

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
INDUSTRIAL AND COMMERCIAL
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2013**





INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013



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REGISTERED OFFICE

Uchumi House
Aga Khan Walk
PO Box 45519
00100 Nairobi

CORPORATION SECRETARY

Grace M. Magunga
PO Box 45519
00100 Nairobi

AUDITOR

The Auditor-General
PO Box 30084
00100 Nairobi

BANKERS

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

Commercial Bank of Africa Limited
Wabera Street
P.O.Box 30437 – 00100
Nairobi

Co-operative Bank of Kenya Limited
Uchumi House
Aga Khan Walk
P.O.Box 40310 – 00100
Nairobi

BOARD OF DIRECTORS

Martin K. Muragu
Peter M. Kimurwa
Abdirahman Yare Haji
Albert Ruturi
Bernard G. Njuguna
Richard N. Wanjalla
Samuel K. Njonde
Said H.S. Gedi
Permanent Secretary, Ministry of Trade
Permanent Secretary, Ministry of Finance, Treasury

Chairman
Executive Director

Retired 1 October, 2012

Alternate: Joyce A. Ogundo
Alternate: Daniel Mutua

The directors submit their report together with the audited financial statements for the year ended 30 June 2013, in accordance with Section 15(4) of the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya), which disclose the state of affairs of the Corporation.

PRINCIPAL ACTIVITIES

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

RESULTS

	For year ended 30 June	
	2013	2012
	Kshs'000	Kshs'000
Profit before taxation	479,194	334,667
Taxation	-	-
Profit for the year transferred to retained earnings	479,194	334,667

The results for the year are set out fully on pages 7 to 48 in the attached financial statements.

DIVIDEND

Directors do not recommend the payment of a dividend (2012: Nil).

DIRECTORS

Current members of the board are shown on page 2.

AUDITORS

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

PricewaterhouseCoopers was appointed by the Auditor-General to carry out the audit for the year ended 30 June 2013.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 4th December 2013.

By order of the Board



Grace M. Magunga
Secretary

4th December 2013

Industrial and Commercial Development Corporation
Statement of Directors' Responsibilities
For the year ended 30 June 2013

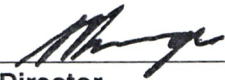
The Industrial and Commercial Development Corporation Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the Corporation's profit or loss. It also requires the directors to ensure that the Corporation keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Corporation Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of the Corporation's profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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



Director



Director

4th December 2013

REPUBLIC OF KENYA

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Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Industrial and Commercial Development Corporation set out on pages 7 to 48, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PWC Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those Standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable

assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Grants and Loans

(i) Disclosed in Note 24 and as similarly reported in 2011/2012 are grants and loans totaling Kshs.902,733,000 (2012-Kshs.914,285,000). The respective loan agreements were not, however, made available and therefore the terms of such agreements could not be verified. As in the previous year, the Corporation has explained that there were no formal agreements between Industrial and Commercial Development Corporation (ICDC) and the Government and that a reconciliation of the loans balance to determine the quantum and treatment of Government obligations in the books is under process.

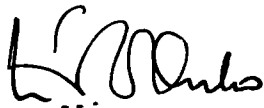
In addition, the grants and loans balance includes managed funds totaling Kshs.53,470,390, which were on-lent to companies that are no longer performing or are under receivership or liquidation. Similar to the previous year, no provision for losses in respect of these funds has been made in the financial statements.

(ii) According to information available, the Corporation charged interest expense amounting to Kshs.8,448,000 during the year. However and as previously reported, the basis of the expense could not be ascertained.

(iii) Grants have been disclosed under non-current liabilities, contrary to International Accounting Standards (IAS) No.20 – Accounting for Government Grants and Disclosure of Government Assistance, which requires that such grants be credited directly to reserves.

Qualified Opinion

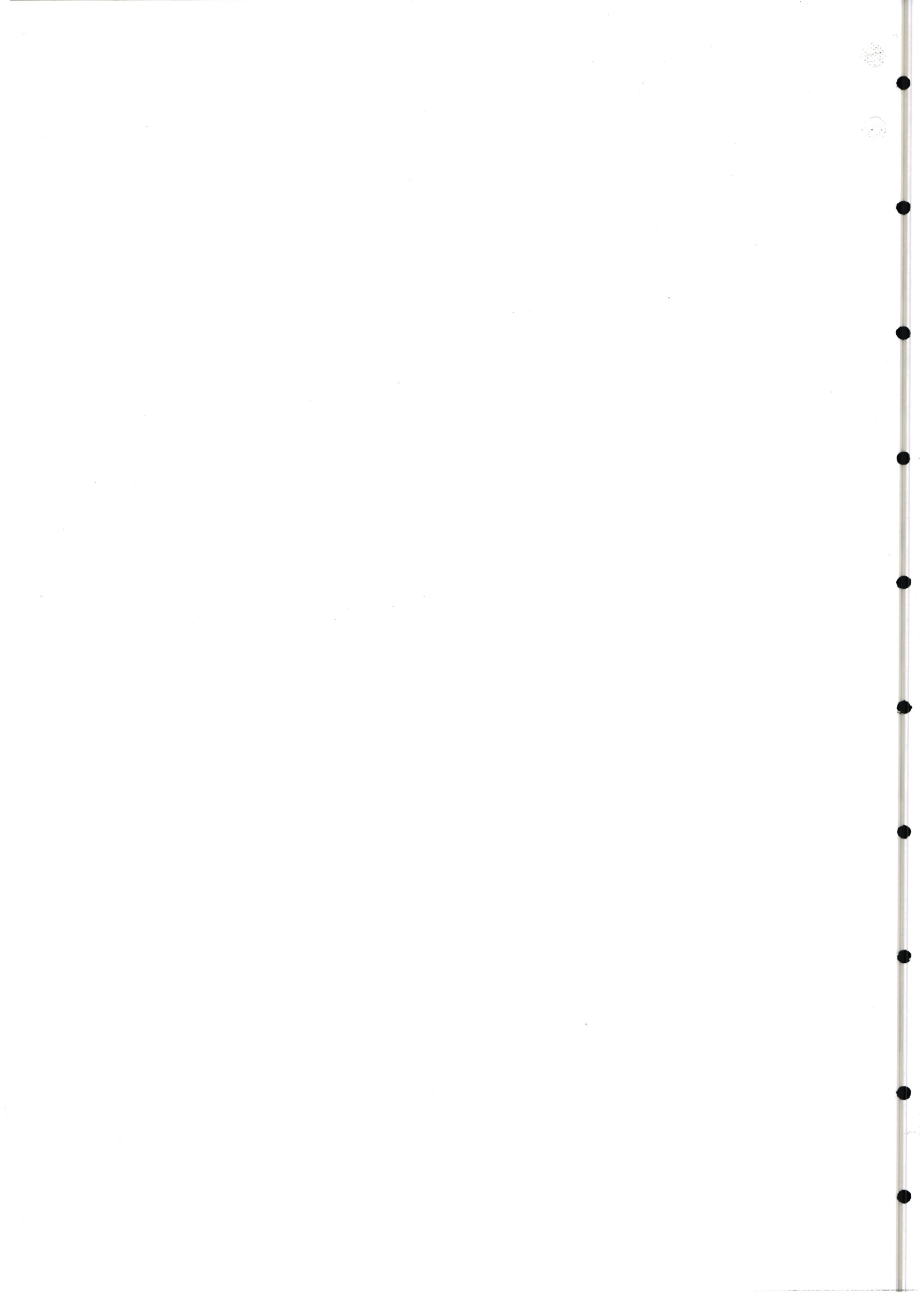
In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Industrial and Commercial Development Corporation Act, Cap.445 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

