 as he was seeking elective post in 2017 general election. Has since not been replaced as at the end of 30th June 2017

He has had a long career in the public service and has served in various capacities. He is the immediate former Secretary to the Cabinet and is also a former Head of Public Service of the republic of Kenya. He previously served as Permanent Secretary, Ministry of State for Provincial Administration and Internal Security. Mr. Kimemia holds a Bachelor's Degree in Political Science and Public Administration and a Master of Business Administration.

KENNEDY M. WANDERI - **AG. EXECUTIVE DIRECTOR**



Mr. Kennedy M. Wanderi is ICDC's acting Executive Director since July 2015.

He has wide experience of over 20 years in Finance, Accounting and investments gained at ICDC. He is also substantively the Head of Finance and has served as the ICDC Eldoret Branch Manager. He sits on the Boards of Centum Investments Limited, General Motors E.A Limited and Almasi Beverages Limited, Kenya Wine Agencies Limited and Development Bank of Kenya.

He holds a Master of Business Administration degree in Finance and Banking, and a Bachelor of Business Management degree from Moi University. He is a Certified Public Accountant.

BOARD OF DIRECTORS' PROFILES (CONTINUED)

JULIUS OLE SUNKULI, EGH, EBS - DIRECTOR (resigned 8 May 2017)

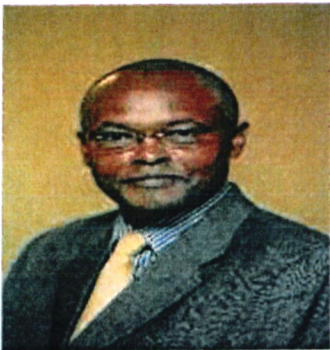


Hon. Julius L. Ole Sunkuli, was appointed to the Board on 17th April 2015. He resigned 8th May 2017

He is a lawyer with over 20 years' work experience and has held several leadership roles in the Government of Kenya. Hon. Ole Sunkuli worked for the judiciary in the position of a District Magistrate and Resident Magistrate respectively in Kericho. In 1992 he was elected as Member of Parliament for Narok West Constituency and served as an Assistant Minister in the Office of the President. Following his successful re-election in 1998 as a Member of Parliament for Kilgoris Constituency, he was appointed to serve as the Minister of State in the Office of the President until 2002. He was appointed Kenya's Ambassador to the People's Republic of China from 2008 until 2012. Currently he is in private practice as an advocate of the High court of Kenya.

Hon. Sunkuli holds a Bachelor of Laws Degree from the University of Nairobi and an Advanced Diploma in Legal Practice from the Kenya School of Law.

DAVID NDEGWA WACHIRA, OGW - DIRECTOR



Mr. David Ndegwa Wachira was appointed to the Board on 17th April 2015.

He has a wealth of experience in business and finance management having worked in various institutions in the Kenyan banking sector. He was the Chief Executive Officer, Consolidated bank of Kenya in 2004, a position which he held for nine years. He also worked with Barclays Bank of Kenya as a Senior Manager and Head of Credit risk between 1996 and 2003. He has previously served as the Vice Chair of the Kenya Bankers Association. Currently he is the Chairman of the Higher Education Loans Board (HELB).

Mr. Wachira holds a Master of Science degree in Economics and Business Management and a Postgraduate Diploma in Agricultural Economics from the University of New England, Australia. He has a Bachelor of Science degree in Agriculture from the University of Nairobi and a Diploma in Finance and Banking from Cornell University, USA.

BOARD OF DIRECTORS' PROFILES (CONTINUED)

ENG. ISAIAH KIBET CHERUIYOT

- **DIRECTOR**



Engineer Isaiah Kibet Cheruiyot was appointed to the Board on 2nd October 2015.

He has over 30 years work experience mostly in the tea extracts industry. He began his career in Finlays Kenya, Tea Extracts (Instant Tea) Division as a Plant Manager in 1980. He rose through the ranks to the position of General Manager Tea Extracts Division. During his career at the company, Mr. Cheruiyot played a pivotal role in elevating a then pilot project to a fully-fledged Green Soluble Tea Plant for Japanese market.

He retired from Finlays in 2010. Currently, he is a technical consultant for the tea industry and a commercial dairy farmer. He is a Chemical Engineering graduate from Birmingham University, United Kingdom.

CHERYL ADHIAMBO MAJIWA

- **ALTERNATE DIRECTOR TO CS NATIONAL TREASURY**



Ms. Cheryl Majiwa works in the National Treasury at the Department of Government Investment and Public Enterprises. Her duties among others are management and reporting of Government investments, management of Government direct and on-lent loans, revenue collection and reporting from State Corporations and, review and analysis of budgets and financial reports of State Corporations. She represents the Cabinet Secretary/National Treasury in selected Boards of State Corporations and in Public Accounts and Public Investments Committees of Parliament.

Ms. Majiwa holds a Masters of Business Administration (Strategic Management) from the University of Nairobi and a Bachelor of Commerce (Accounting & Finance) from Strathmore University. She is a Certified Public Accountant (K), and a member of the secretariat of the Public Accounting Standards Board.

BOARD OF DIRECTORS' PROFILES (CONTINUED)

AMB. DR. JOSEPH KIPKEMOI KIPLAGAT. PHD – ALTERNATE DIRECTOR TO PS INDUSTRY, TRADE & COOPERATIVES



Amb. Joseph K. Kiplagat was appointed to the Board on 31st May 2017

He is a mechanical engineer by profession and has served at University as senior lecturer and Dean in the school of Engineering at MU and MMUST. He has co-published over 20 research papers and has made over 10 presentations at international conferences. He helped consolidate Kenya's efforts towards implementation of the Sudan Comprehensive Peace Agreement (CPA) signed in 2005 in Nairobi which led to the attainment of Independence by the Republic of South Sudan in July 2011.

Amb. Kiplagat has travelled widely in over 26 countries in Africa, Europe and Asia according him with the opportunity of assessing development models around the world.

He is a Bachelor of Science degree in mechanical engineering from Aristotle University in Greece.

Caroline Akoth Okiro - DIRECTOR



Ms. Caroline A. Okiro was appointed to the Board on 31st May 2016.

She previously worked with the Kenya Broadcasting Corporation in the Marketing Department and thereafter as a Consultant in Social budget tracking at the Ministry of Devolution and Planning. She is currently the Administration and Finance Director at REDPLAN Consultants Ltd., an environment and development planning consulting firm.

Ms. Okiro holds a Bachelors of Arts Degree in Economics and Sociology from Egerton University and a Master of Business Administration, Finance degree from the University of Nairobi. She is a trustee of the Kenya Society for Deaf Children.

BOARD OF DIRECTORS' PROFILES (CONTINUED)

Dr. Adam S. Mohamed - **DIRECTOR**



Dr Adam S Mohamed was appointed to the Board on 31st May 2016.

Dr. Mohammed is a Consultant Physician and Gastroenterologist. In his early career, he worked at the Garissa Provincial General Hospital and later served as an Assistant Director of Medical Services in the Ministry of Health. He later joined Central Bank of Kenya where he managed the Health Section of the institution. Currently, he is a lecturer at the University of Nairobi, teaching Internal medicine.

Dr. Mohamed holds a Bachelor of Medicine Degree, Surgery (MBChB) from the University of Nairobi and a Master of Medicine (M.MED) in internal medicine from the University of Nairobi. He is a fellow of the East, central and southern African college of physician (ECSACP)

Fransisca Iswan Omasaja - **DIRECTOR**



Ms. Fransisca I. Omasaja was appointed to the Board on 31st May 2016.

She is a Financial Software Consultant with more than 15 years of experience working in the banking and financial services sector. Ms Omasaja has in her roles been responsible for strategy creation and implementation.

- She currently consults for Craft Silicon and has successfully implemented financial software for more than 50 lending institutions in Kenya, Uganda, Tanzania and South, Central and West African countries. She holds a Master of Computer Science degree from Makerere University and a Bachelor of Science degree in Computer Studies from the University of Sunderland in the United Kingdom.

BOARD OF DIRECTORS' PROFILES (CONTINUED)

Hon. Wilfred Moriasi Ombui - **DIRECTOR** (resigned 8 May 2017)



Hon. Wilfred M. Ombui was appointed to the Board on 31st May 2016.

Hon Ombui was the General Manager at Mwalimu Sacco Society in Gusii for 11 years and is very well versed with the management of cooperatives. He had a noble career in the teaching profession as a primary school teacher and college lecturer for eight years. He has held political office for five years as a Member of Parliament within which time he was appointed Assistant Minister. He holds a Master's degree in Finance and a Bachelor of Commerce degree in Accounts. He is a Fellow of the institute of Financial Accountants, United Kingdom.

GRACE M. MAGUNGA - **CORPORATION SECRETARY**



Mrs. Grace Magunga has been the Company Secretary of ICDC since 2006.

She has wide experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Almasi Beverages Limited, Funguo Investments Ltd, Kenya National Trading Corporation Ltd and Focus Container Freight Station Ltd.

She holds a Bachelor of Law degree from the University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary, (CPS- K).

MANAGEMENT TEAM PROFILES

1. Kennedy M. Wanderi - Ag. Executive Director

Mr. Wanderi, is the Acting Executive Director of Industrial & Commercial Development Corporation and a Board Member since July 2015.

He has wide experience of over 20 years in Finance, Accounting and investments gained at ICDC. He is also substantively the Head of Finance and has also served as the ICDC Eldoret Branch Manager. He sits on the Boards of Centum Investments Limited, General Motors E.A Limited, Almasi Beverages Limited, Kenya Wine Agencies Limited and Development Bank of Kenya

He holds a Master of Business Administration degree in Finance and Banking and a Bachelor of Business Management degree from Moi University. He is a Certified Public Accountant.

2. Mbatha Mbithi - Chief Manager Operations

Ms. Mbithi is the Chief Manager Operations, a position she has held since September 2009. She has a solid background in Finance and Banking having worked in middle and senior management level positions in five commercial banks.

Prior to joining ICDC, she was Head of Credit at Family Bank Ltd. She also sits on the Boards of Eveready E. A. Ltd and Development Bank of Kenya Ltd.

Ms. Mbithi holds a Master of Business Administration degree in Strategic Management from Moi University and a Bachelor of Science Degree in International Business Administration from the United States International University. She is a member of the Kenya Institute of Management.

