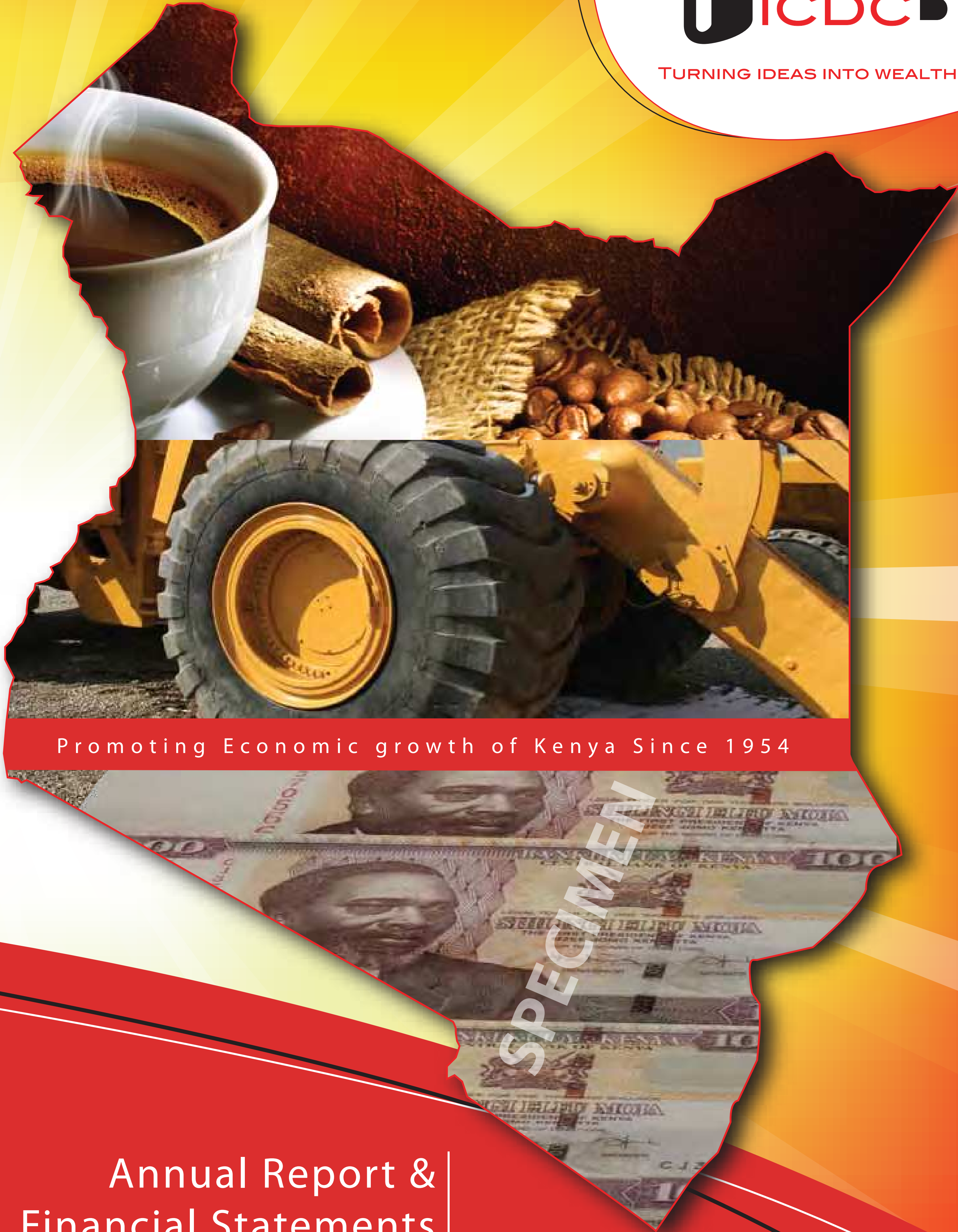
ICDC

TURNING IDEAS INTO WEALTH



Annual Report & Financial Statements 2011 / 2012

WHY NOT?

If you can imagine it, you can make it happen. At ICDC it is indeed you that we want to talk to.

We are especially excited by projects in the Manufacturing, Agro-processing and Education sectors.

We offer young and not so young businesses flexible financial solutions designed to help you grow to the next level.

Please call, email or visit to discuss our versatile business solutions.

EQUITY FINANCING | JOINT VENTURES | ASSET FINANCE | CORPORATE LOANS | STRATEGIC PARTNERSHIPS

*Terms and conditions apply

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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.