31 December 2013



Statement of profit or loss and Other Comprehensive Income

	Notes	Year ended 30 June	
		2013	2012 Restated
		Kshs'000	Kshs'000
Income	6	2,568,831	2,214,334
Expenses			
Administrative expenses	7	(322,510)	(318,637)
Impairment losses	8	(1,758,679)	(1,552,582)
Finance costs	9	(8,448)	(8,448)
		(2,089,637)	(1,879,667)
Profit before tax		479,194	334,667
Income tax expense	10	-	-
Profit for the year		479,194	334,667
Other comprehensive income for the year:			
Items that will never be recognised in profit and loss			
Revaluation gains on Uchumi property		-	402,906
Items that are subject to subsequent reclassification to profit and loss			
Reserves released on disposal of investments		-	(70,615)
Fair value gain in unquoted investments	15	2,484,594	461,882
Fair value gain/ (loss) in quoted investments	16	1,467,719	(1,195,043)
Total other comprehensive income/(loss)		3,952,313	(400,870)
Total comprehensive income/(loss)		4,431,507	(66,203)


The notes on page 12 to 48 are an integral part of these financial statements.

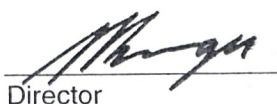
Statement of Financial Position

	Notes	At 30 June 2013 Kshs'000	At 30 June 2012 Restated Kshs'000	At 30 June 2011 Restated Kshs'000
Assets				
Investment property	12	563,140	429,000	360,500
Property and equipment	13	1,112,846	1,128,738	734,722
Intangible assets	14	1,944	10,048	11,930
Unquoted investments	15	9,438,707	6,671,788	6,116,659
Quoted investments	16	3,629,183	2,161,464	3,431,170
Investment in Government securities	17	98,973	98,731	98,006
Loans	18	1,005,371	1,320,497	741,047
Related companies current accounts	20	10,238	18,283	17,561
Sundry debtors	21	381,096	265,513	181,556
Cash and cash equivalents	22	892,533	596,774	1,076,315
		<u>17,134,031</u>	<u>12,700,836</u>	<u>12,769,466</u>
Reserves				
Revaluation reserve	23	1,054,269	1,054,269	651,363
Fair value reserve	23	11,622,257	7,669,944	8,473,720
Retained earnings	23	3,345,531	2,866,337	2,531,670
		<u>16,022,057</u>	<u>11,590,550</u>	<u>11,656,753</u>
Total reserves				
		<u>16,022,057</u>	<u>11,590,550</u>	<u>11,656,753</u>
Liabilities				
Grants and loans	24	902,733	914,285	925,838
Payables and accruals	25	84,241	71,001	61,875
Dividend payable	26	125,000	125,000	125,000
		<u>1,111,974</u>	<u>1,110,286</u>	<u>1,112,713</u>
		<u>17,134,031</u>	<u>12,700,836</u>	<u>12,769,466</u>

The notes on page 12 to 48 are an integral part of these financial statements.

The financial statements on pages 7 to 48 were approved for issue by the board of directors on 21st December 2013 and signed on its behalf by:


 Director


 Director

Statement of Changes in Equity

	Notes	Revaluation reserve Kshs'000	Fair value reserve Kshs'000	Retained earnings Kshs'000	Total reserves Kshs'000
Year ended 30 June 2013					
At start of year					
- as previously reported		729,269	7,669,944	2,482,200	10,881,413
- Impact on restatement - 2011		-	-	352,454	352,454
- Impact on restatement - 2012	28	325,000	-	31,683	356,683
- As restated		1,054,269	7,669,944	2,866,337	11,590,550
Comprehensive income					
Profit for the year		-	-	479,194	479,194
Other comprehensive income:					
Fair value gain in unquoted investments		-	2,484,594	-	2,484,594
Fair value gain in quoted investments		-	1,467,719	-	1,467,719
Total other comprehensive income		-	3,952,313	-	3,952,313
Total comprehensive income		-	3,952,313	479,194	4,431,507
At end of year		1,054,269	11,622,257	3,345,531	16,022,057

The notes on page 12 to 48 are an integral part of these financial statements.

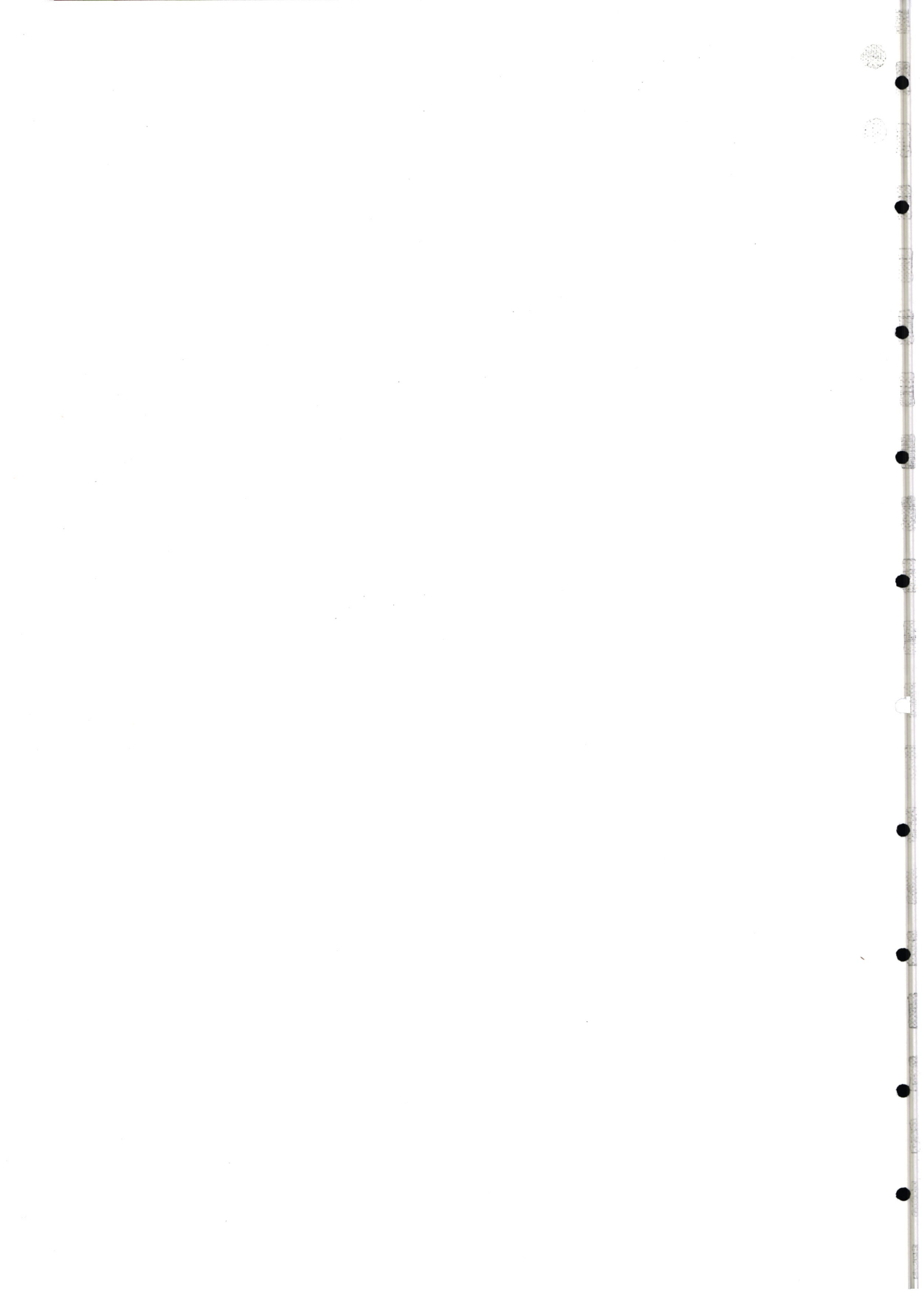
Statement of Changes in Equity (continued)

