REPUBLIC OF KENYA

PAPER LAID
By the Leader of the Majority Party, Hon. Aden Duale on Tuesday 21.2.17

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

FOR THE YEAR ENDED 30 JUNE 2016

ICDC

ANNUAL REPORT & FINANCIAL STATEMENTS 2015/2016

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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 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
CORPORATION SECRETARY Grace M. Magunga PO Box 45519- 00100 Nairobi	
CORPORATE CONTACTS Telephone: (254) 020-2229213 (254) 020-2771000 Mobile: 0727534572/0736229213 Email: info@icdc.co.ke Website: www.icdc.co.ke	
AUDITOR The Auditor-General PO Box 30084- 00100 Nairobi	

BOARD OF DIRECTORS' PROFILES

FRANCIS KIMEMIA EGH, CBS, HSC - CHAIRMAN

Mr. Francis Kimemia EGH, CBS, HSC was appointed Chairman of the ICDC Board of Directors on 18th March 2016.

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.

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.

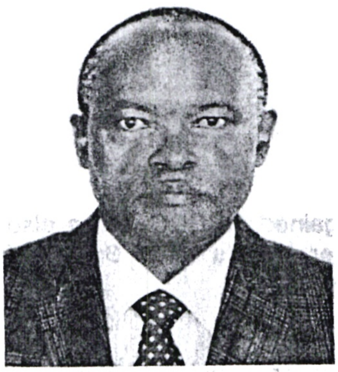
JULIUS OLE SUNKULI, EGH, EBS - DIRECTOR

Hon. Julius L. Ole Sunkuli, was appointed to the Board on 17th April 2015.

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.

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.

STEPHEN KARANI - ALTERNATE DIRECTOR TO PS INDUSTRY, TRADE & COOPERATIVES

Mr. Stephen Karani was appointed to the Board in November 2015. He represents the Principal Secretary, Ministry of Industry, Trade & Cooperatives. He has vast experience in financial management and Corporate Governance, having served as an Alternate Director to CS National Treasury on the Board of Trustee for Kenya Wildlife Service from 2006 to June 2015 and Bomas of Kenya Board from the year 2005 to June 2015.

Currently, he is the Chief Finance Officer in the Ministry of Industry, Trade & Cooperatives. He holds a Master's Degree in Business Administration from Eastern & Southern African Management Institute (ESAMI), Bachelor of Arts from Nairobi University and Diploma in Financial Management from KCA University.

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.

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.

Hon. Wilfred Moriasi Ombui - DIRECTOR

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 and Almasi Beverages Limited.

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).

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

FRANCIS KIMEMIA EGH, CBS, HSC - CHAIRMAN

I am pleased to submit the ICDC's Annual Report for 2015/16. In spite of the challenging business environment the Corporation reports very satisfactory operations with new investments in different sectors of the economy. The focused approach was maintained with the bulk of funding going into Agro-processing value addition, Manufacturing and Energy sectors. Through integrated marketing communications the Corporation enhanced its products and brand awareness in the financial services market and intensified its presence in the county governments that has contributed to business growth.

The period under review saw a continued focus on creating investments in the execution of our strategic plan 2015 -2018 aimed at revitalizing ICDC and positioning it as a key player in the country's development. In the last one year the Corporation created 1,850 job opportunities both directly and indirectly in keeping with its mandate to create jobs for Kenyans.

Overview of the Operating Environment

In the FY 2015/2016, the world real Gross Domestic Product (GDP) growth decelerated to 3.1 per cent in 2015 from 3.4 per cent in 2014. Global inflation rate eased from 3.5 per cent in 2014 to 3.3 per cent in 2015 as a result of decline in international oil and other commodity prices. The advanced economies experienced a modest economic recovery, mainly driven by stronger domestic demand as labour markets and credit conditions improved. Emerging markets and developing economies experienced low commodity prices, weaker capital flows, subdued global trade and increasing financial market volatility. The economic growth in Sub-Saharan Africa slowed down from 5.1 per cent in 2014 to 3.8 per cent in 2015. Similarly there was a slowed growth of 3.4 per cent for the East Africa Community mainly associated with political instability in Burundi and uncertainties associated with general elections in Tanzania and Uganda.

Kenya's Gross Domestic Product (GDP) grew by 5.6 per cent in 2015 compared to 5.3 per cent growth in 2014. This expansion was as a result of significant growth in some key sectors among them agriculture; construction; real estate; and finance and insurance. However, growth in mining and quarrying; information and communication; and wholesale and retail trade decelerated during the period. Key macroeconomic indicators remained relatively stable during the review period. Overall, inflation eased from 6.9 per cent in 2014 to 6.6 per cent in 2015 due to lower energy and transport prices. The Kenyan Shilling depreciated against its major trading currencies during the review period but appreciated against the Euro, South Africa Rand and the Japanese Yen.

ICDC's sectors of focus recorded mixed growth in the period under review. The agricultural sector in 2015 improved against a backdrop of good weather and abundant rainfall, hence Gross Value Add improved from 3.5 per cent in 2014 to 6.2 per cent in 2015. The energy sector witnessed a steady rise in global crude oil and other liquid inventories while installed electricity capacity increased by 6.3 per cent and total electricity generation expanded by 4.1 per cent.

The manufacturing sector's real output grew by 3.5 per cent in 2015 compared to a slower growth of 3.2 per cent in 2014. This was attributed to reduced production costs arising from lower cost of petroleum and electricity inputs.

Most of the macro and micro economic elements that drove the performance of the economy in the year under review also impacted the operations of ICDC both directly and indirectly. The improvement in the manufacturing sector in which ICDC has substantial investments translated into positive performance by most of the Corporation's clients. The interest rate volatility that saw the Central Bank of Kenya (CBK) increase the Central Bank Rate (CBR) from 8.35 per cent to 11.5 per cent by July of 2015 impacted the Corporation's clients by increasing their financing costs. Overall, the Corporation was able to appraise and approve several projects in the manufacturing and agro-processing sectors whose implementation is ongoing with commencement of production expected soon.