Quality Policy
ICDC is committed to providing high quality, competitive financial products and management services that meet and exceed its customers' expectations through continual improvement of its resources and management systems.

Core Values
Reliability, Customer Focus, Creativity, Integrity.

REGISTERED OFFICE
Uchumi House, Aga Khan Walk.
P. O. Box 45519 - 00100,
Nairobi, Kenya.
Tel: +254 20 2229213, 2771000
Fax: +254 20 317456
Mobile: +254 727 534572, 736 229213
Email: info@icdc.co.ke
Website: www.icdc.co.ke

SECRETARY
Grace M. Magunga.
P. O. Box 45519 - 00100
Nairobi, Kenya.

AUDITORS
KPMG Kenya.
P. O. Box 40612 - 00100
Nairobi, Kenya.

On behalf of:
The Auditor-General.
Anniversary Towers, University way.
P. O. Box 30084 - 00100
Nairobi, Kenya.

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

Commercial Bank of Africa Limited.
Wabera Street.
P. O. Box 30437 - 00100
Nairobi, Kenya.

Board of Directors

MARTIN K. MURAGU, MBS

Chairman

Mr. Muragu is the Chairman of Industrial & Commercial Development Corporation since September 2009.

With a long career in financial services, working at senior executive level, Muragu has extensive experience of over 30 years in project financing. He was the Head of Projects Finance at the Development Bank of Kenya and a Consultant for Small Enterprises Finance Company Ltd. He has promoted and facilitated establishment of numerous successful private enterprises which have contributed to the creation of employment and wealth for Kenyans. He was awarded the Moran of the Order of the Burning Spear medal (MBS) by His Excellency the President of the Republic of Kenya, Hon. Mwai Kibaki, C.G.H, M.P for his distinguished service in the financial sector.

Mr. Muragu holds a Bachelor of Science degree in Industrial Engineering from the University of Missouri, Columbia, USA and a Bachelor of Science degree in Statistics & Applied Economics at Makerere University, Kampala, Uganda.

Peter M. Kimurwa

Executive Director

Mr. Kimurwa is the Executive Director of Industrial & Commercial Development Corporation and a Board member since July 2010.

He is a specialist in Strategy, Business Development and Financial Management. His extensive career has seen him work in various managerial positions being responsible for investments, strategic planning and implementation of various projects. He has worked in Senior Management positions at East African Breweries Limited, Linksoft Communications Limited, BOC Kenya Limited, British American Tobacco Eastern Africa Limited and PricewaterhouseCoopers.

He is the Executive Director of Industrial & Commercial Development Corporation (ICDC).And sits as a director in Centum Investments Co. Ltd., General Motors E. A. Ltd., Eveready Batteries E. A. Ltd., Rift Valley Bottlers Ltd., Kisii Bottlers Ltd., and Mount Kenya Bottlers Ltd.

Mr. Kimurwa holds a Bachelor of Commerce degree from Kenyatta University and a Master of Business Administration degree from INSEAD University in Fontainebleau, France. He is a Certified Public Accountant, (CPA)K.

Joyce A. Ogundo

Alternate to PS, Ministry of Trade

Mrs. Ogundo was appointed to the Board in 2011 as an alternate to the Permanent Secretary, Ministry of Trade. She is the Director of Internal Trade at the Ministry. She has a long career in Trade and Investment development focusing specifically on planning, developing and implementing trade policies and strategies. She has held various responsibilities including coordinating and facilitating trainings of Micro, Small and Medium Entreprises (MSMEs) and participated in World Trade Organization and Common Markets for Eastern and Southern Africa matters. She is a Director at Micro Enterprise Support Programme Trust.

Mrs. Ogundo holds a Master of Science degree in Entrepreneurship from Jomo Kenyatta University of Agriculture & Technology and a Bachelor of Arts degree in Economics and Sociology from University of Nairobi. She is an associate member of the Kenya Institute of Management.

Daniel Mutua

Alternate to PS, Ministry of Finance

Mr. Mutua was appointed to the Board in 2006, as an alternate to the Permanent Secretary, Ministry of Finance. He is a Senior Assistant Director of Investments in the Ministry of Finance.

He has over 21 years work experience in the public sector specializing in Public Private Partnerships and Investment Analysis. He has served in various government offices including the Public Service, Teachers Service Commission, Ministry of Labour, Office of the Vice President and Ministry of Finance.