	Notes	Revaluation reserve Kshs'000	Fair value reserve Kshs'000	Retained earnings Kshs'000	Total reserves Kshs'000
Year ended 30 June 2012					
At start of year					
- as previously reported		651,363	8,473,720	2,179,216	11,304,299
- Impact of restatement - 2011	28	-	-	352,454	352,454
- as restated		651,363	8,473,720	2,531,670	11,656,753
Comprehensive income					
Profit for the year		-	-	334,667	334,667
Other comprehensive income:					
Reserves released on disposal of investments		-	(70,615)	-	(70,615)
Fair value gain in unquoted investments		-	461,882	-	461,882
Fair value loss in quoted investments		-	(1,195,043)	-	(1,195,043)
Revaluation gains on Uchumi Property		402,906	-	-	402,906
Total other comprehensive income		402,906	(803,776)	-	(400,870)
Total comprehensive income		402,906	(803,776)	334,667	(66,203)
At end of year		1,054,269	7,669,944	2,866,337	11,590,550

The notes on page 12 to 48 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 30 June	
		2013 Kshs'000	2012 Kshs'000
Cash flows from operating activities			
Cash generated from/(used in) operations	27	620,975	(360,112)
Net cash generated from/(used in) operating activities		620,975	(360,112)
Cash flows from investing activities			
Development of investment property	12	(18,975)	(36,929)
Purchase of property and equipment	13	(9,961)	(14,811)
Purchases of intangible assets	14	(392)	(6,178)
Purchase of unquoted equity investments	15	(282,325)	(93,247)
Proceeds from disposal of unquoted investments		6,437	-
Proceeds from disposal of quoted investments		-	51,320
Proceeds from disposal of equipment		-	416
Net cash used in investing activities		(305,216)	(99,429)
Cash flows from financing activities			
Loan repayment-GOK loan	24	(20,000)	(20,000)
Net cash used in financing activities		(20,000)	(20,000)
Net increase/(decrease) in cash and cash equivalents		295,759	(479,541)
Movement in cash and cash equivalents			
At start of year		596,774	1,076,315
Increase/(decrease)		295,759	(479,541)
At end of year		892,533	596,774



Notes

1 General information

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). The address of its registered office is as follows:

Uchumi House
Aga Khan Walk
PO Box 45519
00100 Nairobi GPO.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available for sale financial assets and assets at fair value through profit or loss. The financial statements are presented in Kenya Shillings (Kshs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Corporation

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Corporation items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment has mainly impacted the presentation of the primary statements.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 July 2012 that would be expected to have a material impact on the Corporation.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Corporation, except the following set out below:

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IAS 19, 'Employee benefits', was amended in June 2012. The impact will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The directors are yet to assess the full impact of the amendments. IAS 19 (revised) allows for early adoption but is retrospectively applicable for annual periods beginning on or after 1 January 2013.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2011. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The directors are yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(b) 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.

(c) Functional currency and translation of foreign currencies

(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 and 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'.

(d) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Corporation's activities.

The Corporation recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Corporation and when specific criteria have been met for each of the Corporation's activities as described below.

Revenue is recognised as follows:

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

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

(e) Investment property

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

(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 valuer 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 the income statement.

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 over the remaining period of the lease term.

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(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 investments, and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

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.

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.

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, or (c) financial assets held to maturity.

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 and held-to-maturity investments 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(h) Financial assets (continued)

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 non-associate 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, the earnings multiple method is employed. This 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 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.

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, receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(h) Financial assets (continued)

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 becoming 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

(i) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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) Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Notes (continued)

2 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) 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 and are currently limited to a maximum of Shs 200 per month per employee.

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.

(n) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(o) 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.

(p) 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)

2 Summary of significant accounting policies (continued)

(q) 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 income statement over the period of the borrowings.

(r) Comparatives

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

3 Critical accounting estimates and judgements

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.

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 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.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

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.

4 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

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.

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.

Notes (continued)

4 Financial risk management (continued)

Risk management framework (continued)

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.
- 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, audit and risk committee and the risk department.

The risk management function is supervised by the 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 risks

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.

Notes (continued)