3. Grace M. Magunga - Corporation Secretary

Mrs. Magunga has been the Corporation's Secretary since 2006.

She has wide experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Almasi Beverages Limited, Funguo Investment Ltd., Kenya National Trading Corporation Ltd., Funguo Registrars Ltd. and Focus Container Freight Station.

She holds a Bachelor of Law degree from University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary, (CPS – K).

4. Joseph Mwaura - Special Projects Manager

Mr. Mwaura is the Manager in charge of the Corporation's development projects since 2014 including the Eldoret SME Industrial Park – a Vision 2030 Flagship project.

He is the immediate former Finance Manager of the Corporation, a docket that he held for nine years. He has over 27 years' experience in Finance and Accounting gained at ICDC, Kenya Wine Agencies Ltd and Kenya National Trading Corporation Ltd.

He holds a Bachelor of Commerce degree in Accounting from the University of Nairobi and is a Certified Public Accountant, (CPA – K).

MANAGEMENT TEAM PROFILES (CONTINUED)

5. Faith Nene - Human Resources & Administration Manager

Mrs. Nene is the Human Resources & Administration Manager since September 2005. She has wide experience in Human Resource management spanning over 18 years gained at ICDC.

She holds a Master of Science degree in Human Resources Management from the University of Manchester, UK and a Bachelor of Arts degree in Government & Philosophy from the University of Nairobi. She is a member of Institute of Human Resource Management (IHRM).

6. Dismas J. O. Oyieko, HSC - Portfolio Manager

Mr. Oyieko is the Portfolio Manager since 2014. Prior to this appointment, he held the position of Special Projects Manager. He has over 20 years' experience at Senior Management level, having worked as Head of Department in various portfolios within the Corporation.

He holds a Master of Science degree in Development Finance from the University of Birmingham, UK and a Bachelor of Commerce degree in Accounting from the University of Nairobi.

7. Erasto Shako - Equity Manager

Mr. Shako has been the Equity Manager since July 2010. He has a wide experience of over 30 years in Private Investment Appraisal, Risk Analysis, Enterprise Valuations, Quality Management Systems and Related Engineering Services.

He holds a Bachelor of Science degree in Mechanical Engineering from the University of Nairobi.

8. Wilson Kamau - Internal Audit Manager

Mr. Kamau has been the Internal Audit Manager since August 2005. He has experience of over 30 years in Accounting, Finance and Audit having worked in Central Government, Local Government and ICDC.

He holds a Master of Business Administration degree from United States International University and a Bachelor of Commerce degree from University of Jabalpur, India. He is a Certified Public Accountant, CPA (K) and has a Certificate in Computer Programming.

9. Edward Gitau - Credit Manager

Mr. Gitau has been the Credit Manager since May 2014. He has 25 years' experience in finance analysis, investment appraisal, enterprise valuations and investment monitoring.

He holds a bachelor's degree in Economics and Statistics from the University of Nairobi. He is a certified investments and finance analyst (CIFA).

10. Haggai William - Strategy & Risk Manager

Mr. Haggai is the Strategy and Risk Manager since July 2015. He has vast knowledge in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation drawn from close to 19 years' experience with IDB Capital Ltd.

Mr. Haggai holds a Masters of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor. He has attended a wide range of short courses on development financing both locally and outside the country. He is a member of the Computer Society of Kenya, and the Institute of Directors Kenya.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present ICDC's Annual Report for the year 2016/17. The year under review was characterised by mixed economic performance both on the domestic and global fronts. The global economy expanded by 2.9% in 2016 compared to 3.1% recorded in 2015 whereas the Kenyan economy grew by 5.8% in 2016 compared to 5.7% in 2015 with information and communication and real estate sectors recording the fastest rate of growth. Other major sectors recorded a downturn in economic activity including construction, mining and financial services. Notably, there was a significant decrease in domestic credit growth from 20.8 per cent in 2015 to 6.4 per cent in 2016 mainly on account of a decline in private sector lending. As a financial institution, the depressed credit environment made for a tough operating environment which negatively impacted the activities of the corporation.

ICDC has a unique mandate that has contributed to the prosperity of the Kenyan people by facilitating industrial and commercial development in Kenya. We undertake our mandate by identifying enterprises that hold the potential to generate socioeconomic impact across diverse sectors of the economy. During the financial year 2016/17 we continued to intensify our efforts to reach out to the County Governments with a view to identifying potential investment opportunities available within the counties to support government initiatives as envisaged in the Kenya Vision 2030 development blueprint to create jobs and wealth for all Kenyans. To this end, the Corporation undertook a market research to establish the financing gaps and identify investment opportunities across the country. The outcome of this research is a key input into the plans of the Corporation for the coming years.

As a state corporation, ICDC strives to align its operations to the development agenda of the government. In this regard, the Corporation has laid emphasis on improving its relationship with the parent ministry of Industry, Trade and Co-operatives and the National Treasury with the aim to align its projects and programs to the ministry plans.

This has seen the corporation participate together with other agencies under the ministry in setting the targets for delivery in the third Medium Term Plan (MTP III) of the Kenya Vision 2030. The role of the corporation is to ensure that opportunities created by the ongoing infrastructure development by the government across the country are harnessed and converted into viable enterprises.

Customer focus remains a priority to ICDC. We believe that customer satisfaction is the fundamental to business success. During the year we carried out a review of all our business processes with a view to improve ease of doing business with the corporation. The Marketing and Communications plan for the year created a positive impact which increased product awareness and brand visibility resulting in new investments. Our drive remains to provide customers with creative and flexible financial solutions that complement the investments made by the private sector and in most instances take the lead to drive investment in sectors that are perceived as high risk by the commercial banks. Through these interventions, the corporation has been able to unlock substantial investment by private sector players and created confidence for commercial banks to co-finance start-up projects.

Turning to our financial performance, ICDC's performance for the financial year 2016/2017 was satisfactory with a reported profit after tax of Shs 445,102,000 while the total assets increased marginally from Shs 22.3 billion to Shs 22.5 billion.

During the year, the corporation also reviewed its interest rate to reflect the amendment in the Banking Act that capped interest rates to the Central Bank Rate (CBR) and a margin of 4%. Although the corporation does not fall under the purview of the Banking Act, the adjustment was made to reflect the commitment of the Corporation to providing affordable long term finance.

Development Finance Institution (DFI), are expected to play a developmental role that results in socioeconomic impact through employment creation and creation of wealth. In order to achieve this objective, ICDC is aware that it needs to have the right skills and competencies in place that are able to evaluate investment projects from the perspective of the long term impact. We have therefore endeavoured to equip our human resource with skills and competencies that enable them to provide high quality technical guidance to investors resulting in impactful investments. To maintain such a skilled workforce, the corporation has put in place competitive packages for its staff that enable them to remain focused on the core business.

CHAIRMAN'S STATEMENT (CONTINUED)

Overview of the Operating Environment

The global business environment was depressed during the year under review occasioned mainly by the performance of the American and Chinese economies. The American economy was slowed mainly due to weak exports, subdued investments and uncertainty surrounding the 2016 elections. On the other hand, growth in China decelerated on account of slowed investment as the economy rebalanced towards services and consumption. Besides having a rather slow economic year mostly because it was an election year, Kenya's Gross Domestic Product (GDP) was estimated to have expanded by 5.8% in 2016 compared to 5.7% in 2015 as per the Kenya Bureau of Statistics (KNBS) Economic Survey 2017. The inflation rate had declined from 11.70% to 9.21% despite the pressure caused by commodity prices. The uptake of loans however dropped in the year compared to previous years despite the interest rate capping by the Central Bank of Kenya in September 2016. Consequently, the slowed activity in the financial services sector resulted in a significant decline in profits for financial institutions. This trend is forecast to reverse in the coming year as financial institutions seek alternative sources of revenue away from the traditional interest income. It is anticipated that with successful and peaceful general elections, the resultant political and macroeconomic stability will drive significant economic activity in both the private and public sector.

Future Outlook

With the conclusion of the general elections, it is anticipated that the key agenda of the government will remain focused on industrial development with a view to generate employment for the youth and provide markets for raw materials produced across the country while producing goods for domestic and export markets. It is anticipated that the country will continue to put in place policies that will make the country business friendly through improvement of the country's ease of doing business index. The improved business climate is expected to attract foreign direct investment into the economy which will spur growth in the key sectors of our economy.

We are however also alive to the fact that the high dependence on rain for agriculture and electricity generation may have a negative impact on production if rainfall is suppressed during the year. We anticipate that the deceleration in growth of credit that started in 2016 will be reversed through prudent monetary and fiscal policy interventions to facilitate growth in 2017 especially in activities that are reliant on borrowing from commercial banks.

The next financial year will also be the first year of implementation of the third Medium Term Plan (MTP III) of the Kenya Vision 2030. As the Corporation develops its five year strategic plan for the plan period 2018/23, it will align its projects and programs to the MTP III. The economic pillar of the Kenya Vision 2030 emphasises the importance of industry in spurring growth. Consequently, the Corporation's sectors of focus will remain manufacturing, agro-processing, infrastructure development, energy and Information Communication Technology. These are seen as high growth sectors with the potential to generate high socioeconomic impact.

As part of its compliance with the Constitution, ICDC will deploy a revised business model that will focus on industrial development at the county level. This will be done in collaboration with the county governments combining the project conceptualization capabilities of ICDC with the work already done in resource mapping and development of Integrated Development Plans for the Counties. To drive this agenda, presence at the county level will be a key pillar in the implementation of the Corporation's strategy. The Corporation will aim to achieve equitable dispersal of industries across the country.

Financial Performance

During the fiscal year 2016-2017, the Corporation realized a profit before tax of Shs.497m compared to a total of Shs.580m realized during the previous year representing a year-on-year decline of 14%. The Corporation's financial performance was weighed down by a significant decline in non-core revenue streams mainly unrealized gains on investment property which declined by 88% from the previous year, reduction of interest income as a result of interest rate review and decreased dividend income from investee companies. Annual operating costs rose year-on-year by 9% from Shs.415m to Shs.453m mainly attributable to an increase in provisions for losses during the year.

CHAIRMAN'S STATEMENT (CONTINUED)

Capital investments amounting to Shs1.4 billion were approved during the year while actual investments totalled Shs1.0 billion which represents an increase of 94% year-on-year reflecting the operationalization of one of the Corporation's key strategic objectives of increasing access to credit and industrial capital issued to the investment community.