He also sits on the Board of Export Processing Zone Authority, Chepkoilel University College Council and Mbusyani Secondary School.

Mr. Mutua holds a Bachelor of Education degree in Business Economics from Kenyatta University, a Master of Business Administration degree from ESAMI and a Master of Science degree in Management from Netherlands.

Directors' Profile

Gedi S. Haji
Director

Mr. Haji was appointed to the Board in November 2010.

He is a businessman with diversified experience of over 30 years in Export and Import. He is an entrepreneur and a philanthropist having started several schools in Mandera and Garissa counties. He is the Director of Gedi Enterprises and Elegant Trading Company Ltd.

Mr. Haji has excellent leadership and business management skills.

Bernard G. Njuguna
Director

Mr. Njuguna was appointed to the Board in October 2009.

He is an entrepreneur with vast business knowledge and extensive experience of over 22 years, managing businesses in the fast moving consumer goods sector. He has held several senior managerial positions in his career and was Area Manager at Total Kenya before going into private business. He is currently the Managing Director of Outlook Ltd.

Mr. Njuguna holds a Bachelor of Arts degree in Economics and Sociology from the University of Nairobi.

Abdirahman Y. Haji
Director

Mr. Haji was appointed to the Board in August 2007. He has over 28 years experience in Construction, Sales and Marketing. He has held several senior management positions during his career, including Chief Logistics Director of Hass Petroleum and Finance Director of Northern Norle Service.

He is also a member of the Board of Kenya National Library Services, National Archives Advisory Council, Habaswein Boys Secondary School and Wajir Boys High School.

He holds an Islamic Law degree from Medina University as well as a Diploma in Business Administration and in Sales and Marketing.

Samuel K. Njonde
Director

Mr. Njonde was appointed to the Board in October 2010.

He has more than 30 years experience in Information Technology, Finance and Logistics specializing in Business Systems, Business Development and Computer Systems. Other directorships that he holds include Kentrade Agency, Petrocity Energy (K) Ltd, Compact Freight Systems and Nairobi Bureau De Change.

Mr. Njonde holds a Bachelor of Science degree in Mathematics and Computer Science.

Grace M. Magunga
Corporation Secretary

Mrs. Magunga has been the Board 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 Mount Kenya Bottlers Ltd., Kisii Bottlers Ltd., Rift Valley Bottlers Ltd., Funguo Investment Ltd., Kenya National Trading Corporation Ltd., Funguo Registrars Ltd., Focus Container Freight Station and Wananchi Saw Mills Ltd.

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.

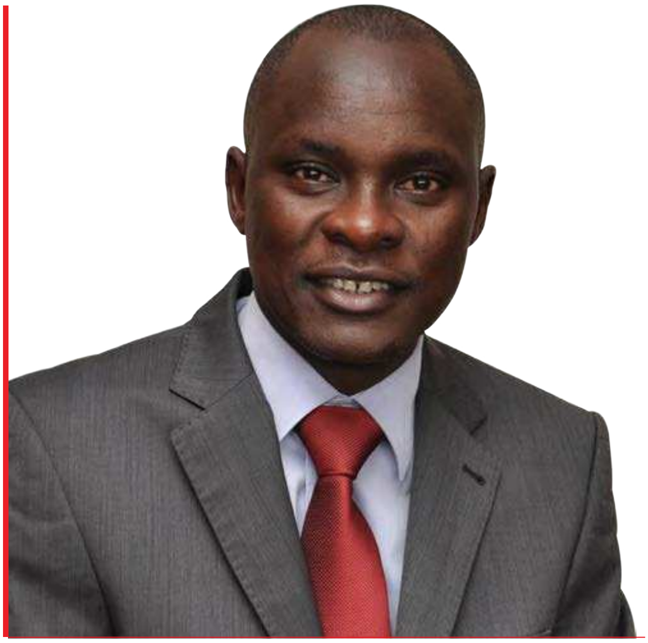
Albert Ruturi
Director

Mr. Ruturi was appointed to the Board in January 2009.

He is a career banker with experience spanning over 40 years in the Banking Industry. In his executive career, he was the Chief Operating Officer of Barclays Bank of Kenya Ltd. and subsequently Chief Operating Officer, Kenya Commercial Bank. He has excellent leadership skills and has made substantial contribution to the overall growth of the organizations he has worked with. He sits as a director in Church Commissioners of Kenya and St. John's Ambulance. He is currently the Managing Director of K-REP Bank Ltd.