Financial Performance

During the period under review, the Corporation realized a profit of Ksh.580 million compared to a total profit of Ksh.1.5 billion realized the previous year which comprised of an operating profit of Ksh.663 million and a gain on disposal of investments amounting to Ksh.857 million. Total profit was lower during the year compared to last year as no investments were disposed-off while operating profit declined mainly due to lower dividend earnings from ICDC's private equity investments.

The Corporation approved Ksh.858.7 million to go into new investments out of which Kshs.514.7 million was invested during the year with the balance to be invested as and when required as is the nature of project financing. The invested amount represented a 56% increase from Kshs.315 million invested during the prior period. These new investments alongside the existing ones, are expected to yield higher returns towards further consolidating the Corporation's strong financial position in the coming years.

Review of Core Business Activities

The Corporation leveraged at growing its business within its primary sectors of focus which comprise the Manufacturing, Agro-processing, Infrastructure development (ICT Infrastructure & other constructions), Energy and ICT Software development sectors. Some of the investments funded during the year under review include the following:-

- a tea processing factory in Elgeyo Marakwet County
- a factory in Kiambu that is manufacturing the TreeTop juice brand,
- a mixed development on a 100 acres piece of land in Nairobi that incorporates the largest mall in East and Central Africa, in partnership with Centum and AVIC Corporation of China,
- a briquette manufacturing plant in Thika, which innovatively uses pineapple plant waste thereby contributing to the green and renewable energy sector,
- a real estate project called Oceania Apartments consisting of 36 spacious all bedrooms en-suite apartments in Mombasa County
- Eldoret Agro-City, an SME Industrial Park in Eldoret, Uasin Gishu county that will provide a shared infrastructure in a centralized location and targets to host investors in manufacturing, agribusiness and transfer of technology to generate synergy, create business opportunities and improve the quality of life for the people within the region.

It takes continuous effort to maintain high customer satisfaction levels. As competition intensifies organizations are scrambling to boost customer satisfaction and keep their current customers. During the year under review the corporation undertook a customer satisfaction survey which has provided us with the knowledge and understanding on how to improve our services and attract new customers. The customer satisfaction index level is at 75%. It is within our plan to continuously improve our interaction with the customer.

As a socially responsible public institution we believe that assimilation of social and environmental issues in our business will help the Corporation achieve its business objectives as well as benefit the communities in which it does business. Our Corporate Social Responsibility (CSR) activities in the year included sponsorship and participation in a tree planting exercise during the World Environmental Day in Partnership with UNEP and Kenya Organization of Environmental Education (KOEE) and support to the Special Olympics Kenya team towards enabling them participate in the world summer games in Los Angeles, USA. We remain committed to this important aspect of our business.

People

The Corporation views employees as a valuable asset and key to its success. We therefore continually strive to ensure the employees are equipped, developed and highly motivated to carry out their various roles with excellence. During the year under review the Corporation injected new talent in various departments to enhance service delivery.

The Corporation also implemented various competency based learning and development programmes with a focus on leadership development, sales and marketing, feasibility study analysis and project financial modelling, all geared towards building specific competencies that will ultimately give the corporation a competitive advantage in its chosen market.

HIV/AIDS Awareness

During the year under review, the Corporation organized a family medical camp to create awareness on HIV/AIDS. VCT services were also provided to the employees and their family members. The event was attended by staff and their family members.

Gender Mainstreaming

As an agenda for development effectiveness and women empowerment, the Corporation has continued to participate in various gender mainstreaming activities and has endeavoured to ensure gender equality in recruitment, promotion and learning and development.

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.

Board of Directors

The Directors who held office during the year under review to the date of this report are listed under the board of directors section in this report. The Board comprises 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 and The National Treasury. 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.

The Board as the custodian of the Corporations' resources recognizes its responsibility for providing leadership, strategic business direction, and control and is accountable to the Stakeholders for the Corporation's 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 revised and aligned to Mwongozo code of conduct.

Committees of the Board

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

The Board Risk and Audit Committee consists of five (5) non-executive directors and reviews the Corporation's internal and independent audit reports, reviews and approves the annual financial statements, considers significant financial reporting issues and makes recommendations to the Board for consideration and approval. The Committee ensures that the Corporation has adequate systems and processes of accountability and risk management. It also monitors the integrity and effectiveness of the Corporation's system of internal control and is responsible for monitoring the independence of the External Auditors.

The Human Resources and General Purpose Committee consists of five (5) directors including the Executive Director. It addresses issues pertaining to staff performance and 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, development, knowledge management and motivation. It ensures that the correct incentives and reward mechanisms are in place 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.

The Finance and Investment Committee currently has Four (4) members which includes the Executive Director. The objective of the Committee is to oversee the prudent investment of ICDC'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.

Board Changes

Financial year 2015/16 has been one of significant renewal for the Board. On 18th March 2016, Chairman Francis Kimemia, EGH, CBS, HSC, was appointed to the Board after the retirement of Mr. Martin K. Muragu, MBS. Martin served as the Chairman for a period of six and half years.

In July 2015 Kennedy M. Wanderi was appointed the Acting Executive Director after Peter M. Kimurwa informed the Board of his intention to leave the Corporation. Daniel Mutua was replaced by Cheryl Majiwa as the alternate director to the Cabinet Secretary, The National Treasury, and Samson O. Olala, OGW - alternate to Permanent Secretary, Ministry of Industry, Trade and Cooperatives was replaced by Stephen Karani.

Other directors who retired during the year under review include Bernard Njuguna, who retired in October 2015, Waqo Dulacha Ejersa and Sophia Lepuchirit who both retired from the Board in May 2016.