The Corporation closed the year with a total asset position of Shs 22.5billion up from Shs 22.3billion in the prior year.

Review of Core Business activities

The Corporation continued to grow its business in the country's various economic sectors. During the year under review a number of companies benefited from ICDC's financing in various forms. The investments created included:-

- Funding a company, located in Thika Kiambu County to put up Africa's first plant that converts end of life plastic waste into commercial synthetic fuel oil used in power plants, industrial furnaces and boilers. This investment has gone a long way in realizing the country's resolve to stem the plastics pollution menace and clean up the environment. All the oil produced is purchased by various industrial players.
- A financing facility provided to an indigenous company operating from Thika, Kiambu County to part finance a backward integration of the business into manufacturing of pipes, fittings and related products to support the construction industry.
- Funding facilities provided to a local pharmaceutical manufacturing company located in Isinya, Kajiado County which produces liquid and tablet medicine, antiseptics and detergents. The funding enabled the company to ramp up production towards enabling it meet its strategic objective of expanding provision of its products into the COMESA region.
- Additional investment in Almasi Beverages Ltd, a holding company for Mt. Kenya Bottlers, Rift Valley Bottlers and Kisii Coca cola Bottler factories in which ICDC holds a 36.3% stake following a cash call through a rights issue. The Corporation took up its entire allotment and pro-rata untaken rights to ensure that its stake was not diluted due to the anticipated good returns in form of capital gains at the point of divestiture since the company has been making profits over the years.
- Funding provided to an indigenous company that put up a Nile perch fish processing factory in Kyang'ombe industrial area, Nairobi to scale up its operations. The company has been able to expand its business into the global market exporting fresh, chilled and frozen fish products to markets within the European Union, The United Arab Emirates and Hong Kong.

During the year under review the Corporation implemented the findings of its exit customer satisfaction survey whose results at an index of 75% indicated that the customers satisfaction levels continued to increase due to the deliberate efforts made towards ensuring the customers' expectations were continually met and improved.

Human capital

The Corporation recognizes its human capital as its most valuable resource. A lot of attention is given to ensuring high levels of employee satisfaction and engagement which in turn stimulates commitment and high productivity. The Corporation is committed to attracting, developing, retaining and rewarding the best people through continued establishment of a challenging and exciting work environment. During the year under review the corporation reviewed its organization structure to align the structure to its business model. Implementation of the new structure saw redeployment and redesignation of staff after a skills audit and competency analysis to ensuring that staff are placed on the right jobs based on their skills and competencies.

Recognizing the importance of knowledge and experience in the nature of its business, the Corporation also launched a Knowledge Management programme to ensure all knowledge in the organization is well captured, stored and shared. This will go a long way in harnessing the experience of senior staff and create a mechanism for disseminating tacit knowledge to the young employees whom the corporation will rely on in the future.

Various competency based learning and development programmes were also implemented with a focus on, monitoring and evaluation of projects, business presentation skills, enterprise risk management, record management,

CHAIRMAN'S STATEMENT (CONTINUED)

knowledge management and leadership and management development. All training activities are geared towards building specific competencies in employees that will ultimately give the Corporation a competitive advantage.

The Board recognizes the importance of supportive and collaborative culture as a key to business success. In order to drive a performance culture, ICDC is cognizant of the need for the right capabilities and skills to support business growth. The Corporation shall continue to put in place deliberate programs and initiatives that support a holistic working environment that also affords the employees a good work-life balance.

HIV/AIDS awareness

The Corporation continues to participate in the fight against stigmatization and prevention of HIV/AIDS infection by sensitizing staff on behavioural aspects and other risk reduction interventions.

Gender mainstreaming

The Corporation endeavours continuously to participate in gender mainstreaming activities by providing a conducive work environment where people can make decisions and freely express their ideas and concerns. An internal audit on gender mainstreaming activities is also conducted annually to identify and close any existing gaps. During the year under review, key focus was on sensitization on activism against gender violence and equality and inclusion.

Corporate social responsibility

As a catalyst for wealth creation ICDC's Corporate Social Responsibility (CSR) embodies its commitment to be a socially responsible public institution focusing on programs and activities that contribute to a better, safer and more progressive society to improve quality of life for all people.

During the year under review ICDC sponsored Engineering Career Workshop at the Technical University of Kenya, participated at World Environment Day 2017 themed "join the race to make the world a better place" which focused on pressing environmental concerns that affect the planet and supported tree planting initiative in Shartuka area, in Transmara, Narok County.

Corporate Governance

As a State Corporation, ICDC regards good corporate governance as a primary tenet to good performance. In this regard, our operations are undertaken in cognizance of regulations and statutory requirements necessary to put us in good stead with our stakeholders. The Corporation first and foremost seeks to fulfil its mandate of facilitating Industrial and Commercial Development and undertakes its role in a manner that is beneficial to the general public. Our operations are driven by the desire to maximize shareholder value while safeguarding the rights and interests of all stakeholders. The culture of good Corporate Governance permeates all levels of the Corporation from top Management to the lowest level and this has led to the continued success of the Corporation.

During the period under review, one (1) newly appointed Director attended trainings in Corporate Governance and Mwongozo Code of Conduct. Three (3) members of the Board attended a workshop on Governance Audit and Risk and the role of the Board Audit and Risk committee.

Board of Directors

The Board comprises of ten (10) directors including the Chairman and the Executive Director. Seven (7) of the Directors including the Chairman are independent while two directors represent the Ministries of Industry, Trade and Co-operatives (MOITC) and The National Treasury. The changes in the composition of the Board are outlined as part of the CHAIRMAN'S STATEMENT.

The Board meets at least once every quarter, as a minimum, to discharge, its oversight responsibility. The independent Directors bring on board a wealth of experience and objective guidance on matters of strategy, management of corporate risk and resource utilization.

CHAIRMAN'S STATEMENT (CONTINUED)

The established Board Committees held meetings regularly as required to effectively discharge their functions with all members demonstrating a high level of commitment and dedication throughout the year.

The Board as the custodian of the Corporations' resources recognizes its responsibility for providing leadership, strategic and business direction, and control and is accountable to the Stakeholders for financial performance. The Board oversees risk Management, is responsible for investment decisions and ensures high compliance with relevant laws and regulations. To achieve this the, Board has adopted and continues to adhere to Mwongozo, Code of Governance for State Corporations, so as to deliver value to Kenyans in a transparent and accountable manner. In line with good corporate governance, the Board has constituted three (3) standing committees with specific terms of reference to assist in discharging its duties. During the period under review the Board Charter and terms of reference for the Committees were aligned to Mwongozo code of conduct.

Board Evaluation

The Corporation's Board performance during the year was rated as very good with an average score of 93.42%. This was an improvement from an average score 86.7% during the prior year 2015-2016. The Board has put in place a performance improvement programme to ensure continuous performance improvement in the future.

Committees of the Board

These committees include the Board Risk and Audit Committee (BRAC), the Board Human Resources, Governance and General Purpose Committee and the Board Finance and Investment Committee (FIC).

a) Board Risk and Audit Committee

The Board Risk and Audit Committee consists of five (5) non-executive directors and reviews the Corporation's internal and independent audit reports and approves the annual financial statements, considers significant financial reporting issues and maShs recommendations to the Board concerning their approval and content. The Committee ensures that the Corporation's has adequate effective systems and processes of accountability and risk Management. It also responsible for monitoring the independence of the External Auditors.

b) Human Resource , Governance and General Purpose Committee

The Human Resource, Governance and General Purpose Committee consists of five (5) Directors including the Executive Director. It addresses issues pertaining to staff welfare and any other issues as may be delegated by the Board from time to time. A recurrent agenda before this Committee is employee remuneration, staff development, Knowledge Management and motivation. It ensures that the correct incentives and reward mechanisms are in place in the Corporation whilst maintaining the principles of equity and appropriateness of compensation. The Committee reviews the human resources practices and policies and recommends changes geared towards attracting, retaining and motivating staff so as to sustain operations in an increasingly competitive business environment.

c) Finance and Investment Committee

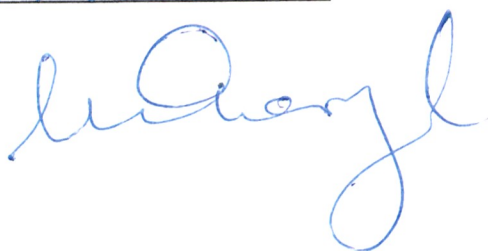
The Finance and Investment Committee currently has six (6) members which includes the Executive Director. The objective of the Committee is to oversee the investment of Corporation's funds, formulate investment policies, strategies and assist the Board in matters pertaining to finance and investments, review interim financial reports and other functions as may be delegated by the Board. The Committee exercises oversight over implementation of the investment strategy.

CHAIRMAN'S STATEMENT (CONTINUED)

Acknowledgement

On behalf of the Board, I would like to take this opportunity to thank the staff, the management team, our parent Ministry and our stakeholders for their continued support. We believe that we shall see further traction from our business initiatives underway and look to the future with confidence.

30TH OCTOBER 2017



REPORT OF DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2017.

BUSINESS REVIEW

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

KEY PERFORMANCE REVIEWS

The table below highlights some of the key performance indicators over a period of 3 years:

Performance ratios	2017	2016	2015
Operating profit %	56%	79%	68%
Profit before income tax (Shs '000)	497,148	580,303	1,519,306
Return on assets	2%	3%	6%
Net assets (Shs '000)	21,311,440	21,153,847	24,086,345

CORPORATION'S PERFORMANCE/ DIVIDEND

The net profit for the year of Shs 445 million (2016: Shs 580 million) has been added to retained earnings.