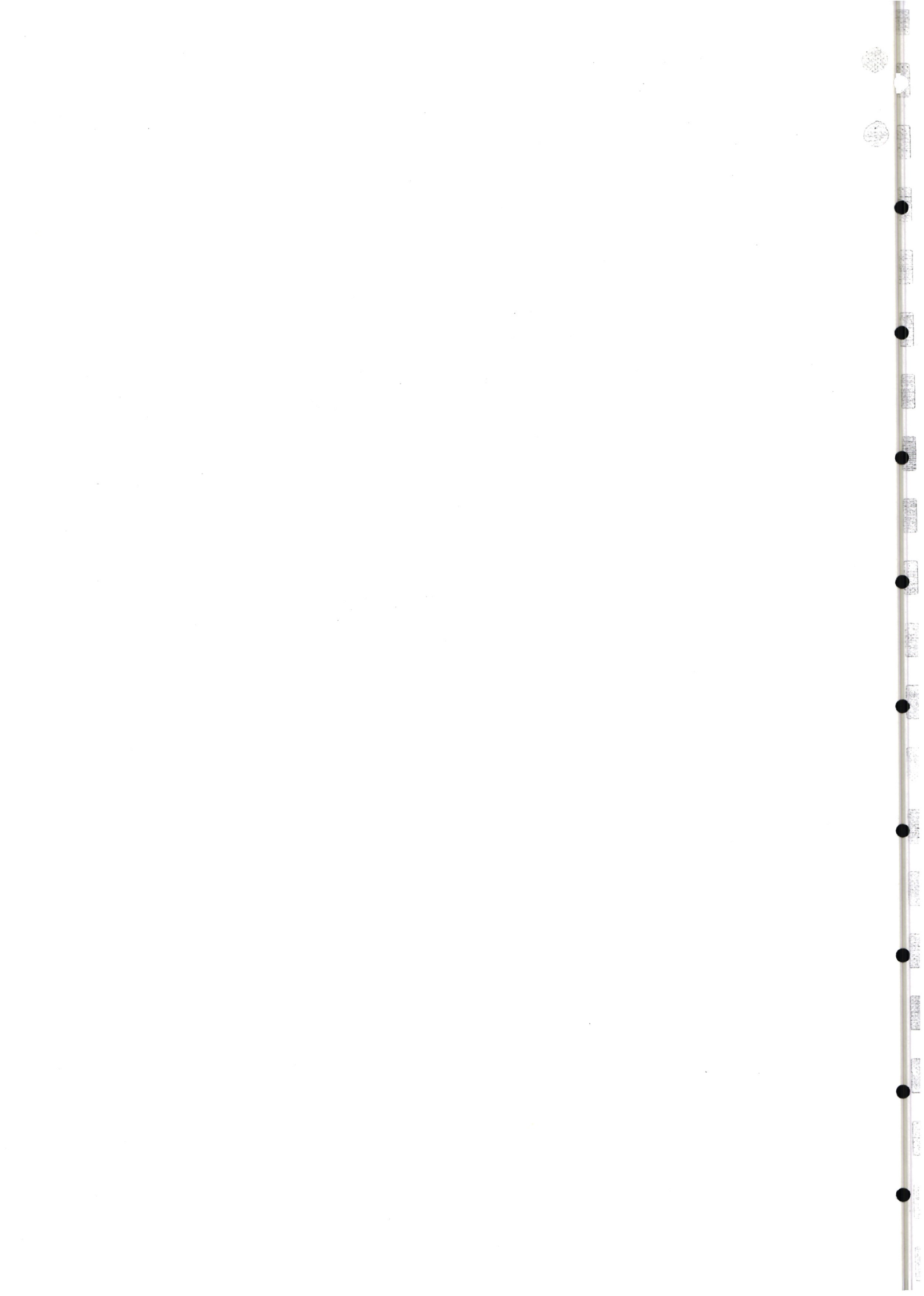
4 Financial risk management (continued)

(a) Market risk (continued)

(i) *Interest rate risk analysis - continued*

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

2013:	Effective Interest rate	Due within 3 months	Due between 3 and 12 months		Due between 1 and 5 years	Due after 5 years	Total
			KShs'000	KShs'000			
Assets	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets							
Investment in Government securities	11.87	-	-	-	98,973	98,973	98,973
Loans	13.24	-	-	692,737	-	692,737	692,737
Loans –current portion	13.24	-	312,634	-	-	312,634	312,634
Total financial assets		-	312,634	692,737	98,973	1,104,344	1,104,344
Grants and loans							
Grants and Government of Kenya loans	5.70	-	-	-	(902,733)	(902,733)	(902,733)
Total grant and loans		-	-	-	(902,733)	(902,733)	(902,733)
Interest sensitivity gap		-	312,634	692,737	(803,760)	201,611	201,611
2012:							
Financial assets							
Investment in Government securities	11.87	-	-	-	98,731	98,731	98,731
Loans	13.88	-	-	997,183	-	997,183	997,183
Loans –current portion	13.88	-	323,315	-	-	323,315	323,315
Total financial assets		-	323,315	997,183	98,731	1,419,229	1,419,229
Grants and Loans							
Grants and Government of Kenya loans	5.70	-	-	-	(914,285)	(914,285)	(914,285)
Total grant and loans		-	-	-	(914,285)	(914,285)	(914,285)
Interest sensitivity gap		-	323,315	997,183	(815,554)	504,944	504,944



Notes (continued)

4 Financial risk management (continued)

(a) Market risk (continued)

(i) *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 2012:

	Statement of comprehensive income	
	2013	2012
	KShs'000	KShs'000
Loans and advances	2,016	5,049

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

(ii) *Price risk*

The Corporation's private equity holdings are valued according to the Private Equity and Venture Capital guidelines, 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 Audit and Risk 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 choice of defensive stocks with low price volatility, and weekly monitoring of the value changes.

At 30 June 2013, 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 KShs. 181,459,150 (2012: KShs 108,073,211) higher/lower.

At 30 June 2013, 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 KShs. 235,967,675 (2012: KShs 54,904,465) higher/lower.

Notes (continued)

4 Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

This is analysed in the table below:

Company security	30 June 2013			30 June 2012		
	No. of shares	Market price 2013	Market value 2013	No. of shares	Market Price 2012	Market value 2012
<i>Main Investment Market Segment</i>		KShs	KShs'000		KShs	KShs'000
Banking						
Barclays Bank of Kenya Ltd	156,800	15.70	2,462	156,800	13.05	2,046
Standard Chartered Bank Ltd	14,700	287.00	4,219	14,700	201.00	2,955
Commercial & Services						
Nation Media Group	19,272	301.00	5,801	16,060	176.00	2,827
Uchumi Supermarkets Ltd	7,288,472	19.90	145,041	7,288,472	15.90	115,887
Kenya Airways Ltd	53,500	9.95	532	53,500	13.10	701
Energy & Petroleum						
Total Kenya Ltd	93,600	16.40	1,535	93,600	15.45	1,446
Kenya Power & Lighting Company Ltd	109,800	14.50	1,592	109,800	15.10	1,657
Insurance						
Jubilee Holdings Ltd	19,965	225.00	4,492	18,150	163.00	2,958
Investment						
Centum Investments Ltd	152,847,897	21.75	3,324,442	152,847,897	12.75	1,948,811
Manufacturing & Allied						
British American Tobacco Ltd	17,000	543.00	9,231	17,000	372.00	6,324
Eveready Batteries Kenya Ltd	36,583,575	2.80	102,434	36,583,575	1.65	60,363
East African Breweries Ltd	21,300	333.00	7,093	21,300	227.00	4,835
Telecommunication & Technology						
Access Kenya Ltd	82,000	10.01	821	82,000	4.75	390
Safaricom Ltd	2,975,200	6.55	19,488	2,975,200	3.45	10,264
Total			<u>3,629,183</u>			<u>2,161,464</u>

Notes (continued)

4 Financial risk management (continued)

(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 below analyses financial liabilities into relevant maturity based on the remaining period at 30 June 2013 to the contractual maturity date.