Appointments in the year

Francis Kimemia, EGH, CBS, HSC Chairman (appointed in March 2016)
Kennedy M. Wanderi - Acting Executive Director (appointed in July 2015)
Isaiah Cheruiyot - Director (appointed 2nd Oct 2015)
David Ndegwa Wachira – Director (appointed in April 2015)
Ambassador Julius L. Ole Sunkuli – Director (appointed in April 2015)
Stephen Karani - Alternate to PS, Ministry of Industry, Trade and Cooperatives
Cheryl Majiwa - Alternate to CS, The National Treasury

Caroline Okiro – Director (appointed in May 2016)
Francisca Omasaja – Director (appointed in May 2016)
Hon. Wilfred Ombui – Director (appointed in May 2016)
Dr. Adam Sheikh Mohamed – Director (appointed in May 2016)

Future Outlook

Generally, all the sectors of the economy are expected to continue in their current growth trajectory. The manufacturing sector is likely to be supported by lower fuel prices and improved supply of electricity as well as sustained delivery of inputs from the agricultural sector. The financial intermediation sector is likely to remain robust despite the recent takeover of three commercial banks by the Central Bank of Kenya due to financial impropriety. The expected growth momentum of most economic activities is likely to boost credit uptake and therefore favor the financial and insurance sector's activities. The construction industry is also expected to maintain an increased role in the creation of value addition due to the ongoing public infrastructure development.

The Corporation is putting in place mechanisms to ensure that it takes full advantage of the anticipated growth in the FY 2016/2017. In this regard, we are undertaking a market research study to establish the financing needs and gaps in our chosen sectors of focus with a view to developing robust products that will compliment funding obtained from the commercial banks, equity funds and venture capitalists by customers.

In order to execute its mandate fully, the Corporation will also engage the market through specific public relations events and activities to inform the public about its role and its ability to support and nurture businesses from inception. Close collaboration between the Corporation and the Government through the Ministry of Industry, Trade and Cooperatives will see the Corporation progress the development of its flagship project of the Eldoret SME Park to a reasonable level of completion. The development will be coupled with aggressive marketing to attract investors to set up within the park.

The Corporation is looking to forward to continue tapping innovative ideas through partnerships with investors in order to support wealth creation, job creation, industrial growth and development in Kenya. This will in turn impact standards of living through raising household incomes. ICDC looks to increase regional presence in industrial development across the counties. The Corporation will continually primarily focus on the sectors of manufacturing, agro-processing, infrastructure development (ICT infrastructure & other constructions), energy and ICT software development in line with the government Vision 2030 Medium Term Plan II.

Acknowledgement

The last twelve months have been a special period for the Corporation. The success of the Corporation would not have been possible without the continued support of our customers, the parent Ministries of Industrialization, Trade and Cooperatives and The National Treasury, investee companies and other stakeholders.

I take this opportunity to express my appreciation to all those who have made this possible – the Board Members, Management and Staff of ICDC. Thank you for your combined efforts and commitment that have enabled us to succeed in the year. I urge you to work harder in the days ahead so as to tackle the unpredictable and challenging times we live in.

Francis Kimemia, EGH, CBS
Chairman

REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2016 which show the state of the Industrial and Commercial Development Corporation's affairs.

Principal activities

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.

Results

	For year ended 30 June	
	2016	**2015**
	Kshs'000	**Kshs'000**
Profit before taxation	580,303	1,519,306
Taxation	-	-
Profit for the year transferred to retained earnings	580,303	1,519,306

Dividends

The Directors do not recommend the payment of a dividend (2015: Shs 35,000,000).

Directors

The members of the Board of Directors who served during the year are shown on page 2 - 6.

Auditor

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Section 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 nominated by the Auditor General to carry out the audit of the Industrial and Commercial Development Corporation for the year ended 30 June 2016.

By Order of the Board

Grace M. Magunga
Corporate Secretary
P. O Box 45519
00100 Nairobi

Date: 28TH NOVEMBER 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Industrial and Commercial Development Corporation Act and the Public Audit Act 2003, 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 2016. 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 PFM 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 2016, 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 28TH NOVEMBER 2016 and signed on its behalf by:

Chairman

Director

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Industrial and Commercial Development Corporation set out on pages 19 to 64 which comprise the statement of financial position as at 30 June 2016, and the statement of profit and 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

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 the statement that are free material misstatements, 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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of 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

As was reported in the previous year, included in the financial statements are grants and loans from Government of Kenya amounting to Kshs.866,078,000 (2015: Kshs.894,630,000) and related expenses of Kshs.8,448,000 (2015: 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 under 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.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in the all material respects, the financial position of the Industrial and Commercial Development Corporation as at 30 June 2016, 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 Corporation Act, Cap 445 of the Laws of Kenya.

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

Nairobi

21 December 2016

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

Report on the financial statements

We have audited the accompanying financial statements of Industrial and Commercial Development Corporation set out on pages 19 to 64. These financial statements comprise the statement of financial position at 30 June 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Industrial and Commercial Development Corporation Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for qualified opinion

Included in the financial statements are grants and loans from the Government of Kenya amounting to Shs 866,078,000 (2015: Shs 894, 630,000) and related interest expense of Shs 8,448,000 (2015: Shs 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. There are no agreements to support these balances and we are therefore unable to verify the terms of the loans and grants including interest rates, or to confirm the accuracy of the balances and split between loans and grants.

Furthermore, the grants are included in liabilities. We are unable to determine whether the conditions for the grants have been met and therefore whether they should have been taken to income in previous years in accordance with IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance*. We are therefore unable to confirm that they are correctly classified as liabilities.