DIRECTORS

The directors who held office during the year were:

Francis Kimemia –	Chairman	Resigned on 8 May 2017
Kennedy Wanderi –	Acting Executive Director	
Ambassador Joseph Kipkemoi Kiplagat		Appointed 8 May 2017
Isaiah Cheruyiot		
David Ndegwa Wachira		
Stephen Karani		
Cheryl Majiwa		
Caroline Okiro		
Francisca Omasaja		
Dr. Adam Sheikh Mohamed		
Ambassador Julius Ole Sunkuli		Resigned on 8 May 2017
Hon. Wilfred Ombui		Resigned 8 May 2017

AUDITOR

DISCLOSURES TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

- There was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and
- each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

REPORT OF DIRECTORS (CONTINUED)

TERMS OF APPOINTMENT OF AUDITORS

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Section 23 of the Public Audit Act, 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

PricewaterhouseCoopers was nominated by the Auditor General to carry out the audit of the Industrial and Commercial Development Corporation for the year ended 30 June 2017.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

SECRETARY

Allyce

8TH NOVEMBER 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Industrial and Commercial Development Corporation Act and the Public Audit Act 2015, require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of its state of affairs of the Corporation at the end of the financial year ended 30 June 2017. This responsibility includes:

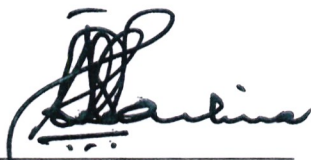
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation ;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the Corporation;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

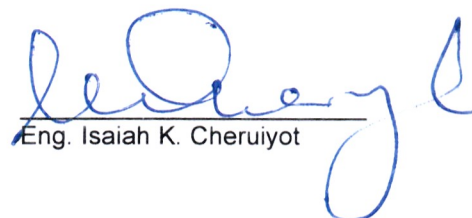
The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of its transactions during the financial year ended 30 June 2017, and of its financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of its financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 30th OCTOBER 2017 and signed on its behalf by:



David N Wachira

Eng. Isaiah K. Cheruiyot



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Industrial and Commercial Development Corporation set out on pages 22 to 64, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PricewaterhouseCoopers (PWC) Kenya, auditors appointed under Section 23 of the Public Audit Act, 2015. 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. In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Development Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Industrial and Commercial Development Act, Cap. 445 of the Laws of Kenya.

Basis for Qualified Opinion

Grants and Loans

As was reported in the previous year, included in the financial statements are grants and loans from the Government of Kenya amounting to Kshs.854,526,000. (2016: Kshs.866,078,000) and related interest expenses of Kshs.8,448,000 (2016:Kshs.8,448,000). The grants and loans relate to amounts advanced or given as grants to the Corporation by the Government of Kenya, most of them more than 25 years ago. However, no agreements to support these balances have been provided for audit review.

Further, the grants are classified as liabilities. In addition, it was not possible to determine whether the conditions for the grants have been met and whether they should have been

taken to income statement in previous years in accordance with IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.

Consequently, it has not been possible to verify the terms of the loans and grants including interest rates, or to confirm the accuracy of the balances split between loans and grants or whether these are correctly classified as liabilities and the legality and propriety of the interest expense.

The audit was conducted in accordance with International Standards on Auditing (ISA). I am independent of Industrial and Commercial Development Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current year. There were no Key Audit Matters to report in the year under review.

Other Matter

Other Information Included in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and the auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon. In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Industrial and Commercial Development Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the

Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so. The directors and those charged with governance are responsible for overseeing the Company's financial reporting process.

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify

my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control that are identified during the audit.

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

The Companies Act, 2015 requires me to report if in my opinion:

- a) the company has not kept adequate accounting records, and returns adequate for the audit have been received from the branches not visited; and
- b) the company's individual financial statements are not in agreement with its accounting records and returns;

I have nothing to report in this regard.

In my opinion the information given in the report of the directors on pages 16 to 17 is consistent with the financial statements.



FCPA Edward R.O. Ouko, CBS
AUDITOR- GENERAL

Nairobi

22 December 2017

Statement of profit or loss and other comprehensive income

	Notes	Year ended 30 June	
		2017 Shs'000	2016 Shs'000
Revenues			
Operating income	5	910,404	743,253
Other income	6	48,162	260,077
Total revenues		958,566	1,003,330
Operating expenses			
Administration costs	7(a)	(406,450)	(380,356)
Depreciation of property and equipment	11	(36,493)	(32,647)
Amortisation of intangible assets	10	(3,091)	(1,576)
Provision for losses	19	(6,936)	-
Total operating expenses		(452,970)	(414,579)
Operating profit		505,596	588,751
Finance cost	8	(8,448)	(8,448)
Profit before taxation		497,148	580,303
Income tax expense	9	(52,046)	-
Profit after taxation		445,102	580,303
Other comprehensive income for the year			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Fair value loss in quoted investments	16	(362,563)	(3,407,485)
Fair value gain/(loss) in unquoted investments	15	75,054	(105,316)
Total other comprehensive loss		(287,509)	(3,512,801)
Total comprehensive income/(loss)		157,593	(2,932,498)

The notes on pages 26 to 64 are an integral part of these financial statements

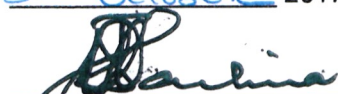
Statement of financial position


	Notes	As at 30 June	
		2017 Shs'000	2016 Shs'000
Assets			
Property and equipment	11	1,037,403	1,069,040
Intangible assets	10	4,895	7,622
Investment property	12	967,141	948,951
Inventory – units for sale	13	934,218	699,873
Government securities (Held to maturity)	14	17,010	29,827
Quoted investments (Available for sale)	16	6,551,046	6,913,609
Unquoted investments (Available for sale)	15	9,707,782	9,166,962
Loans	18(a)	1,717,752	1,507,535
Related companies current account		277	277
Trade and other receivables	17	248,331	300,495
Current income tax		948	-
Cash and cash equivalents	20	1,323,653	1,669,967
Total assets		22,510,456	22,314,158
Reserves			
Revaluation reserve	21	1,061,087	1,061,087
Fair value adjustment reserve	21	13,757,717	14,045,226
Retained earnings	21	6,492,636	6,047,534
Total reserves		21,311,440	21,153,847
Liabilities			
Grants and loans	22	854,526	866,078
Dividend payable	26	60,985	90,000
Deferred revenue	25	151,457	79,840
Payables and accruals	24	132,048	112,684
Bank overdraft	20	-	11,709
Total liabilities		1,199,016	1,160,311
Total reserves and liabilities		22,510,456	22,314,158

The notes on pages 26 to 64 are an integral part of these financial statements.

The financial statements on pages 22 to 64 were approved for issue by the board of directors on

30th OCTOBER 2017 and signed on its behalf by:


 David N Wachira


 Eng. Isaiah K. Cheruiyot

Statement of changes in equity

	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2016				
At start of year	1,061,087	17,558,027	5,467,231	24,086,345
Comprehensive income				
Profit for the year	-	-	580,303	580,303
Other comprehensive income:				
Fair value loss in unquoted investments	-	(105,316)	-	(105,316)
Fair value loss in quoted investments	-	(3,407,485)	-	(3,407,485)
Total other comprehensive loss	-	(3,512,801)	-	(3,512,801)
Total comprehensive loss	-	(3,512,801)	580,303	(2,932,498)
At end of year	1,061,087	14,045,226	6,047,534	21,153,847
Year ended 30 June 2017				
At start of year	1,061,087	14,045,226	6,047,534	21,153,847
Comprehensive income				
Profit for the year	-	-	445,102	445,102
Other comprehensive income:				
Fair value gain in unquoted investments	-	75,054	-	75,054
Fair value loss in quoted investments	-	(362,563)	-	(362,563)
Total other comprehensive loss	-	(287,509)	-	(287,509)
Total comprehensive income	-	(287,509)	445,102	157,593
At end of year	1,061,087	13,757,717	6,492,636	21,311,440

The notes on pages 26 to 64 are an integral part of these financial statements

Statement of cash flows

	Notes	Year ended 30 June	
		2017 Shs'000	2016 Shs'000
Cash flows from activities			
Net cash generated from operations	27(a)	460,735	154,378
Income tax paid		(52,994)	-
Net cash generated from operating activities		407,741	154,378
Cash flows from investing activities:			
Development of inventory	13	(234,345)	(43,750)
Development of investment property	12	(999)	(271,162)
Purchase of property and equipment	11	(7,174)	(19,393)
Purchase of intangible assets	10	(364)	(6,020)
Purchase of unquoted investments	15	(465,766)	(30,525)
Proceeds on disposal of unquoted investments		-	17,000
Proceeds on Maturity treasury bonds	14	12,817	69,821
Proceeds on disposal of property and equipment		2,500	1,855
Net cash used in investment activities		(693,331)	(282,175)
Cash flows from financing activities			
Loan repayment (principal and interest)	22	(20,000)	(37,000)
Dividend payment	26	(29,015)	-
Net cash used in financing activities		(49,015)	(37,000)
Net decrease in cash and cash equivalents		(334,605)	(164,797)
Movement in cash and cash equivalents			
At start of year	20	1,658,258	1,823,055
Decrease in cash and cash equivalents		(334,605)	(164,798)
At end of year	20	1,323,653	1,658,258

The notes on pages 26 to 64 are an integral part of these financial statements

Notes

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property and equipment, investment properties, marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Corporation's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation and all values are rounded to the nearest thousand (Shs'000).

The financial statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

(i) Functional and presentation currency

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Kenyan Shillings (Shs)', which is the Corporation's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income and cumulated in 'available-for-sale financial assets reserve'.

Changes in accounting policy and disclosures

(a) *New standards, amendments and interpretations adopted by the Corporation*

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues including materiality, disaggregation and subtotals. As this amendment merely clarify the existing requirements, they do not affect the Corporation's accounting policies or any of the disclosures.

Notes (continued)

1. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(a) New standards, amendments and interpretations not yet adopted by the Corporation

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statements. Management has assessed for impact and effect on the financial statements of the Corporation:

Amendments to IAS 7, 'Cash flow statements' effective 1 January 2017. In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

Amendments to IAS 12, 'Income taxes', effective on or after 1 January 2017. The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Corporation is yet to assess IFRS 9's full impact.

Notes Continued

1. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

b) New standards, amendments and interpretations not yet adopted (continued)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Corporation is still assessing the impact of IFRS15 on its financial statements.

IFRS 16, 'Leases' After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognize assets and liabilities for short- term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

There are no other IFRSs or IFRIC interpretations not yet effective that are not expected to have a material impact on the Corporation's financial statements

IAS 40, 'Investment Property', effective 1 January 2018, clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

Notes (continued)

1. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures(continued)

b. Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

Interest income is the interest earned on the Corporation's customers loans and advances, and is recognised in the income statement as it accrues using the effective interest method.

Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in income statement on a time proportion basis using the effective interest rate method.

Dividend income is recognised in the income statement in the year in which the right to receive the payment is established.