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

30 June 2013: (KShs)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Liabilities						
Grant and loans	-	-	-	-	902,733	902,733
Creditors	-	-	84,241	-	-	84,241
Dividends payable	-	-	-	-	125,000	125,000
Total liabilities	-	-	84,241	-	1,027,733	1,111,974
30 June 2012: (KShs)						
Liabilities						
Grant and loans	-	-	-	-	914,285	914,285
Creditors	-	2,928	68,073	-	-	71,001
Dividends payable	-	-	-	-	125,000	125,000
Total liabilities	-	2,928	68,073	-	1,039,285	1,110,286

(c) 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)

4 Financial risk management (continued)

(c) Credit risk

The amount that best represents the Corporations' maximum exposure to credit risk at 30 June 2013 is made up as follows:

	2012 Shs'000	2011 Shs'000
Cash equivalents	892,533	596,774
Sundry debtors	381,096	265,513
Related companies current account	10,238	18,283
Loans	1,005,371	1,320,497
Investment in government securities	98,973	98,731
	<hr/>	<hr/>
	2,388,211	2,299,798
	<hr/>	<hr/>

Credit terms are agreed with each client and are monitored on an ongoing 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:

	2013 Shs'000	2012 Shs'000
Sundry debtors individually determined to be impaired:		
Carrying amount before provision for impairment loss	58,517	54,637
Provision for impairment loss	(58,517)	(54,637)
	<hr/>	<hr/>
Net carrying amount	-	-
	<hr/>	<hr/>
Loans individually determined to be impaired:		
Carrying amount before provision for impairment loss	16,294,459	16,294,459
Provision for impairment loss	(16,294,459)	(16,294,459)
	<hr/>	<hr/>
Net carrying amount	-	-
	<hr/>	<hr/>

Notes (continued)

4 Financial risk management (continued)

(c) Credit risk (continued)

	2013 Shs'000	2012 Shs'000
Advances individually determined to be impaired:		
Carrying amount before provision for impairment loss	58,066	58,066
Provision for impairment loss	(58,066)	(58,066)
	<hr/>	<hr/>
Net carrying amount	-	-
	<hr/>	<hr/>
Related companies' current account individually determined to be impaired:		
Carrying amount before provision for impairment loss	24,439	24,439
Provision for impairment loss	(24,439)	(24,439)
	<hr/>	<hr/>
Net carrying amount	-	-
	<hr/>	<hr/>

(d) Operational risk

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

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

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

(e) Capital management

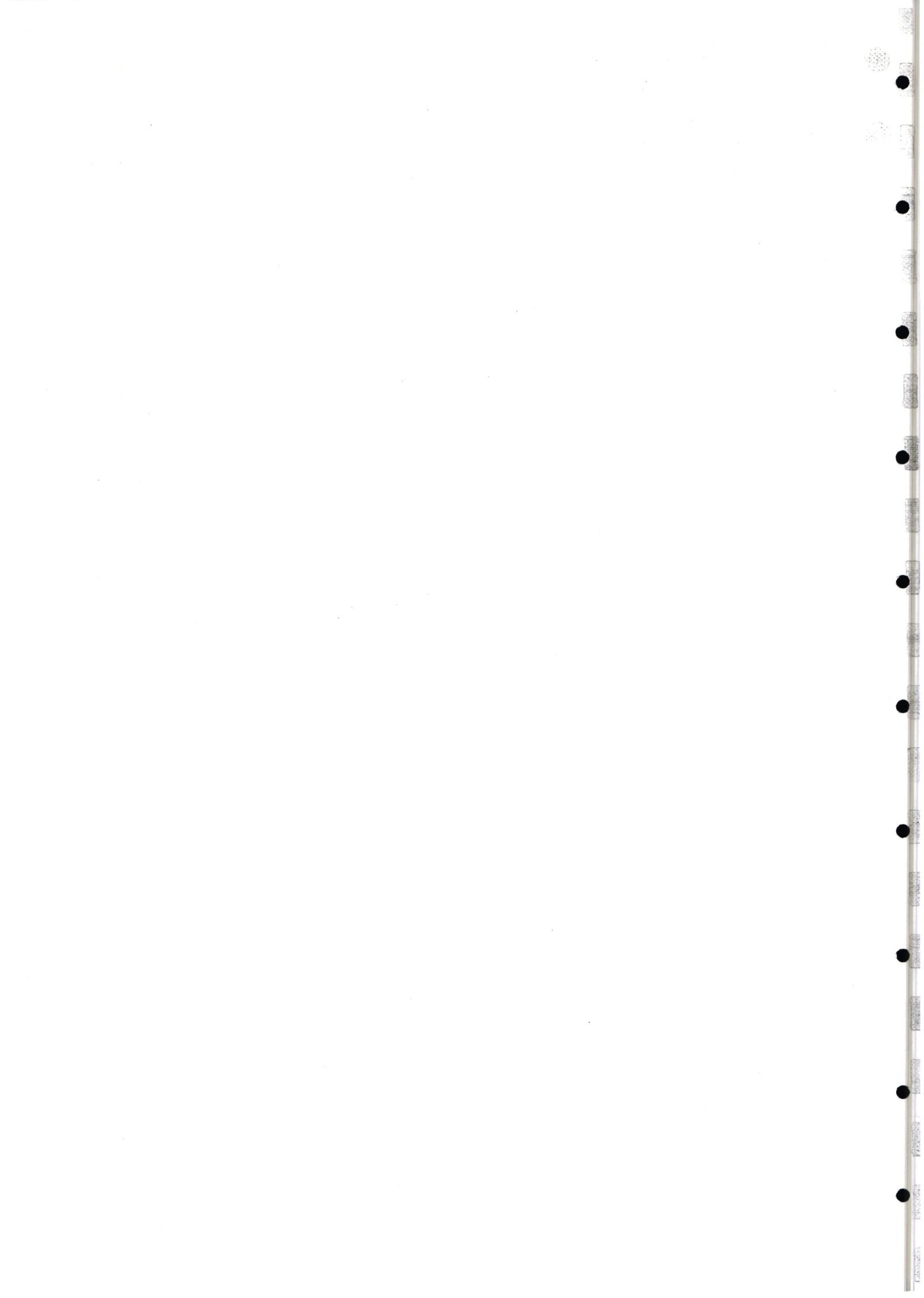
The Corporation is governed by the Industrial and Commercial Development Corporation Act Cap 445, Laws of Kenya, which does not provide for a capital structure.

Notes (continued)

5 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:

2013	Held to maturity KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
Assets						
Investments in quoted companies	-	-	3,629,183	-	3,629,183	3,629,183
Unquoted investments	-	-	9,438,707	-	9,438,707	9,438,707
Investments in Government securities	98,973	-	-	-	98,973	98,973
Loans	-	1,005,371	-	-	1,005,371	1,005,371
Other Companies Current accounts	-	-	-	10,238	10,238	10,238
Sundry debtors	-	-	-	381,096	381,096	381,096
Short term deposits	-	-	-	844,305	844,305	844,305
Cash and cash equivalents	-	-	-	48,228	48,228	48,228
Total assets	98,973	1,005,371	13,067,890	1,283,867	15,456,101	15,456,101
Liabilities and shareholders' funds						
Government loans and grants	-	-	-	902,733	902,733	902,733
2012						
Assets						
Investments in quoted companies	-	-	2,161,464	-	2,161,464	2,161,464
Investments in other companies	-	-	6,671,787	-	6,671,787	6,671,787
Investments in Government securities	98,731	-	-	-	98,731	98,731
Loans	-	1,320,497	-	-	1,320,497	1,320,497
Other Companies Current accounts	-	-	-	18,283	18,283	18,283
Sundry debtors	-	-	-	265,513	265,513	265,513
Short term deposits	-	-	-	588,647	588,647	588,647
Cash and cash equivalents	-	-	-	8,127	8,127	8,127
Total assets	98,731	1,320,497	8,833,251	880,570	11,133,049	11,133,049
Liabilities and shareholders' funds						
Government loans and grants	-	-	-	914,285	914,285	914,285



Notes (continued)

5 Financial assets and liabilities and other fair values (continued)

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:

- *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.
- *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.
- *Level 3*
 Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level include 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 instruments reflected at fair value by level of the fair value hierarchy.