Statement of profit or loss and other comprehensive income

		Year ended 30 June	
		2016	**2015**
	Notes	**Shs'000**	**Shs'000**
Revenues			
Operating income	5	743,253	985,368
Other income	6	260,077	69,720
Total revenues		1,003,330	1,055,088
Operating expenses			
Administration costs	7(a)	380,356	312,547
Depreciation of property and equipment	12	32,647	29,894
Amortisation of intangible assets	11	1,576	810
Provision for losses	20	-	40,711
Total operating expenses		414,579	383,962
Operating profit	8	588,751	671,126
Finance cost	9	(8,448)	(8,448)
Profit from operations		580,303	662,678
Gain on disposal of unquoted investments		-	856,628
Profit before taxation		580,303	1,519,306
Income tax expense	10	-	-
Profit after taxation		580,303	1,519,306
Other comprehensive income for the year			
Items that may be subsequently reclassified to profit or loss:			
Reversal of fair value on disposed investments		-	(856,628)
Fair value (loss) / gain in quoted investments	17	(3,407,485)	3,719,010
Fair value loss in unquoted investments	16	(105,316)	(616,089)
Total other comprehensive (loss) / income		(3,512,801)	2,246,293
Total comprehensive (loss) / income		(2,932,498)	3,765,599

The notes on pages 24 to 64 are an integral part of these financial statements

Statement of financial position

Assets	Notes	At 30 June 2016 Shs'000	At 30 June 2015 Shs'000
Property and equipment	12	1,069,040	1,082,566
Intangible assets	11	7,622	3,178
Investment property	13	948,951	1,123,210
Inventory – Completed units for sale	14	699,873	-
Government securities (Held to maturity)	15	29,827	99,648
Quoted investments (Available for sale)	17	6,913,609	10,321,094
Unquoted investments (Available for sale)	16	9,166,962	9,246,801
Loans	19	1,507,535	985,381
Related companies current account		277	277
Trade and other receivables	18	300,495	490,937
Cash and cash equivalents	21	1,669,967	1,890,929
Total assets		22,314,158	25,244,021
Reserves			
Revaluation reserve	22	1,061,087	1,061,087
Fair value adjustment reserve	22	14,045,226	17,558,027
Retained earnings	22	6,047,534	5,467,231
Total reserves		21,153,847	24,086,345
Liabilities			
Bank overdraft	21	11,709	67,874
Grants and loans	23	866,078	894,630
Payables and accruals	25	112,684	105,172
Deferred revenue	26	79,840	-
Dividend payable	28	90,000	90,000
Total liabilities		1,160,311	1,157,676
Total reserves and liabilities		22,314,158	25,244,021

The notes on pages 24 to 64 are an integral part of these financial statements.
The financial statements on pages 19 to 64 were approved for issue by the board of directors on

28TH NOVEMBER 2016 and signed on its behalf by:

Chairman

Director

Statement of changes in equity

	Revaluation reserve Shs'000	Fair value adjustment Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2015				
At start of year	1,061,087	15,311,734	3,947,925	20,320,746
Comprehensive income				
Profit for the year	-	-	1,519,306	1,519,306
Proposed dividends	-	-	35,000	35,000
Dividends paid	-	-	(35,000)	(35,000)
Other comprehensive income:				
Fair value loss in unquoted investments	-	(616,089)	-	(616,089)
Fair value gain in quoted investments	-	3,719,010	-	3,719,010
Reserves released on disposal of unquoted investments		(856,628)	-	(856,628)
Total other comprehensive income	-	2,246,293	-	2,246,293
Total comprehensive income	-	2,246,293	1,519,306	3,765,599
At end of year	1,061,087	17,558,027	5,467,231	24,086,345

The notes on pages 24 to 64 are an integral part of these financial statements

Statement of changes in equity (continued)

	Revaluation reserve Shs'000	Fair value adjustment Shs'000	Retained earnings Shs'000	Total equity 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

The notes on pages 24 to 64 are an integral part of these financial statements

Statement of cash flows

	Notes	Year ended 30 June 2016 Shs'000	2015 Shs'000
Cash flows from activities			
Net cash generated from operations	29(a)	154,378	583,484
Cash flows from investing activities:			
Development of investment property	13	(314,912)	(191,922)
Purchase of property and equipment	12	(19,393)	(15,889)
Purchase of intangible assets	11	(6,020)	(1,554)
Purchase of unquoted investments	16	(30,525)	(180,004)
Proceeds on disposal of unquoted investments		17,000	860,000
Proceeds on maturity treasury bonds	15	69,821	(399)
Proceeds on disposal of property and equipment		1,853	-
Net cash (used) / generated in investment activities		(127,798)	1,053,716
Cash flows from financing activities			
Loan repayment (principal and interest) – Government of Kenya and KFW of Germany	23	(37,000)	-
Dividend payment	28	-	(35,000)
Net cash used in financing activities		(37,000)	(35,000)
Net (decrease) / increase in cash and cash equivalents		(164,798)	1,018,716
Movement in cash and cash equivalents			
At start of year	21	1,823,055	804,339
(Decrease) / increase		(164,798)	1,018,716
At end of year	21	1,658,257	1,823,055

The notes on pages 24 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 PFM 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

The following standards have been adopted by the Corporation for the first time for the financial year beginning 1 July 2015 :

- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amount

Notes (continued)

1. Summary of significant accounting policies (continued)

a. Statement of compliance and basis of preparation

Changes in accounting policy and disclosures (continued)

- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

Amendments to IAS 19,'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (eg a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015, and have not been applied in preparing these financial statements. None of these are not expected to have a significant effect on the financial statements of 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.

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)

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 Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from Contracts with Customers 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. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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 recognise 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'.

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

1. Summary of significant accounting policies (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 first-in, first-out (FIFO) method. The inventory consists of completed developed units held for sale that have been transferred from investment property. The valuation at the date of transfer is deemed as the cost of the inventory.

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.

Notes (continued)

1. Summary of significant accounting policies (continued)

f. Property and equipment (continued)

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, 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.

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.

Notes (continued)

1. Summary of significant accounting policies (continued)

h. Financial assets (continued)

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 and net asset valuation 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 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.

Notes (continued)

1. Summary of significant accounting policies (continued)

h. Financial assets (continued)

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 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.

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.

Notes (continued)

1. Summary of significant accounting policies (continued)

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.

i. Other entitlements

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

Notes (continued)

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.

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.

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.

Notes (continued)

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

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.

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, 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.

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

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.