Rental income is recognised in the income statement as it accrues using the effective lease agreements.

Other income is recognised as it accrues.

c. Consolidation

The Corporation has more than 50% shareholding in some of its investee companies. However, consolidated financial statements of the Corporation and its subsidiaries are not prepared as the Corporation does not have power, directly or indirectly, to govern the financial and operating activities of these entities so as to obtain benefits from the activities. Control over these entities lies with the Government of Kenya through the National Treasury.

d. Investment property

Investment property is shown at fair value, based on annual valuations by internal professional valuers. Increases in the carrying amount arising on revaluation of investment property are dealt with in profit or loss.

e. Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the completed units' method. The inventory consists of completed developed units or developments earmarked for sale that have been transferred from investment property. The valuation at the date of transfer is deemed as the cost of the inventory and subsequently assessed for any net realisable value losses.

Notes (continued)

1. Summary of significant accounting policies (continued)

f. Property and equipment

All categories of property, motor vehicles and equipment are initially recorded at cost. Property and equipment are subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by internal independent qualified valuers every three years for land and buildings and five years for other assets.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

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:

The annual rates in use are:	
Motor vehicle and motor cycles	20%
Furniture, fittings and office equipment	10%
Computers	33.3%

Leasehold land and buildings are amortised and depreciated respectively at the lower of useful life of 55 or over the remaining period of the lease term. Buildings is under leasehold for 99 years from 1 May 1970.

Gains and losses on disposal of property, motor vehicles 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.

g. Computer software development costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful lives not exceeding a period of 3 years.

h. Financial assets

The Corporation classifies its financial assets into the following categories: loans and receivables, held to maturity and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its investments at initial recognition.

Classification

i) 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, goods or services directly to a debtor with no intention of trading the receivable.

Notes (continued)

1. Summary of significant accounting policies (continued)

h. Financial assets (continued)

Classification (continued)

ii) *Held- to- maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale of other than an insignificant amount of held-to-maturity assets occurs, the entire category is classified as available-for-sale.

iii) *Available – for – sale financial assets*

Available-for-sale assets are financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously accumulated in the investment revaluation reserve is recognised in profit or loss.

Quoted investments are those that relate to companies listed on the stock exchange. They are classified as available-for- sale and are stated at the middle market value as at the end of each reporting period.

Unquoted investments are the unlisted companies in which the Corporation has invested. They are classified as available-for-sale. Where a significant amount of new investment into a Company has been made within the financial year, the price at which the investment was made is considered the fair value unless the conditions have changed since the Corporation made the investment. For all other investments, a weighted average of the earnings multiple method, net asset valuation or the most recent transaction price (market approach) is employed.

The earnings multiple method, which draws on market based measures of risk and return, involves the application of an earnings multiple to the earnings of the business being valued in order to derive a value for the business. The earnings multiple that is applied is derived from comparable companies or transactions with similar prospects from a return and growth perspective. Where fair value cannot be reliably measured, the unquoted investment is carried at cost.

The income approach utilises the price offered for recent transaction of the unquoted investments. The method assumes that the Corporation will recover a similar consideration for their stake.

The difference between valuation and cost is recognised in other comprehensive income and accumulated in the investment fair value reserve. Where valuation is below cost, the difference between valuation and cost is charged to profit or loss if, in the opinion of the directors, the reduction in value is not considered temporary. On the disposal of an investment, the difference between the net disposal proceeds and the cost is charged or credited to profit or loss.

Impairment and uncollectability of financial assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

Notes (continued)

1. Summary of significant accounting policies (continued)

h. Financial assets (continued)

Impairment and uncollectability of financial assets (continued)

If it is probable that the Corporation will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans or receivables 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 profit or loss for the year. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows.

For listed and unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Other factors considered by the Corporation in determining impairment for other financial assets include:

- Significant financial difficulty of the issuer or counter party
- Default or delinquency in interest or principal repayments
- It becomes probable that the borrower will enter bankruptcy or financial re-organisation

Derecognition of financial assets

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

i. Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Financial liabilities are classified into other financial liabilities. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period

Derecognition of financial liabilities

The Corporation derecognises financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

j. Receivables

Receivables are amounts due from investments in the ordinary course of business. Receivables are recognised initially at fair value and subsequently recognised at amortised cost, less any provision for impairment.

k. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Notes (continued)

1. Summary of significant accounting policies (continued)

l. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

m. Provisions

Provisions are recognised when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

n. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

o. Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

Notes (continued)

1. Summary of significant accounting policies (continued)

p. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings.

q. Employee benefits

i. Retirement benefit obligations

The Corporation 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 by contributions from both the employer and the employees.

The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time.

The Corporation contributions in respect of retirement benefit schemes are charged to profit or loss in the year to which they relate.

ii. Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

2. Critical accounting estimates and judgments

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the entities accounting policies are dealt with below:

Impairment losses

At the end of each reporting period, the Corporation reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

Notes (continued)

2. Critical accounting estimates and judgments (continued)

Valuation of unquoted investments

For equity instruments for which no active market exists, the Corporation uses the price of a recent investment or the earnings multiple to estimate the fair value of these investments. Management uses estimates based on historical data relating to earnings of the investee Corporation and other market based multiples in arriving at the fair value. The primary assumption in employing the earnings multiple method is that the market has assigned an appropriate value to the benchmark Corporation. The methodology and assumptions used for arriving at the market based multiples are reviewed and compared with other methodologies to ensure there are no material variances.

Income taxes

Significant judgement 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.

Useful lives of property, plant and equipment

Critical estimates are made by directors in determining the useful lives of and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Valuation of investment properties

Estimates are made in determining valuation of investment properties. The Company management uses experts in determination of the values to adopt.

3. Financial risk management

The Corporation's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Corporation's business, and the operational risks are an inevitable consequence of being in business. The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risk include:

- Market risk - includes interest rate and other price risk
- Credit risk
- Liquidity risk
- Capital risk management

The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Notes (continued)

3. Financial risk management (continued)

Risk management framework

The Corporation recognises that in order to pursue its objectives and take advantage of opportunities, it cannot avoid taking risks, and that no risk management programme can aim to eliminate risk fully.

The Corporation's general risk management approach is to increase the likelihood of success in its strategic activities, that is, to raise the potential reward of its activities relative to the risks undertaken. Accordingly, the Corporation's approach to risk management is intended to increase risk awareness and understanding, and thus support taking risks where appropriate, in a structured and controlled manner. The Corporation however recognises that in pursuit of its mission and investment objectives it may choose to accept a lower level of reward in order to mitigate the potential hazard of the risks involved.

To assist in implementing its risk management policy, the Corporation has:

- Identified, analysed and produced a risk management strategy for those risks which might inhibit it from achieving its strategic objectives and which would threaten its ongoing survival as a leading investment Corporation;
- raised awareness of and integrated risk management into its management policies; and
- promoted an understanding of the importance and value of risk management, particularly associated with investment opportunities.

Established risk management roles and responsibilities for its board of directors, Risk and Audit Committee and the risk department.

The risk management function is supervised by the Risk and Audit Committee. Management identifies, evaluates and hedges financial risks under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas such as price risk, foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Corporation on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

a. Market risk

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices, and foreign exchange rates which 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

The Corporation is exposed to interest rate risk as it borrows funds at floating interest rates in the form of short term loans (overdrafts) and also holds cash deposits with financial institutions. The interest rates on the cash deposits are fixed and agreed upon in advance while interest rates on overdrafts are pegged to the bank's base lending rate or prevailing Treasury Bills rates.

Management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. Deposits are placed at fixed interest rates and management is therefore able to plan for the resulting income.

Interest rate risk analysis

The table in the next page 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 re-pricing date and maturity date.

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(i) Interest rate risk (continued)

Interest rate risk analysis (continued)

2017:

	Effective interest rate %	Due between 0 and 12 months Shs'000	Due between 1 and 5 years Shs'000	Due after 5 years Shs'000	Total Shs'000
Financial assets					
Short term deposits	8.48	396,461	-	-	396,461
Investment in Government securities	6.33	-	17,010	-	17,010
Loans	11.87	322,380	1,275,896	119,476	1,717,752
Total financial assets		718,841	1,292,906	119,476	2,131,223

Financial liabilities

Bank overdraft
 Grants and Government of Kenya loans

	0%	-	-	-	-
	5.70	-	-	(854,526)	(854,526)

Total financial liabilities

Interest sensitivity gap

		-	-	(854,526)	(854,526)
		718,841	1,292,906	(735,050)	1,276,697

2016:

Financial assets

Short term deposits
 Investment in Government securities
 Loans

Total financial assets

	8.99	643,785	-	-	643,785
	9.19	-	-	29,827	29,827
	14.34	227,130	1,280,405	-	1,507,535
Total financial assets		870,915	1,280,405	29,827	2,181,147

Financial liabilities

Bank overdraft
 Grants and Government of Kenya loans

Total financial liabilities

	5.70	(11,709)	-	-	(11,709)
		-	-	(866,078)	(866,078)
Total financial liabilities		(11,709)	-	(866,078)	(877,787)

Interest sensitivity gap

		859,206*	1,280,405	(836,251)	1,303,360
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Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(i) Interest rate risk (continued)

Interest rate risk analysis (continued)

An increase or decrease of 100 basis 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 2016:

Statement of comprehensive income

	2017 Shs'000	2016 Shs'000
Loans and advances	<u>2,001</u>	<u>1,238</u>

(ii) Price risk

The Corporation's private equity holdings are valued according to the Private Equity and Venture Capital Guidelines and also in line with IFRS 13, which set out the valuation methodology for fair valuation. Valuation is relatively subjective and may change from time to time. In addition the valuation is also affected by the volatility of the stock prices since the Corporation uses the earnings multiple method which entails the use of the share prices of similar/comparable quoted companies among other components.

Valuation risks are mitigated by comprehensive quarterly reviews of the underlying investments by management every quarter. The appropriateness of the investment valuations are then considered by the Risk and Audit committee.

Quoted equity is valued at their market prices. These values are subject to frequent variations and adverse market movements. This risk is mitigated by having a diverse portfolio that ensures the losses in one sector are offset by the gains in other sectors.