	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
30 June 2013					
Financial assets:					
Unquoted equity instruments		-	-	9,438,707	9,438,707
Quoted equity instruments		3,629,183	-	-	3,629,183
<hr/>					
30 June 2012					
Financial assets:					
Unquoted equity instruments		-	-	6,671,788	6,671,788
Quoted equity instruments		2,161,464	-	-	2,161,464
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The movements in the assets in level 3 (unquoted equity investments) are summarised in note 15.

Notes (continued)

6 Income

	2013	2012
	Kshs'000	Kshs'000
Dividends	238,498	173,381
Interest on loans and advances	1,898,368	1,619,831
Application fees	6,795	12,473
Valuation fees and other services	13,092	7,589
Rental income	113,467	86,704
Interest on deposits	100,233	172,490
Write back on provision for sundry debtors	-	2,306
Write back on provisions for loans and advances	67,584	57,557
Gain on disposal of assets	-	416
Gain on disposal of unquoted investments	6,436	-
Gain on disposal of quoted investments	-	47,272
Unrealised gains on investment property	115,165	31,571
Sundry income	9,193	2,744
	<hr/>	<hr/>
	2,568,831	2,214,334
	<hr/>	<hr/>

7 Administration and establishment expenses

Staff costs	168,418	159,487
Directors' fees and other	19,137	16,306
Rent and rates	1,257	1,975
Audit fees	3,528	3,404
Depreciation (Note 13)	25,852	23,701
Amortisation – intangible assets (Note 14)	8,496	8,060
Repairs and maintenance	4,049	9,394
Insurance	3,089	3,436
Bank charges	522	639
Printing and stationery	2,820	2,365
Water and electricity	19,009	18,745
Publicity and advertising	7,094	12,729
Telephone and telex	2,399	2,382
Donations and other contributions	543	268
Travelling and subsistence	8,752	7,382
Motor vehicle running	1,112	1,476
Professional expenses	7,528	7,840
Computer expenses	5,975	6,429
Legal fees	3,340	3,553
Uchumi House security	8,360	8,360
VAT and other taxes	9,373	12,538
Subscriptions	2,244	2,231
Uchumi House administration	5,436	5,937
Other expenses	4,177	-
	<hr/>	<hr/>
	322,510	318,637
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Notes (continued)

7 Administration and establishment expenses (continued)

The number of employees at the end of the year was 60 (2012: 63).

Included in staff costs are contributions to a defined contribution retirement benefit plan. During the year, the Corporation expensed Kshs. 6,367,000 (2012: KShs 6,222,615) in contributions payable.

8 Impairment losses

	2013 Kshs'000	2012 Kshs'000
Arising from:		
- loans (Note 18)	1,746,756	1,549,825
- sundry debtors	11,923	2,757
	<u>1,758,679</u>	<u>1,552,582</u>

9 Finance cost

Interest on Government of Kenya loans (Note 18)	<u>8,448</u>	<u>8,448</u>
---	--------------	--------------

10 Income tax expense

Current income tax	-	-
Deferred income tax charge	<u>-</u>	<u>-</u>
	-	-

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:

	2013 Kshs'000	2012 Kshs'000
Profit before Income tax	<u>479,194</u>	<u>334,667</u>
Computed tax using the applicable tax rate at 30%	143,758	100,400
Non-deductible costs and non-taxable income	104,117	176,134
Movement in deferred income tax not recognised	(247,875)	(276,534)
	<u>-</u>	<u>-</u>
Income tax expense	-	-

Notes (continued)

11 Deferred tax asset

A deferred tax asset estimated at KShs 1,562,164,000 (2012: Kshs 1,810,039,000) has not been recognised in these financial statements as the directors are of the opinion that the benefit will not crystallise in the foreseeable future.

The cumulative tax losses expire in 2014 under the current tax legislation. As at 30th June 2013 the Corporation had cumulative tax losses of Ksh. 514,162,243 (2012: Ksh. 646,392,941).

The movement in the deferred tax asset is as follows:

At 30 June 2013	At start of the year Kshs'000	Movement in the year Kshs'000	At the end of the year Kshs'000
Property and equipment	24,640	(3,636)	21,004
Provisions	(1,640,761)	211,842	(1,428,919)
Tax losses	(193,918)	39,669	(154,249)
	<hr/>	<hr/>	<hr/>
Deferred tax asset (not recognised)	(1,810,039)	247,875	(1,562,164)

At 30 June 2012

Property and equipment	391	24,249	24,640
Provisions	(1,843,523)	202,762	(1,640,761)
Tax losses	(243,441)	49,523	(193,918)
	<hr/>	<hr/>	<hr/>
Deferred tax asset (not recognised)	(2,086,573)	276,534	(1,810,039)

12 Investment property

	2013 Kshs'000	Restated 2012 Kshs'000	Restated 2011 Kshs
At start of year	429,000	360,500	8,499
Additions	18,975	36,929	-
Fair value gains	115,165	31,571	352,001
	<hr/>	<hr/>	<hr/>
At end of year	563,140	429,000	360,500

The fair value model has been applied for the investment property. The Corporation commissioned a professional valuer to determine the fair value of the investment property as at 30 June 2013. The fair value was supported by market evidence. Prepaid operating leases which were previously presented separately are now classified as investment property, inclusive of the buildings.