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)

2016:	**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	8.99	1,669,966	-	-	1,669,966
Investment in Government securities	9.19	-	-	29,827	29,827
Loans	14.34	227,130	1,280,405	-	1,507,535
Total financial assets		1,897,096	1,345,058	29,827	3,271,981
Financial liabilities					
Bank overdraft		(11,709)	-	-	(11,709)
Grants and Government of Kenya loans	5.70	-	-	(866,078)	(866,078)
Total financial liabilities		(11,709)	-	(866,078)	(877,787)
Interest sensitivity gap		1,885,387	1,345,058	(836,251)	2,394,194
2015:					
Financial assets					
Short term deposits	11.51	1,890,929	-	-	1,890,929
Investment in Government securities	11.87	-	-	99,648	99,648
Loans	14.54	231,051	754,330	-	985,381
Total financial assets		2,121,980	754,330	99,648	2,975,958
Financial liabilities					
Bank overdraft		(67,874)	-	-	(67,874)
Grants and Government of Kenya loans	5.70	-	-	(894,630)	(894,630)
Total financial liabilities		(67,874)	-	(894,630)	(962,504)
Interest sensitivity gap		2,054,106	754,330	(794,982)	2,013,454

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 2015:

Statement of comprehensive income

	2016 Shs'000	2015 Shs'000
Loans and advances	1,238	1,580

(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 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 choice of defensive stocks with low price volatility, and weekly monitoring of the value changes.

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(ii) Price risk (continued)

Company security	No. of shares	Market price 2016 Shs	30 June 2016 Market value 2016 Shs'000	No. of shares	Market price 2015 Shs	30 June 2015 Market value 2015 Shs'000
Main Investment Market Segment						
Banking						
Barclays Bank of Kenya Limited	156,800	9.6	1,505	156,800	15.55	2,438
Standard Chartered Bank Limited	14,700	195	2,867	14,700	298	4,381
Commercial & Services						
Nation Media Group	19,272	150	2,890	19,272	199	3,835
Uchumi Supermarkets Limited	7,288,472	2.9	21,136	7,288,472	8.95	65,232
Kenya Airways Limited	53,500	4.35	233	53,500	7.35	393
Energy & Petroleum						
Total Kenya Limited	93,600	16.9	1,582	93,600	21.75	2,036
Kenya Power & Lighting Company Limited	109,800	9.85	1,082	109,800	18.35	2,015

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(iii) Price risk (continued)

Company security	No. of shares	Market price 2016 Shs	30 June 2016 Market value 2016 Shs'000	No. of shares	Market price 2015 Shs	30 June 2015 Market value 2015 Shs'000
Main Investment Market Segment						
Insurance						
Jubilee Holdings Limited	19,965	455	9,084	19,965	562.00	11,221
Investment						
Centum Investments Limited	152,847,897	44	6,725,307	152,847,897	65.5	10,011,537
Manufacturing & Allied						
British American Tobacco Limited	17,000	835	14,195	17,000	741	12,597
Eveready Batteries Kenya Limited	36,583,575	2.05	74,996	36,583,575	4.1	149,993
East African Breweries Limited	21,300	278	5,921	21,300	304	6,475
Telecommunication & Technology						
Safaricom Limited	2,975,200	17.75	52,810	2,975,200	16.45	48,942
Total			**6,913,609**			**10,321,095**

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

a. Market risks (continued)

(ii) Price risk (continued)

At 30 June 2016, 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. 345,680,465 (2015: Kshs 516,054,702) higher/lower.

At 30 June 2016, 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 457,644,750 (2015: Kshs 461,640,050) 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 2016 to the contractual maturity date.

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

c. Liquidity risk (continued)

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	37,000	53,000	-	90,000
Total liabilities	241,234	53,000	866,078	1,160,312

30 June 2015: (Shs' 000)	**0 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**
Liabilities				
Grants and loans	-	-	894,630	894,630
Creditors	105,172	-	-	105,172
Dividends payable	37,000	53,000	-	90,000
Total liabilities	142,172	53,000	894,630	1,089,802

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 2016 is made up as follows:

	2016 Shs'000	2015 Shs'000
Cash and cash equivalents	1,669,567	1,890,929
Trade and other receivables	249,842	504,937
Related companies current account	277	277
Loans	1,507,535	985,381
Investment in Government securities	29,827	99,648
	3,457,048	3,481,172

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:

	2016 Shs'000	2015 Shs'000
Sundry debtors individually determined to be impaired:		
Carrying amount before provision for impairment loss	108,876	108,876
Provision for impairment loss	(108,876)	(108,876)
Net carrying amount	-	-
Loans individually determined to be impaired:		
Carrying amount before provision for impairment loss	13,869,810	13,854,599
Provision for impairment loss	(13,769,777)	(13,789,022)
Net carrying amount	100,054	65,577

Notes (continued)

3. Financial risk management (continued)

Risk management framework (continued)

e. 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.

f. 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:

As at 30 June 2016	Held to maturity Shs'000	Loans and receivables Shs'000	Available-for-sale Shs'000	Other amortised cost Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets						
Quoted companies	-	-	6,913,609	-	6,913,609	6,913,609
Unquoted investments	-	-	9,152,962	-	9,152,962	9,152,962
Investments in Government securities	29,827	-	-	-	29,827	29,827
Loans	-	1,572,188	-	-	1,572,188	1,572,188
Other 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	1,572,188	16,066,571	1,920,086	19,588,672	19,588,672
Liabilities and shareholders' funds						
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
GoK loans / grants	-	-	-	866,078	866,078	866,078
	-	-		1,070,312	1,070,312	1,070,312
As at 30 June 2015						
Assets						
Quoted companies	-	-	10,321,094	-	10,321,094	10,321,094
Unquoted investments	-	-	9,232,801	-	9,232,801	9,232,801
Investments in Government securities	99,648	-	-	-	99,648	99,648
Loans	-	985,381	-	-	985,381	985,381
Other Companies Current accounts	-	-	-	277	277	277
Sundry debtors	-	-	-	504,937	504,937	504,937
Short term deposits	-	-	-	1,890,929	1,890,929	1,890,929
Total assets	99,648	985,381	19,553,895	2,396,143	23,035,067	23,035,067