Industrial and Commercial Development Corporation
 Financial Statement
 For the year ended June 2017

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(ii) Price risk (continued)

Company security	No. of shares	30 June 2017		No. of shares	30 June 2016	
		Market price 2017 Shs'000	Market value 2017 Shs'000		Market price 2016 Shs	Market value 2016 Shs'000
Insurance						
Jubilee Holdings Limited	19,965	440	8,785	19,965	455	9,084
Investment						
Centum Investments Limited	152,847,897	41.50	6,343,188	152,847,897	44	6,725,307
Manufacturing & Allied						
British American Tobacco Limited	17,000	847	14,399	17,000	835	14,195
Eveready Batteries Kenya Limited	36,583,575	2.35	85,971	36,583,575	2.05	74,996
East African Breweries Limited	21,300	259	5,517	21,300	278	5,921
Telecommunication & Technology						
Safaricom Limited	2,975,200	22.75	67,686	2,975,200	17.75	52,810
Total			6,551,047			6,913,609

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(ii) Price risk (continued)

At 30 June 2017, if the prices of all quoted equity investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Shs. 327,552,328 (2016: Shs 345,680,465) higher/lower.

At 30 June 2017, if the prices earnings for unquoted investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Shs 485,389,750 (2016: Shs 489,389,114) higher/lower.

b. 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.

c. Liquidity risk

This is the risk that the Corporation will encounter difficulties in meeting its financial commitments from its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash to meet its obligations. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long term funding and liquidity management requirements. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk also relates to the risk that the Corporation would miss out attractive investment opportunities due to lack of funding. This risk is mitigated by the fact that the available for sale quoted investments can be converted to cash when funds are required.

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

The table in the next page analyses financial liabilities into relevant maturity based on the remaining period at 30 June 2017 to the contractual maturity date.

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

c. Liquidity risk (continued)

30 June 2017: (Shs' 000)	0 – 12 months	1 – 5 years	Over 5 years	Total
Liabilities				
Grants and loans	-	-	854,526	854,526
Deferred revenue	151,457	-	-	151,457
Payables and accruals	132,048	-	-	132,048
Dividends payable	60,985	-	-	60,985
Total liabilities	344,490	-	854,526	1,199,016
<hr/>				
30 June 2016: (Shs' 000)	0 – 12 months	1 – 5 years	Over 5 years	Total
Liabilities				
Grants and loans	-	-	866,078	866,078
Bank overdraft	11,709	-	-	11,709
Deferred revenue	79,841	-	-	79,841
Payables and accruals	112,684	-	-	112,684
Dividends payable	90,000	-	-	90,000
Total liabilities	294,234	-	866,078	1,160,312

d. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. The Corporation has adopted a policy of only dealing with credit worthy counterparties.

The credit risk exposures are classified in three categories:

- Neither past due nor impaired
- Past due
- Impaired

Credit risk arises from cash and cash equivalents, deposits with banks, corporate bonds, loans advanced as well as trade and other receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority. The Corporation has adopted a policy of only dealing with creditworthy counterparties and only investing in reputable corporates.

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

d. Credit risk (continued)

The amount that best represents the Corporations' maximum exposure to credit risk at 30 June is made up as follows:

	2017 Shs'000	2016 Shs'000
Cash and cash equivalents (Note 20)	1,323,653	1,669,567
Trade and other receivables (Note 17)	236,735	235,842
Related companies current account	277	277
Loans (Note 18)	1,717,752	1,507,535
Investment in Government securities (Note 14)	17,010	29,827
	3,295,427	3,443,048

Credit terms are agreed with each client and are monitored on an on-going basis by the Corporation.

None of the above assets are either past due or impaired except for the following amounts in sundry debtors and loans:

	2017 Shs'000	2016 Shs'000
Sundry debtors individually determined to be impaired:		
Carrying amount before provision for impairment loss	156,012	108,876
Provision for impairment loss	(156,012)	(108,876)
Net carrying amount	-	-
Loans individually determined to be impaired:		
Carrying amount before provision for impairment loss	13,767,949	13,869,810
Provision for impairment loss	(13,753,191)	(13,769,777)
Net carrying amount	14,758	100,033

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

d. Credit risk (continued)

The table below represents the Corporation's performing loans as at 30 June that are neither impaired nor past due:

	2017 Shs'000	2016 Shs'000
Commercial loans	1,398,730	1,112,005
Property loans	311,179	309,285
	<hr/>	<hr/>
Net carrying amount	1,709,909	1,421,290
	<hr/>	<hr/>

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 specific capital structure.

Notes (continued)

4. Financial assets and liabilities and other fair values

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

	Held to maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair values
As at 30 June 2017	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Assets						
Quoted companies	-	-	6,551,046	-	6,551,046	6,551,046
Unquoted investments	-	-	9,707,782	-	9,707,782	9,707,782
Investments in Government securities	17,010	-	-	-	17,010	17,010
Loans	-	1,717,752	-	-	1,717,752	1,717,752
Related companies current accounts	-	277	-	-	277	277
Sundry debtors	-	248,331	-	-	248,331	248,331
Cash and short term deposits	-	1,323,653	-	-	1,323,653	1,323,653
Total assets	17,010	3,290,013	16,258,828	-	19,565,851	19,565,851
Liabilities						
Payables and accruals	-	-	-	193,035	193,035	193,035
Deferred revenue	-	-	-	151,457	151,457	151,457
GoK loans / grants	-	-	-	854,526	854,526	854,526
	-	-	-	1,199,018	1,199,018	1,199,018
As at 30 June 2016						
Assets						
Quoted companies	-	-	6,913,609	-	6,913,609	6,913,609
Unquoted investments	-	-	9,166,962	-	9,166,962	9,166,962
Investments in Government securities	29,827	-	-	-	29,827	29,827
Loans	-	1,572,188	-	-	1,572,188	1,572,188
Related Companies Current accounts	-	277	-	-	277	277
Sundry debtors	-	249,842	-	-	249,842	249,842
Cash and short term deposits	-	1,669,967	-	-	1,669,967	1,669,967
Total assets	29,827	3,492,274	16,080,571	-	19,602,672	19,602,672

Notes (continued)

4. Financial assets and liabilities and other fair values (continued)

Liabilities	Held to maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair values
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Bank overdraft	-	-	-	11,709	11,709	11,709
Payables and Accruals	-	-	-	112,684	112,684	112,684
Deferred revenue	-	-	-	79,841	79,841	79,841
Government loans and grants	-	-	-	866,078	866,078	866,078
	-	-	-	1,070,312	1,070,312	1,070,312

Fair value hierarchy

The Corporation specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

a) Level 1

Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

b) Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

c) Level 3

Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Corporation considers relevant and observable market prices in its valuations where possible. The following table shows an analysis of financial and non-financial instruments reflected at fair value by level of the fair value hierarchy.

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
30 June 2017				
Financial assets:				
Unquoted equity instruments	-	9,707,782	-	9,707,782
Quoted equity instruments	6,551,046	-	-	6,551,046
Investment property			967,141	967,141
30 June 2016				
Financial assets:				
Unquoted equity instruments	-	9,152,962	-	9,152,962
Quoted equity instruments	6,913,609	-	-	6,913,609
Investment property			948,951	948,951

Notes (continued)

	2017	2016
	Shs'000	Shs'000
5. Operating income		
Dividends	380,793	154,963
Interest on loans and advances	237,246	190,094
Application fees	2,365	5,579
Management & advisory services	10,329	9,038
Rental income	156,380	156,876
Interest on deposits	123,291	226,703
	<u>910,404</u>	<u>743,253</u>
6. Other income		
Gain on disposal of property and equipment	182	1,581
Fair value gains on investment property	17,191	210,701
Sundry income	754	12,790
Write back on loans and advances	30,035	35,005
	<u>48,162</u>	<u>260,077</u>
7. (a) Administration costs		
Staff costs (Note 7b)	213,329	196,666
Directors' expenses and emoluments	14,003	16,728
Rent and rates	3,566	3,544
Bank charges	400	513
Electricity and water	15,971	17,253
Publicity and advertising	9,522	9,789
Transportation, travelling and subsistence	13,356	13,626
Printing, stationery and photocopying	2,764	2,199
Motor vehicle operating expenses	1,500	1,305
Insurance costs	4,194	3,749
Professional expenses	9,366	6,113
Donations and other contributions	397	403
ICT expenses	6,279	6,019
Auditors' remuneration	4,170	3,773
Legal expenses	11,505	21,038
Pantheon court case and legal fees	-	25,340
Uchumi House security	9,264	9,264
VAT and other taxes	6,255	16,831
Uchumi House administration expenses	7,173	5,223
Repairs and maintenance	9,557	9,497
Subscriptions	1,776	1,346
Other operating expenses	15,017	10,137
Provision for preferential dividends receivable	42,068	-
Provision on Uchumi House debtors	5,018	-
	<u>406,450</u>	<u>380,356</u>

Notes (continued)

7. Administration costs

(b) Staff costs

	2017	2016
	Shs'000	Shs'000
Salaries and allowances of permanent employees	158,401	141,110
Wages of temporary employees	900	2,680
Compulsory National Health Insurance schemes	1,186	1,214
Compulsory National Social Security schemes	140	150
Other pension contributions	14,287	11,645
Leave pay and gratuity provisions	2,588	3,682
Staff welfare	35,827	36,185
	<u>213,329</u>	<u>196,666</u>

The average number of employees at the end of the year was:

Permanent employees – Management	56	58
Temporary and contract employees	4	9
	<u>60</u>	<u>67</u>

8. Finance costs

Interest expense on loans	8,448	8,448
	<u>8,448</u>	<u>8,448</u>

Notes (continued)

9. Income tax expense	2017	2016
	Shs'000	Shs'000
(a) Current taxation		
Current income tax	29,972	-
Deferred tax charge	(3,841)	31,737
Deferred tax asset not recognised	3,841	(31,737)
Under-provision of current tax prior year	22,074	-
	<u>52,046</u>	<u>-</u>

(b) Reconciliation of tax expense / (credit) to the expected tax based on accounting profit

The tax on the Corporation's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2017	2016
	Shs'000	Shs'000
Profit before income tax	497,148	580,303
Computed tax using the applicable tax rate at 30%	149,144	174,091
Tax effects of :-		
Income not subjected to tax	(166,358)	(217,298)
Expenses not deductible	15,085	28,467
Deferred tax on capital gains	46,477	46,477
Over provision of current tax in prior years	22,074	-
Movement in deferred income tax not recognised	(3,841)	(31,737)
Over-provision of deferred tax in prior years	(10,535)	-
Income tax expense	<u>52,046</u>	<u>-</u>