Notes (continued)

13 Property and equipment

At 30 June 2013	Land and buildings	Motor vehicles Kshs'000	Furniture & equipment Kshs'000	Total Kshs'000
Cost/valuation				
At start of year	1,129,779	19,802	69,672	1,219,253
Additions	8,281	-	1,680	9,961
At year end	<u>1,138,060</u>	<u>19,802</u>	<u>71,352</u>	<u>1,229,214</u>
Comprising:				
Cost	124,129	19,802	31,014	174,945
Valuation	1,013,931	-	40,338	1,054,269
	<u>1,138,060</u>	<u>19,802</u>	<u>71,352</u>	<u>1,229,214</u>
Depreciation;				
At start of year	54,779	15,200	20,537	90,516
Charge for the year	14,287	1,530	10,035	25,852
At year end	<u>69,066</u>	<u>16,730</u>	<u>30,572</u>	<u>116,368</u>
Net book value at year end	<u>1,068,994</u>	<u>3,072</u>	<u>40,780</u>	<u>1,112,846</u>
At 30 June 2012 (Restated)				
Cost/valuation				
At start of year	724,814	22,509	57,659	804,982
Additions	2,058	-	12,753	14,811
Revaluation	402,906	-	-	402,906
Disposals	-	(2,706)	(740)	(3,446)
At year end	<u>1,129,778</u>	<u>19,803</u>	<u>69,672</u>	<u>1,219,253</u>
Comprising:				
Cost	115,847	19,803	29,334	164,984
Valuation	1,013,931	-	40,338	1,054,269
	<u>1,129,778</u>	<u>19,803</u>	<u>69,672</u>	<u>1,219,253</u>
Depreciation;				
At start of year	43,024	14,784	12,452	70,260
Charge for the year	11,754	3,123	8,824	23,701
Disposals	-	(2,706)	(740)	(3,446)
At year end	<u>54,778</u>	<u>15,201</u>	<u>20,536</u>	<u>90,515</u>
Net book value at year end	<u>1,075,000</u>	<u>4,602</u>	<u>49,134</u>	<u>1,128,738</u>

Notes (continued)

13 Property and equipment (continued)

The Corporation valuer carried out a revaluation of furniture, fittings and equipment as at 30 June 2009 based on open market values. The resulting deficit was written off against income. Land and buildings were revalued as at 30 June 2012 based on open market values and the resulting surplus credited to other comprehensive income.

14 Intangible assets

	2013	2012
	Kshs'000	Kshs'000
Cost		
At start of year	34,687	28,509
Additions	392	6,178
	<hr/>	<hr/>
At end of year	35,079	34,687
	<hr/>	<hr/>
Amortisation		
At start of year	24,639	16,579
Charge for the year	8,496	8,060
	<hr/>	<hr/>
At end of year	33,135	24,639
	<hr/>	<hr/>
	1,944	10,048
	<hr/>	<hr/>

15 Unquoted investments

	2013	2012
	Kshs'000	Kshs'000
Opening valuation	6,671,788	6,116,659
Additions	282,325	93,247
Fair value gain	2,484,594	461,882
	<hr/>	<hr/>
	9,438,707	6,671,788
	<hr/>	<hr/>

The carrying amount of investment in unquoted entities above is net of KShs 136,693,852 (2012 Ksh.138, 422,264) relating to investments that have been fully provided for.

During the year, the corporation liquidated investment amounting to Kshs. 1,728,412 in Wananchi Sawmills Ltd. (in Receivership) which had been fully provided for in previous year.

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, and against which no provision for losses is made in accordance with the Corporation's accounting policy.

	2013	2012
	Kshs'000	Kshs'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
	<u>53,470</u>	<u>53,470</u>

16 Quoted investments

Opening valuation	2,161,464	3,431,170
Disposals	-	(74,663)
Fair value gain/(losses)	<u>1,467,719</u>	<u>(1,195,043)</u>
Closing valuation	<u>3,629,183</u>	<u>2,161,464</u>

17 Government securities

Treasury bonds – Held to Maturity

At start of year	98,731	98,006
Amortisation of discount during the year	242	725
At end of year	<u>98,973</u>	<u>98,731</u>

The Treasury bonds will mature on 14 March 2016. The effective interest rate on treasury bonds at 30 June 2013 was 11.87% (2012: 11.87%).

Notes (continued)

18 Loans

	2013 Kshs'000	2012 Kshs'000
(a) Outstanding loans		
Large and medium loans		
Loans to significant companies	206,518	364,286
Less: Impairment losses	(5,400)	(5,400)
	<hr/>	<hr/>
Net large and medium loans	201,118	358,886
	<hr/>	<hr/>
Small loans		
Commercial	5,325,193	5,306,557
Property	1,188,400	1,097,432
Industrial	3,078,232	2,704,359
Machinery	366,525	319,500
ICDC/General Motors Kenya Limited/ ICDC/Kenya Breweries Limited	15,678	10,678
Personal loans	148,309	107,928
ICDC – Kenya Bus Services Limited	29,863	24,849
Hire purchase	117,806	68,358
Corporate	6,823,889	6,593,421
Unclassified loans	(583)	(583)
	<hr/>	<hr/>
Total small loans	17,093,312	16,232,499
Less: Impairment losses	(16,289,059)	(15,270,888)
	<hr/>	<hr/>
Net small loans	804,253	961,611
	<hr/>	<hr/>
Total net loans	1,005,371	1,320,497
	<hr/>	<hr/>

The weighted average effective interest rate on loans and advances at 30 June 2013 was 13.24% (2012 - 13.88%).

Notes (continued)

18 Loans (continued)

	2013 Kshs'000	2012 Kshs'000
(b) Impairment losses on loans		
At start of the year	15,276,287	14,358,311
Increase in impairment	1,746,756	1,549,825
Impairment losses no longer required	(67,584)	(48,457)
Loans written off	(661,000)	(583,392)
	<hr/>	<hr/>
Net large and medium loans	16,294,459	15,276,287
	<hr/>	<hr/>
Comprising of:		
Large and medium loans	5,400	5,400
Small loans	16,289,059	15,270,888
	<hr/>	<hr/>
Total loans impairment	16,294,459	15,276,288
	<hr/>	<hr/>

19 Advances

Cost		
Loans to significant companies	14,289	14,289
Other companies	43,777	43,777
	<hr/>	<hr/>
	58,066	58,066
Less: Impairment losses	(58,066)	(58,066)
	<hr/>	<hr/>
At end of the year	-	-
	<hr/>	<hr/>

20 Related companies' current accounts

Current accounts	34,677	42,722
Less: Impairment losses	(24,439)	(24,439)
	<hr/>	<hr/>
	10,238	18,283
	<hr/>	<hr/>

Notes (continued)

21 Sundry debtors	2013	2012
	Kshs'000	Kshs'000
Dividends receivable	233,400	110,352
Receivable from Uchumi House tenants	95,203	54,411
Recoverable expenses from associate companies	19,290	16,820
Prepayment of staff loans	46,520	34,775
Other debtors	40,239	91,122
Restricted funds	12,670	12,670
	<u>447,322</u>	<u>320,150</u>
Less: Impairment losses	(66,226)	(54,637)
	<u>381,096</u>	<u>265,513</u>

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

The movement in the provision for impairment of sundry debtors is as follows:

	2013	2012
	Shs'000	Shs'000
At start of year	(54,637)	(117,915)
Movement during the year	(11,589)	63,278
	<u>(66,226)</u>	<u>(54,637)</u>

22 Cash and cash equivalents

Bank and cash balances	48,228	8,127
Short term deposits- Maturing within 90 days	844,305	588,647
	<u>892,533</u>	<u>596,774</u>

The weighted average effective interest rate on short term deposits was 11.13% (2012-18.92%)

Notes (continued)

22 Cash and cash equivalents (continued)

For the purpose of the statement of cash flows cash and cash equivalents comprise;

	2013 Kshs'000	2012 Kshs'000
Fixed and call deposits (maturing within 90 days)	844,305	588,647
Bank balances	48,228	8,127
	<hr/>	<hr/>
	892,533	596,774
	<hr/>	<hr/>

The Corporation has overdraft facilities of KShs 40,000,000 and KShs 30,000,000 with Kenya Commercial Bank Limited (KCB) and Commercial Bank of Africa Limited (CBA) respectively. The overdraft with KCB is secured by legal charge over L.R. No.209/7405 Nairobi while the overdraft with CBA is secured with 55,570,830 shares in Centum Investment Company Limited and 1,556,456 shares in Uchumi Supermarket Limited.