Notes (continued)

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

Liabilities and shareholders' funds	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	-	-	-	67,874	67,874	67,874
Government loans and grants	-	-	-	894,630	894,630	894,630
	-	-		962,504	962,504	962,504

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 instruments reflected at fair value by level of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
30 June 2016	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets:				
Unquoted equity instruments	-	9,152,962	-	9,152,962
Quoted equity instruments	6,913,609	-	-	6,913,609
30 June 2015				
Financial assets:				
Unquoted equity instruments	-	9,232,801	-	9,232,801
Quoted equity instruments	10,321,094	-	-	10,321,094

Notes (continued)

5. Operating income

	2016 Shs'000	2015 Shs'000
Dividends	154,963	477,552
Interest on loans and advances	190,094	174,723
Application fees	5,579	6,702
Management & advisory services	9,038	14,434
Rental income	156,876	145,464
Interest on deposits	226,703	166,493
	743,253	985,368

6. Other income

	2016 Shs'000	2015 Shs'000
Gain / (loss) on disposal of property and equipment	1,581	718
Unrealised gains on investment property	210,701	5,788
Sundry income	12,790	10,888
Write back on loans and advances	35,005	52,326
	260,077	69,720

7. (a) Administration costs

	2016 Shs'000	2015 Shs'000
Staff costs (Note 7b)	196,666	188,856
Directors' expenses and emoluments	16,728	8,884
Rent and rates	3,544	2,350
Bank charges	513	611
Electricity and water	17,253	18,458
Publicity and advertising	9,789	9,746
Transportation, travelling and subsistence	13,626	11,823
Printing, stationery and photocopying	2,199	2,034
Motor vehicle operating expenses	1,305	1,024
Insurance costs	3,749	4,217
Professional expenses	6,113	4,155
Donations and other contributions	403	429
ICT expenses	6,019	6,638
Auditors' remuneration	3,773	3,206
Legal expenses	21,038	4,082
Pantheon court case and legal fees	25,340	-
Uchumi House security	9,264	9,264
VAT and other taxes	16,831	9,544
Uchumi House administration expenses	5,223	5,149
Repairs and maintenance	9,497	4,402
Subscriptions	1,346	1,461
Telephone expenses	2,572	3,260
Other operating expenses	7,565	12,954
	380,356	312,547

Notes (continued)

7. (b) Staff costs

	2016 Shs'000	2015 Shs'000
Salaries and allowances of permanent employees	141,110	140,698
Wages of temporary employees	2,680	3,675
Compulsory National Health Insurance schemes	1,214	516
Compulsory National Social Security schemes	150	138
Other pension contributions	11,645	10,917
Leave pay and gratuity provisions	3,682	4,028
Staff welfare	36,185	28,884
	196,666	188,856

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

	2016	2015
Permanent employees – Management	58	57
Temporary and contract employees	9	9
	67	66

8. Operating profit

The operating profit is arrived at after charging / (crediting):

	2016 Shs'000	2015 Shs'000
Staff costs (Note 7 (b))	196,666	188,856
Depreciation of property and equipment (Note 12)	32,647	29,894
Amortisation of intangible assets (Note 11)	1,576	810
Provision on bad and doubtful debts (loans and advances)	-	40,711
Directors' emoluments	16,728	14,245
- Fees and allowances	16,345	8,884
- Other emoluments included in staff costs	383	5,361
Auditors' remuneration - current year fees	3,773	3,206

9. Finance costs

	2016	2015
Interest expense on loans	8,448	8,448

Notes (continued)

10. Income tax expense

(a) Current taxation

	2016 Shs'000	2015 Shs'000
Current income tax	-	-
Deferred income tax	-	-
	-	-

(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:

	2016 Shs'000	2015 Shs'000
Profit before income tax	580,303	1,519,306
Computed tax using the applicable tax rate at 30%	174,091	455,792
Tax effects of :-		
Income not subjected to tax	(217,298)	(416,406)
Expenses not deductible	28,467	53,271
Deferred tax on capital gains	46,477	36,030
Over provision of deferred tax in prior years	-	17,635
Movement in deferred income tax not recognised	(31,737)	(146,322)
Income tax expense	-	-

11. Intangible assets

	2016 Shs'000	2015 Shs'000
Cost		
At start of year	38,228	36,674
Additions	6,020	1,554
At end of year	44,248	38,228
Amortisation		
At start of year	35,050	34,240
Charge for the year	1,576	810
At end of year	36,626	35,050
Net book value	7,622	3,178

Notes (continued)

12. Property and equipment

	Land and buildings Shs'000	Motor Vehicles Shs'000	Furniture & equipment Shs'000	Total Shs'000
Year ended 30 June 2015				
Cost / valuation				
At start of year	1,139,943	19,802	43,241	1,202,986
Additions	-	-	15,889	15,889
At year end	1,139,943	19,802	59,130	1,218,875
Depreciation				
At start of year	88,155	18,260	-	106,415
Charge for the year	19,123	1,530	9,241	29,894
At year end	107,278	19,790	9,241	136,309
Net book value at year end	1,032,665	12	49,889	1,082,566
Cost / valuation				
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

Notes (continued)

13 Investment property

	2016 Shs'000	2015 Shs'000
Opening valuation	1,123,210	925,500
Movements during the year:		
Additions	314,913	191,922
Fair value gain	210,701	5,788
Transferred to inventory (residential units under construction)	(699,873)	-
Closing valuation	948,951	1,123,210

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 2016 based on open market method.

During the year, the Corporation reclassified Kizingo and Nyali development valued at Shs 327 million and Shs 373 million from investment property, following construction of residential units for sale.