10. Intangible assets

Cost		
At start of year	44,248	38,228
Additions	364	6,020
At end of year	<u>44,612</u>	<u>44,248</u>
Amortisation		
At start of year	36,626	35,050
Charge for the year	3,091	1,576
At end of year	<u>39,717</u>	<u>36,626</u>
Net book value	<u>4,895</u>	<u>7,622</u>

Notes (continued)

11. Property and equipment	Land and buildings Shs'000	Motor Vehicles Shs'000	Furniture & equipment Shs'000	Total Shs'000
Year ended 30 June 2016				
Cost / valuation				
At start of year	1,139,943	19,802	59,130	1,218,875
Additions	-	12,585	6,808	19,393
Disposals	-	(12,151)	(650)	(12,801)
At year end	1,139,943	20,236	65,288	1,225,467
Depreciation				
At start of year	107,278	19,790	9,241	136,309
Charge for the year	19,125	-	13,522	32,647
Disposal	-	(12,146)	(383)	(12,529)
At year end	126,403	7,644	22,380	156,427
Net book value at year end	1,013,540	12,592	42,908	1,069,040
Year ended 30 June 2017				
Cost / valuation				
At start of year	1,139,943	20,236	65,288	1,225,467
Additions	-	-	7,174	7,174
Disposals	-	(2,897)	-	(2,897)
At year end	1,139,943	17,339	72,462	1,229,744
Depreciation				
At start of year	126,403	7,644	22,380	156,427
Charge for the year	19,123	2,517	14,853	36,493
Disposal	-	(579)	-	(579)
At year end	145,526	9,582	37,233	192,341
Net book value at year end	994,417	7,757	35,229	1,037,403

Notes (continued)

11 Property and equipment

Uchumi House Building was last re-valued on 30 June 2015 by an independent valuer, Paul A. Okwiri.

12 Investment property	2017 Shs'000	2016 Shs'000
Opening valuation	948,951	1,123,210
Movements during the year:		
Additions- Investment property	999	43,750
- Inventory		271,162
Fair value gain	17,191	210,701
Transferred to inventory (residential units under construction)	-	(699,873)
	<hr/>	<hr/>
Closing valuation	967,141	948,951
	<hr/>	<hr/>

The fair value model has been applied for the investment property, an internal professional valuer determines the fair value of the investment property as at 30 June 2017 based on open market method.

13 Inventories	2017 Shs'000	2016 Shs'000
Property; Nyali	551,061	372,823
Property; Kizingo	383,157	327,050
	<hr/>	<hr/>
	934,218	699,873
	<hr/>	<hr/>

Inventories represents transfers of Nyali and Kizingo development from investment property following the commencement of development of residential units with a view to sell.

	2017 Shs'000	2016 Shs'000
Movement of inventory balances during the year is as below;		
Opening cost	699,873	-
Movements during the year:		
Transfer from Investment property	-	699,873
Additions	234,345	-
	<hr/>	<hr/>
Closing cost	934,218	699,873
	<hr/>	<hr/>

Notes (continued)

14. Government securities	2017 Shs'000	2016 Shs'000
At start of year	29,827	99,648
Bond maturity during the year	(12,817)	(69,821)
	<hr/>	<hr/>
At end of year	17,010	29,827
	<hr/>	<hr/>

The running GOK bond will mature in August 2019 with a maturity value of Shs. 17,000,000. The effective interest rate on treasury bonds at 30 June 2017 was 6.33% (2016: 9.19%).

15. Unquoted investments	2017 Shs'000	2016 Shs'000
Valuation		
At start of the year	9,357,126	9,450,965
Additions	465,766	30,525
Disposals	-	(19,048)
Fair value gain/(loss)	75,054	(105,316)
	<hr/>	<hr/>
At end of the year	9,897,946	9,357,126
	<hr/>	<hr/>
Impairment		
At start of the year	(190,164)	(190,164)
Impairment loss in the year	-	-
	<hr/>	<hr/>
At end of the year	(190,164)	(190,164)
	<hr/>	<hr/>
Net book value	9,707,782	9,166,962
	<hr/>	<hr/>

Notes (continued)

15. Unquoted investments (continued)

Managed funds

Grants and loans include funds disbursed to the following companies being managed funds administered on behalf of the Government of Kenya.

	2017	2016
	Shs' 000	Shs' 000
Kenatco Transport Limited (in receivership) - Equity	6,900	6,900
Kisumu Cotton Mills(1983) Limited (in liquidation) - Equity	19,500	19,500
Pan African Vegetable Products Limited (in liquidation) - Equity	1,265	1,265
Pan Vegetable Processors Limited - Equity	15,805	15,805
South Nyanza Sugar Limited - Equity	10,000	10,000
	<hr/>	<hr/>
Gross amount	53,470	53,470
	<hr/>	<hr/>
Less: Provision for impairment	(53,470)	(53,470)
	<hr/>	<hr/>
Net amount	-	-
	<hr/>	<hr/>

16. Quoted investments

Opening valuation	6,913,609	10,321,094
Fair value loss	(362,563)	(3,407,485)
	<hr/>	<hr/>
Closing valuation	6,551,046	6,913,609
	<hr/>	<hr/>

Notes (continued)

17. Trade and other receivables	2017	2016
	Shs'000	Shs'000
Prepayment on staff loans	72,267	64,653
Recoverable expenses from associate companies	19,103	17,275
Dividends receivable	119,780	101,449
Receivable from Uchumi House tenants	72,930	129,107
Other debtors	120,263	96,887
	<hr/>	<hr/>
Gross trade and other receivables	404,343	409,371
Less: Impairment losses	(156,012)	(108,876)
	<hr/>	<hr/>
Net trade and other receivables	248,331	300,495
	<hr/>	<hr/>
The movement in the provision for impairment of sundry debtors is as follows:		
At start of year	108,876	108,876
Movement during the year	47,136	-
	<hr/>	<hr/>
At end of the year	156,012	108,876
	<hr/>	<hr/>

Notes (continued)

18. Loans

(a) Outstanding loans	2017	2016
	Shs'000	Shs'000
(i) Large and medium loans		
Loans to significant companies	5,421	5,421
Less: Impairment losses	(5,400)	(5,400)
	<hr/>	<hr/>
Net large and medium loans	21	21
	<hr/>	<hr/>

(ii) Small loans	Performing	Non-	Total
As at 30 June 2017	loans	performing	
	Shs'000	loans	Shs'000
		Shs'000	Shs'000
Commercial	1,398,730	2,628,069	4,026,799
Property	311,179	414,954	726,133
Industrial	-	2,538,281	2,538,281
Machinery	-	412,333	412,333
General Motors Kenya Limited/Kenya Breweries Limited	-	20,091	20,091
Personal loans	-	147,924	147,924
ICDC – Kenya Bus Services Limited	-	33,583	33,583
Hire purchase	-	145,427	145,427
Corporate	-	7,427,870	7,427,870
Unclassified loans	-	(583)	(583)
	<hr/>	<hr/>	<hr/>
Total small loans	1,709,909	13,767,949	15,477,858
Less: Impairment losses	(6,936)	(13,753,191)	(13,760,127)
	<hr/>	<hr/>	<hr/>
Net small loans	1,702,973	14,758	1,717,731
	<hr/>	<hr/>	<hr/>
Net large and medium loans	-	21	21
	<hr/>	<hr/>	<hr/>
Total net loans	1,702,973	14,779	1,717,752
	<hr/>	<hr/>	<hr/>

Notes (continued)

18. Loans (continued)

(ii) Small loans (continued)

As at 30 June 2016

	Performing loans	Non- performing loans	Total
	Shs'000	Shs'000	Shs'000
Commercial	1,112,005	2,709,930	3,821,935
Property	309,285	414,954	724,239
Industrial	-	2,538,281	2,538,281
Machinery	-	432,333	432,333
General Motors Kenya Limited /Kenya Breweries Limited	-	20,091	20,091
Personal loans	-	147,924	147,924
ICDC – Kenya Bus Services Limited	-	33,583	33,583
Hire purchase	-	145,427	145,427
Corporate	-	7,427,870	7,427,870
Unclassified loans	-	(583)	(583)
Total small loans	1,421,290	13,869,810	15,291,100
Less: Impairment losses	(13,809)	(13,769,777)	(13,783,586)
Net small loans	1,407,481	100,033	1,507,514
Net large and medium loans	-	21	21
Total net loans	1,407,481	100,054	1,507,535

(b) Impairment losses on loans

	2017 Shs'000	2016 Shs'000
At start of the year	13,788,986	13,823,991
Impairment	6,936	-
Impairment losses released	(30,395)	(35,005)
Net large and medium loans	13,765,527	13,788,986
Comprising of:		
Large and medium loans	5,400	5,400
Small loans	13,760,127	13,783,586
Total loans impairment	13,765,527	13,788,986

Notes (continued)

19. Provisions

The Corporation periodically analyses the recoverability of its debtors and provisions for each specific case and with respect to loans and advances, a further general provision based on the loan default history. During the year, the following amounts were charged to profit or loss.

	2017 Shs' 000	2016 Shs' 000
General provisions in loans and advances	6,936	-
Total provisions	6,936	-

20. Cash and cash equivalents

For purposes of cash flow statement:

Short term deposits	396,461	643,785
Cash in bank	927,192	1,026,182
Cash and cash equivalents	1,323,653	1,669,967
Bank overdraft	-	(11,709)
Cash and cash equivalents	1,323,653	1,658,258

The average effective interest rate on the short term deposits as at June 30, 2017 was 8.48% (2016: 8.99%).

21. Reserves

Revaluation reserve

The revaluation reserve relates to the revaluation of certain items of property and equipment. Revaluation surpluses are not distributable.

Fair value adjustment reserve

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

Notes (continued)

21. Reserves (continued)

Retained earnings

The retained earnings represent amounts available to the shareholders of the Corporation. Retained earnings are utilised to finance business activity.

22. Loans and grants

	2017	2016
	Shs'000	Shs'000
Grants:		
From the Government of Kenya	529,971	529,971
Loans from Government of Kenya:		
Balance at beginning of the year	316,964	341,036
Accrued additional interest	7,928	7,928
Interest repaid during the year	(15,000)	(32,000)
Balance at end of the year	309,892	316,964
Loans from KFW of West Germany		
Balance at beginning of the year	19,143	23,623
Accrued additional interest	520	520
Repayment during the year	(5,000)	(5,000)
Balance at end of the year	14,663	19,143
Total loans and grants	854,526	866,078

Included in loans from the Government of Kenya is an amount of Shs 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. 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 and grants 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.