23 Reserves

Revaluation reserve

The revaluation reserve relates to the revaluation of property and equipment.

Fair value reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment, excluding impairment losses, until the investment is derecognised.

Retained earnings

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

Notes (continued)

24 Grants and loans

	2013 Kshs'000	2012 Kshs'000
From Government of Kenya		
Grants:		
Government grants	529,971	529,971
Loans:		
At start of year	357,254	369,327
Accrued additional interest	7,927	7,927
Repayment during the year	(20,000)	(20,000)
At end of year	345,181	357,254
Loans From KFW of West Germany		
At start of year	27,060	26,539
Accrued additional interest	521	521
At end of year	27,581	27,060
Total grants and loans	902,733	914,285

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

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.

25 Creditors

	2013 Kshs'000	2012 Kshs'000
General creditors	62,797	52,033
Rent deposit	21,444	18,968
	84,241	71,001

Notes (continued)

26 Dividends payable to the Government of Kenya

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

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

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

27 Cash generated from operations

	Notes	2013 Kshs'000	2012 Kshs'000
Reconciliation of profit before income tax to cash generated from operations			
Profit before income tax		479,194	334,667
Adjustments for:			
Depreciation	13	25,852	23,701
Amortisation - intangible assets	14	8,496	8,060
Interest paid on GOK loan	24	8,448	8,448
Gain on disposal of property and equipment		-	(416)
Gain on disposal of unquoted investment		(6,436)	-
Gain on disposal of quoted investment		-	(47,273)
Amortisation of discount on treasury bonds	17	(242)	(725)
Fair value gains on investment property	12	(115,165)	(31,571)
Changes in working capital			
- loans and advances		315,126	(579,450)
- payables and accrued expenses		13,240	9,126
- trade and other debtors		(115,583)	(83,957)
- subsidiary companies current accounts		8,045	(722)
Cash generated from/(used in) operations		620,975	(360,112)

Notes (continued)

28 Prior year adjustment

The prior period adjustment to the financial statements of Industrial and Commercial Development Corporation (ICDC) relates to reclassification of vacant plots previously wrongly classified as prepaid operating leases to investment properties. The plots meet the criteria for classification as investment property since ICDC intends to develop them and sell the properties.

Management carried out revaluation of the vacant plots as at 30 June 2013, 2012 and 2011. The resulting fair value gains and reversal of accumulated amortisation of prepaid leases earlier passed in the financial statements have been taken up as prior year adjustments.

In addition the Corporation has opted to treat its developed leasehold land (Uchumi House) as property and equipment, as allowed by the amendment to IAS 17, and revalued it consistent with the revaluation option adopted for buildings.

The effect of the restatements to correct prior years' financial statements is summarised below:

Statement of financial position	Investment property	Revaluation reserve	Prepaid operating leases	Total equity
	KShs'000	KShs'000	KShs'000	KShs'000
At 30 June 2011				
As previously reported	-	651,363	8,046	11,304,299
Write back of accumulated amortisation on prepaid operating leases	-	-	453	453
Transfer to investment property	8,499	-	(8,499)	-
Fair value gains on Investment Property	352,001	-	-	352,001
As restated	360,500	651,363	-	11,656,753
At 30 June 2012				
As previously reported		729,269	44,864	10,881,413
Impact of 2011 adjustment	360,500		(8,046)	352,454
Reversal of amortisation expense	-		112	112
Transfer of additions to investment property	36,929		(36,929)	-
Revaluation gain on Uchumi property	-	325,000		325,000
Fair value gains on Investment Property	31,571		-	31,571
As restated	429,000	1,054,269	-	11,590,550

Notes (continued)

28 Prior year adjustment (continued)

	30 June	
	2012	2011
	Shs'000	Shs'000
Statement of comprehensive income		
Increase in other incomes as a result of:		
Amortisation expense reversed	112	453
Fair value gains on Investment Property	31,571	322,001
	<hr/>	<hr/>
Increase in the profit for the year	31,683	322,454
	<hr/>	<hr/>
Other comprehensive income		
Revaluation gain on Uchumi property	325,000	-
	<hr/>	<hr/>
Increase in total comprehensive income for the year	356,683	322,453
	<hr/>	<hr/>

29 Related party transactions

Grants and loans

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to finance the operation of the Corporation. The relevant balances are shown in Note 24.

Investment in other related companies

The Corporation invests in other companies with a view to earn dividends and for capital appreciation. The relevant investment balances are shown in Note 15 and 16

	2013	2012
	Kshs'000	Kshs'000
i) Dividends earned during the year are as follows		
Dividends (Note 6)	238,498	173,381
	<hr/>	<hr/>
	238,498	173,381
	<hr/>	<hr/>

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

Notes (continued)

29 Related party transactions (continued)

(ii) Key management compensation

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

	2013 Kshs'000	2012 Kshs'000
Salaries	6,000	6,000
Executive Director's gratuity	<u>1,488</u>	<u>1,488</u>
	7,488	7,488
	<u>7,488</u>	<u>7,488</u>
(iii) Directors' remuneration		
Fees for services as a non-executive director	19,137	16,306
Other included in key management compensation above	<u>7,488</u>	<u>7,488</u>
	<u>26,625</u>	<u>23,794</u>
(iv) Loans and advances to staff		
Loans to staff	133,452	116,240
	<u>133,452</u>	<u>116,240</u>

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

(v) Advances to other related companies

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

30 Commitments

These include the following:

	2013 KShs'000	2012 KShs'000
Small loans	346,667	134,000
Equity Investment	-	70,000
Capital commitments – approved	261,035	6,731
	<u>607,702</u>	<u>210,731</u>
	<u>607,702</u>	<u>210,731</u>

Notes (continued)

31 Contingency

As at 30 June 2013, the Corporation had issued guarantees amounting to KShs 25,000,000 (2012 – KShs 36,000,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to KShs 71,579,012 (2012: KShs 71,579,012) including the interest thereon and costs of the suits. In addition as per Note 21, the Corporation has deposited KShs 12,670,000 in a joint interest earning account with the advocates of parties in a suit with the Corporation and obtained a bank guarantee of the same amount in respect of the matter. No provision has been made in these financial statements as the directors are of the opinion that no liability in respect of the above matters will crystallise.

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.

32 Future rental commitments under operating leases

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

	2013 Kshs'000	2012 Kshs'000
Due within 1 year	40,251	75,393
After 1 year but less than 5 years	138,252	220,201
After 5 years	3,547	33,947
	<u>182,050</u>	<u>329,541</u>