14 Inventories

	2016 Shs'000	2015 Shs'000
Transfer from investment property: Nyali	372,823	-
Transfer from investment property: Kizingo	327,050	-
	699,873	-

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

Notes (continued)

15. Government securities

	2016 Shs'000	2015 Shs'000
At start of year	99,648	99,249
Bond maturity during the year	(69,821)	399
At end of year	29,827	99,648

A 9-year bond with a maturity value of Kshs. 70,000,000 matured in the month of March 2016. The running GOK bond will mature in August 2019 with a maturity value of Kshs. 30,000,000.The effective interest rate on treasury bonds at 30 June 2016 was 9.19% (2015: 11.87%).

16. Unquoted investments

	2016 Shs'000	2015 Shs'000
Valuation		
At start of the year	9,436,965	10,733,050
Additions	30,525	180,004
Disposals	(19,048)	(860,000)
Fair value loss	(91,316)	(616,089)
At end of the year	9,357,126	9,436,965
Impairment		
At start of the year	190,164	190,164
Impairment loss in the year	-	-
At end of the year	190,164	190,164
Net book value	9,166,962	9,246,801

Notes (continued)

16. 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.

	2016 Shs' 000	2015 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
Gross amount	53,470	53,470
Less: Provision for impairment	(53,470)	(53,470)
Net amount	-	-

17. Quoted investments

	2016 Shs' 000	2015 Shs' 000
Opening valuation	10,321,094	6,602,084
Fair value (loss) / gain	(3,407,485)	3,719,010
Closing valuation	6,913,609	10,321,094

Notes (continued)

18. Trade and other receivables

	2016 Shs'000	2015 Shs'000
Prepayment on staff loans	64,653	57,671
Recoverable expenses from associate companies	17,275	17,223
Dividends receivable	101,449	290,983
Receivable from Uchumi House tenants	129,107	121,768
Other debtors	96,887	112,168
Gross trade and other receivables	409,371	599,813
Less: Impairment losses	(108,876)	(108,876)
Net trade and other receivables	300,495	490,937

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

	2016 Shs'000	2015 Shs'000
At start of year	108,876	75,562
Movement during the year	-	33,314
At end of the year	108,876	108,876

Notes (continued)

19. Loans

(a) Outstanding loans

(i) Large and medium loans

	2016 Shs'000	2015 Shs'000
Loans to significant companies	5,421	5,421
Less: Impairment losses	(5,400)	(5,400)
Net large and medium loans	21	21

(ii) Small loans

As at 30 June 2016

	Performing loans Shs'000	Non-performing loans Shs'000	Total 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
ICDC/General Motors Kenya Limited / ICDC/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 X

Notes (continued)

19. Loans (continued)

(ii) Small loans (continued) As at 30 June 2015	Performing loans Shs'000	Non-performing loans Shs'000	Total Shs'000
Commercial	599,514	2,709,298	3,308,812
Property	319,815	414,954	734,769
Industrial	-	2,538,281	2,538,281
Machinery	-	412,333	412,333
ICDC/General Motors Kenya Limited / ICDC/Kenya Breweries Limited	-	20,091	20,091
	-		
Personal loans	35,444	147,924	183,368
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	954,773	13,849,178	14,803,951
Less: Impairment losses	(34,969)	(13,783,622)	(13,818,591)
Net small loans	919,804	65,556	985,360
Net large and medium loans	-	21	21
Total net loans	919,804	65,577	985,381

(b) Impairment losses on loans	2016 Shs'000	2015 Shs'000
At start of the year	13,823,991	13,868,959
Increase in impairment	-	7,397
Impairment losses no longer required	(35,005)	(52,346)
Loans written off	-	(19)
Net large and medium loans	13,788,986	13,823,991
Comprising of:		
Large and medium loans	5,400	5,400
Small loans	13,783,586	13,818,591
Total loans impairment	13,788,986	13,823,991

Notes (continued)

20. Provisions

The Corporation periodically analyses the recoverability of its debtors and makes 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.

	2016 Shs' 000	2015 Shs' 000
Provision for managed funds (Note 16)	-	-
Provision for Uchumi House tenants	-	33,314
General provisions in loans and advances	-	7,397
Total provisions	-	40,711

21. Cash and cash equivalents

For purposes of cash flow statement:

	2016	2015
Short term deposits	643,785	985,699
Cash in bank	1,026,182	905,230
Cash and cash equivalents	1,669,967	1,890,929
Bank overdraft	(11,709)	(67,874)
Cash and cash equivalents	1,658,258	1,823,055

The average effective interest rate on the short term deposits as at June 30, 2016 was 8.99% (2015: 11.51%).

22. 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, principally the marketable securities. 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)

22. Reserves (continued)

Retained earnings

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

23. Loans and grants

	2016 Shs'000	2015 Shs'000
Grants:		
From the Government of Kenya	529,971	529,971
Loans from Government of Kenya:		
Balance at beginning of the year	341,036	333,108
Accrued additional interest	7,928	7,928
Interest repaid during the year	(32,000)	-
Balance at end of the year	316,964	341,036
Loans from KFW of West Germany		
Balance at beginning of the year	23,623	23,103
Accrued additional interest	520	520
Repayment during the year	(5,000)	-
Balance at end of the year	19,143	23,623
Total loans and grants	**866,078**	**894,630**

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.

24. Deferred tax asset

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%.

Deferred tax has also been calculated using the enacted rate of 5% on capital gains arising on investment property. Tax on capital gains was re-introduced and became effective 1 January 2015.

Notes (continued)

24. Deferred tax asset (continued)

The net deferred tax asset at year end is attributable to the following items:

	2016 Shs'000	2015 Shs'000
Property and equipment	(1,448)	(606)
Provisions	(1,097,940)	(1,098,996)
Deferred tax on capital gains	46,477	36,060
Tax losses carried forward	(25,881)	(46,957)
Balance at end of the year	(1,078,792)	(1,110,499)

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.

25. Trade and other payables

	2016 Shs'000	2015 Shs'000
General creditors	82,217	78,912
Rent deposit	30,467	26,260
Total	112,684	105,172

26. Deferred revenue

	2016 Shs'000	2015 Shs'000
Nyali	19,300	-
Kizingo	60,540	-
Total	79,840	-

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.