23. Deferred tax asset

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30% (2016: 30%) except for deferred tax calculated using the enacted rate of 5% on capital gains arising on investment property and unquoted investments. Tax on capital gains was re-introduced and became effective 1 January 2015.

Notes (continued)

23. Deferred tax asset (continued)

	2017 Shs'000	2016 Shs'000
At beginning of year	-	-
Credit to income statement (Note 9)	(3,841)	31,707
Deferred tax not recognised	3,841	(31,707)
At end of year	-	-

Year ended 30 June 2017	At 1 July 2016 Shs'000	Charged/(credited) to P/L Shs'000	Charged to OCI	At 30 June 2017 Shs'000
Deferred income tax asset				
Plant and equipment	(1,448)	(1,780)	-	(3,228)
Provisions	(1,097,940)	(18,267)	-	(1,116,207)
Tax losses carried forward	(25,881)	25,881	-	-
Deferred tax on capital gains	46,477	-	3,753	50,230
Prior year under-provision	-	(10,535)	(5,266)	(5,266)
Deferred tax on investment property	-	860	-	-
Net deferred income tax asset	(1,078,792)	(3,841)	(1,513)	(1,084,146)
Deferred income tax asset not recognized	1,078,792	3,841	1,513	1,084,146
Deferred income tax liability/(asset)	-	-	-	-

Year ended 30 June 2016	At 1 July 2015 Shs'000	Charged/(credited) to P/L Shs'000	Charged to OCI	At 30 June 2016 Shs'000
Deferred income tax asset				
Plant and equipment	(606)	(842)	-	(1,448)
Other deductible temporary differences	(1,098,996)	1,056	-	(1,097,940)
Tax losses carried forward	(46,957)	21,076	-	(25,881)
Deferred tax on capital gains	36,060	10,417	-	46,477
Net deferred income tax asset	(1,110,499)	31,707	-	(1,078,792)
Deferred income tax asset not recognized	1,110,499	(31,707)	-	1,078,792
Deferred income tax liability/(asset)	-	-	-	-

The deferred tax asset has not been recognised in the financial statements for the current and prior years as the directors are of the opinion that the benefit will not crystallize in the foreseeable future.

Notes (continued)

24. Trade and other payables

	2017	2016
	Shs'000	Shs'000
General creditors	98,435	82,217
Rent deposit	33,613	30,467
	<hr/>	<hr/>
Total	132,048	112,684
	<hr/>	<hr/>

25. Deferred revenue

Nyali	31,650	19,300
Kizingo	119,807	60,540
	<hr/>	<hr/>
Total	151,457	79,840
	<hr/>	<hr/>

Deferred revenue comprises advance payments from customers to purchase residential units, which are classified as inventory – complete units that are in the process of ownership transfer.

26. Dividend payable to the Government of Kenya

The Corporation paid Shs 29,015,150 (2016: Nil) to the Government of Kenya during the year ended 30 June 2017.

	2017	2016
	Shs'000	Shs'000
Dividend Payable to GoK	60,985	90,000
	<hr/>	<hr/>

Notes (continued)

27. Notes to the statement of cash flows

a) Reconciliation of operating profit to cash generated from operations:

	2017	2016
	Shs'000	Shs'000
Profit before income tax	497,148	580,303
Adjustments for:		
Depreciation of property and equipment (Note 11)	36,493	32,647
Amortisation of intangible assets (Note 10)	3,091	1,576
Gain on disposal of property and equipment	(182)	(1,581)
Gain on disposal of unquoted investments	-	-
Interest on Government of Kenya loans (Note 8)	8,448	8,448
Gain on revaluation of investment property (Note 12)	(17,191)	(210,701)
	<hr/>	<hr/>
Operating profit before changes in working capital	527,807	410,692
Loans and advances	(210,217)	(522,154)
Deferred revenue	71,617	79,841
Trade and other debtors	52,164	178,490
Payables and accrued expenses	19,364	7,509
	<hr/>	<hr/>
Cash generated from operations	460,735	154,378
	<hr/>	<hr/>
b) Analysis of changes in loans		
Balance at beginning of the year	1,507,535	985,381
Net change	210,217	522,154
	<hr/>	<hr/>
Balance at end of year	1,717,752	1,507,535
	<hr/>	<hr/>

Notes (continued)

28. Related parties

a) Government of Kenya

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to the Corporation during its formative years to finance its operation. The relevant balances are shown in Note 22.

b) Investment in other related companies

The Corporation invests in other companies with a view to earning dividends and capital gain. The relevant investment balances are shown in Note 15.

i. Dividends earned during the year are as follows:	2017	2016
	Shs'000	Shs'000
Dividends (Note 5)	380,793	154,963
	<hr/>	<hr/>

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

ii. Key management compensation:

Key management includes executive director. The compensation paid or payable to executive director is shown below:

	2017	2016
	Shs'000	Shs'000
Salaries	5,266	4,739
Pension	277	383
	<hr/>	<hr/>
	5,543	5,122
	<hr/>	<hr/>

iii. Directors' remuneration

Fees for services as non-executive directors	13,174	16,728
Other included in key management compensation above	5,543	5,122
	<hr/>	<hr/>
	18,717	21,850
	<hr/>	<hr/>

Notes (continued)

28. Related parties (continued)

	2017 Shs'000	2016 Shs'000
iv. Loans and advances to staff		
Loans and advances to staff	109,252	208,532

The Corporation provides loans and advances to staff as benefits based on staff management policies prevailing from time to time. The benefit obtained by staff is subjected to income tax as required under the Income Tax Act, Cap 470 of the Laws of Kenya.

v. Advances to other related parties

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.

vi. Uchumi House tenants

The Corporation has standing lease agreements with various Government ministries and departments. The amounts receivable from these entities as at 30 June were as follows:

	2017 Shs'000	2016 Shs'000
Rent receivable from Government ministries and Parastatals	11,990	70,379
Rent receivable from other tenants	55,086	58,728
Total rent receivable	67,076	129,107

29. Capital commitments

Amounts authorised and contracted for:

a) Investments		
Loans	503,690	690,300
Equity	30,530	103,000
Total investments approved	534,220	793,300
b) Capital commitments		
Total commitments	488,484	551,060
Less: Contracted and engaged	(404,215)	(250,023)
	84,269	301,037
Total commitments	618,489	1,094,337

Notes (continued)

30. Contingent liabilities	2017 Shs'000	2016 Shs'000
Bank guarantees	16,000	65,000
Legal claims against ICDC	29,832	29,832
	45,832	94,832

As at 30 June 2017, the Corporation had issued guarantees amounting to Shs 16,000,000 (2016: Shs 65,000,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to Shs 29,832,162 (2016: Shs 29,832,162) including the interest thereon and costs of the suits. These cases were still pending determination in the courts as at the end of the financial year.

The Corporation has investments in three of the six bottling companies in Kenya. On 26 October 2012, the bottling companies lost a case against the Kenya Revenue Authority (KRA) for contested demand for tax arrears, penalties and interest for the period 2006 to 2009 relating to excise tax on returnable containers.

The bottling companies lodged an appeal against the ruling and have in the meantime obtained conservatory orders from the court maintaining the status quo/staying any adverse action as the notice of appeal is filed. The Directors' assessment is that the matter will be resolved amicably with minimal impact to the business of the bottling companies.

31. Future rental commitments under operating leases

The Corporation enters into operating lease arrangements with lessees on its Uchumi House property mostly for a term of 6 years with the Corporation retaining significant risks and rewards of ownership of the premises. These lease contracts also include various clauses to manage incidences of default and upward revision of rent receivable in line with an established rental policy.

The total future minimum lease payments due from third parties under non – cancellable leases are as follows:

	2017 Shs'000	2016 Shs'000
Due within one year	128,063	127,789
Due within one year but less than 5 years	177,858	222,592
Due after 5 years	7,235	4,006
	313,156	354,387

32. Incorporation

The Industrial and Commercial Development Corporation is incorporated as a Government Parastatal in Kenya under the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya) and is domiciled in Kenya.

ICDC SUBSIDIARIES AND ASSOCIATE COMPANIES AS AT 30TH JUNE 2017

		Number of Total Paid Up Shares	Number of Shares Held By ICDC	% Shareholding By ICDC
(i) Unlisted Companies				
1	Agro-Chemical and Food Company Limited	3,000,000	845,000	28.17
2	AON Minet Insurance Brokers Limited	1,545,700	309,140	20.00
3	Development Bank of Kenya Limited	17,375,000	15,520,000	89.32
4	Focus Container Freight Station	100,000	25,000	25.00
5	Funguo Investments Limited	54,733,811	10,697,512	19.54
6	General Motors East Africa Limited	1,567,500	313,500	20.00
7	Kenatco Taxis Limited (In Receivership)	250,000	250,000	100.00
8	Industrial Development Bank Ltd	40,500,750	1,735,500	4.29
9	Kenya National Trading Corporation Ltd	1,600,000	1,600,000	100.00
10	KWA Holdings Limited	96,000,000	44,788,132	46.65
11	Organic Growers & Packers Ltd	2,233,245	674,440	30.20
12	Organic Growers & Packers Ltd (Preference shares @20/-)	700,000	700,000	100.00
13	Almasi Beverages Ltd	761,322,186	276,470,117	36.30
14	South Nyanza Sugar Company Ltd	18,000,000	125,000	0.69
15	Two Rivers Development Ltd	2,000	50	2.50
16	Sky Foods Ltd	10,000	1,351	13.51
17	Sisibo Tea Factory Ltd (Preference shares @21%)	2,550,100	2,550,000	99.99
18	Global Supply Solutions Ltd (Preference shares @ 100)	400,000	400,000	100.00
19	Njimia Kenya Ltd (Preference shares @ 1,000)	60,000	60,000	100.00
ii) Listed Companies				
20	Centum Investment Company Limited	665,441,714	152,847,897	22.97
21	Eveready (E A) Limited	210,000,000	36,583,575	17.42
22	Uchumi Supermarkets Ltd	364,959,616	7,288,472	1.99