Notes (continued)

27. Retirement benefit obligations

The Corporation operates a defined contribution pension scheme. The assets of the scheme are held in a separate fund administered by independent fund managers and is funded by contributions from both the employer and the employees. The schemes financial year ends on 31 December and the balance are as analysed below:

	2016 Shs'000	2015 Shs'000
Balance at beginning of the year	241,031	217,778
Company contributions during the year	11,645	9,505
Employee's contributions during the year	5,822	4,753
Interest earned on investment of contributions	19,506	24,455
Paid out during the year	(9,035)	(15,460)
Balance at end of the year	268,969	241,031

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.

28. Dividend payable to the Government of Kenya

The Corporation paid Shs Nil (2015: Shs 35,000,000) to the Government of Kenya during the year ended 30 June 2016.

	2016 Shs'000	2015 Shs'000
Dividend Payable to GoK	90,000	90,000

Notes (continued)

29. Notes to the statement of cash flows

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

	2016 Shs'000	2015 Shs'000
Profit before income tax	580,303	1,519,306
Adjustments for:		
Depreciation of property and equipment (Note 12)	32,647	29,894
Amortisation of intangible assets (Note 11)	1,576	810
Gain on disposal of property and equipment	(1,581)	-
Gain on disposal of unquoted investments	-	(856,628)
Interest on Government of Kenya loans (Note 9)	8,448	8,448
Gain on revaluation of investment property (Note 13)	(210,701)	(5,788)
Operating profit before changes in working capital	480,513	695,643
Loans and advances	(522,154)	137,909
Deferred revenue	79,841	-
Trade and other debtors	178,490	(258,246)
Payables and accrued expenses	7,509	7,704
Subsidiary companies current accounts	-	75
Cash generated from operations	224,199	583,085

b) Analysis of changes in loans

	2016 Shs'000	2015 Shs'000
Balance at beginning of the year	985,381	1,123,290
Net change	522,154	(137,909)
Balance at end of year	1,507,535	985,381

Notes (continued)

30. 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 23.

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 16.

i. **Dividends earned during the year are as follows:**	**2016 Shs'000**	**2015 Shs'000**
Dividends (Note 5)	154,963	477,552

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:

	2016 Shs'000	**2015 Shs'000**
Salaries	383	6,480
Pension	-	1,488
	383	7,968

iii. Directors' remuneration

Fees for services as non-executive directors	16,728	8,884
Other included in key management compensation above	383	5,361
	17,111	14,245

Notes (continued)

30. Related parties (continued)

iv. Loans and advances to staff

	2016 Shs'000	2015 Shs'000
Loans and advances to staff	208,532	182,804

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 19.

vi. Employees

The Industrial and Commercial Development Corporation provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Income Tax Act, Cap 470 of the Laws of Kenya.

vii. 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:

	2016 Shs'000	2015 Shs'000
Rent receivable from Government ministries and Parastatals	70,379	67,919
Rent receivable from other tenants	58,728	53,849
Total rent receivable	129,107	121,768

31. Capital commitments

	2016 Shs'000	2015 Shs'000
Amounts authorised and contracted for:		
a) Investments		
Loans	690,300	428,000
Equity	103,000	670,000
Total investments approved	793,300	1,098,000

Notes (continued)

31. Capital commitments (continued)

b) Capital commitments		
Total commitments	551,060	559,767
Less: Contracted and engaged	(250,023)	(53,544)
	301,037	506,223
Total commitments	1,094,337	1,604,223

32. Contingent liabilities

	2016 Shs'000	2015 Shs'000
Bank guarantees	65,000	35,000
Legal claims against ICDC	29,832	71,579
	94,832	106,579

As at 30 June 2016, the Corporation had issued guarantees amounting to Shs 65,000,000 (2015: Shs 35,000,000) 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 (2015: Shs 71,579,012) including the interest thereon and costs of the suits. During the year, a contingent liability of Kshs. 41,746,850 with respect to a claim filed by a third party crystallised during the 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.

Notes (continued)

33. Future rental commitments under operating leases

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

	2016 Shs'000	2015 Shs'000
Due within one year	127,789	133,353
Due within one year but less than 5 years	222,592	347,103
Due after 5 years	4,006	6,160
	354,387	486,616

34. 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.

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ICDC SUBSIDIARIES AND ASSOCIATE COMPANIES AS AT 30TH JUNE 2016

		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	East African Coast Fisheries Limited (In Receivership)	1,862,950	511,520	27.46
5	Focus Container Freight Station	100,000	25,000	25.00
6	Funguo Investments Limited	8,193,699	2,190,000	26.73
7	General Motors East Africa Limited	1,567,500	313,500	20.00
8	Kenatco Taxis Limited (In Receivership)	250,000	250,000	100.00
9	Kenatco Transport Co. Limited (In Liquidation)	345,000	345,000	100.00
10	Industrial Development Bank Ltd	40,500,750	1,735,500	4.29
10	Kenya National Trading Corporation Ltd	1,600,000	1,600,000	100.00
11	KWA Holdings Limited	96,000,000	44,788,132	46.65
12	Meatland Processing Limited	723,810	227,688	31.46
13	Mountain Region Poultry Farmers Company Limited	573,000	160,000	27.92
14	Njoka Tanners Limited	3,770,000	1,250,000	33.16
15	Palm Health Care Int. Ltd	216,775	50,000	23.07
16	Organic Growers & Packers Ltd.(Preferential Shares@20%)	70,000	70,000	100.00
17	South Nyanza Sugar Company Limited	18,000,000	125,000	0.69
18	Wananchi Sawmills (1974) Limited	250,000	111,113	44.45
19	Almasi Beverages Ltd	761,322,186	276,470,117	36.30
	ii) Listed Companies			
20	Centum Investment Company Limited	665,441,714	152,847,897	22.97
21	Eveready Batteries Kenya Limited	210,000,000	36,583,575	17.42
22	Uchumi Supermarkets Ltd	364,959,616	7,288,472	2