Mr. Ruturi is a graduate of Manchester Business School and holds a Diploma in Human Resources Management from Cranfield University, UK. He has attended a Conflict and Resolution Seminar at Oxford University, UK.

Management Team



Peter M. Kimurwa
Executive Director

Mr. Kimurwa is the Executive Director of Industrial & Commercial Development Corporation and a Board member since July 2010.

He is a specialist in Strategy, Business Development and Financial Management. His extensive career has seen him work in various managerial positions being responsible for investments, strategic planning and implementation of various projects. He has worked in Senior Management positions at East African Breweries Limited, Linksoft Communications Limited, BOC Kenya Limited, British American Tobacco Eastern Africa Limited and PricewaterhouseCoopers.

He is the Executive Director of Industrial & Commercial Development Corporation (ICDC).And sits as a director in Centum Investments Co. Ltd., General Motors E. A. Ltd., Eveready Batteries E. A. Ltd., Rift Valley Bottlers Ltd., Kisii Bottlers Ltd., and Mount Kenya Bottlers Ltd.

Mr. Kimurwa holds a Bachelor of Commerce degree from Kenyatta University and a Master of Business Administration degree from INSEAD University in Fontainebleau, France. He is a Certified Public Accountant, (CPA)K.

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 Uchumi Supermarkets Ltd., Development Bank of Kenya Ltd. and IDB Capital 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.

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 Mount Kenya Bottlers Ltd., Kisii Bottlers Ltd., Rift Valley Bottlers Ltd., Funguo Investment Ltd., Kenya National Trading Corporation Ltd., Funguo Registrars Ltd., Focus Container Freight Station and Wananchi Saw Mills Ltd.

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.

Joseph Mwaura
Finance Manager

Mr. Mwaura has been the Finance Manager since February 2004. Prior to this appointment, he held the position of Loans Manager.

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. He is a Certified Public Accountant, (CPA)K.

Managers' Profile

Faith Nene
Human Resources & Administration Manager

Mrs. Nene is the Human Resources & Administration Manager since September 2005.

Faith has a wide range of experience in Human Resource management spanning over 18 years working at ICDC and has knowledge of all facets of HR and Administration.

She holds a Master of Science degree in Human Resources Management from the University of Manchester, UK as well as a Bachelor of Arts degree in Government & Philosophy from the University of Nairobi.

She is a member of Institute of Human Resource Management (IHRM).

Byron Mudhune
Strategy and Risk Manager

Mr. Mudhune has been the Strategy and Risk Manager since March 2009.
He has over 12 years experience in Corporate and Investment Banking, Strategy Development & Planning with Local and International Banks such as AbnAmro Bank, Citibank in Nairobi, Lloyds TSB Bank and JP Morgan Chase Bank in London. He has also been involved in Strategy and Operations Planning for Kenya Airways.

He holds a Bachelor of Commerce degree from the University of Nairobi, a Diploma in Financial Services, a Postgraduate Education in Economics, Finance and Banking from the University of Portsmouth, UK. He is a member of the Chartered Banker (UK) and a Consultant in Finance.

Dismas J. O. Oyieko, HSC
Special Projects Manager

Mr. Oyieko is the Special Projects Manager since July 2010. Prior to this appointment, he held the position of Loans & Investments Manager. He has over 15 years experience at Senior Management Level, having worked as Head of Department in various portfolios within ICDC. He was awarded the Head of State Commendation in 2004, by His Excellency the President of the Republic of Kenya, Hon Mwai Kibaki C.G.H, M.P.

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.

Isaac Ole Ntiki
Business Development Manager

Mr. Ole Ntiki has been the Business Development Manager since 2009.

He has experience of over 8 years in Customer Service, Corporate Communication, Branding, Product Development, Investment Appraisal & Funding and Sales & Marketing having worked with CFC Stanbic Bank and First Community Bank. He is an expert in Business Advisory Services.

He holds a Master of Business Administration degree in Strategic Management and a Bachelor of Commerce degree in Marketing & Management from Africa Nazarene University.
He is a member of Marketing Society of Kenya as well as Public Relations Society of Kenya.

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.

Erasto Shako
Equity Manager

Mr. Shako has been the Equity Manager since July 2010.

He has a wide experience of over 25 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.

Peter Mwangi
ICT Manager

Mr. Mwangi has been the Information, Communication & Technology (ICT) Manager since March 2006.

He has a extensive experience in ICT spanning over 21 years having worked in various organizations including Strathmore Business School, Missions for Essential Drugs & Supplies and Africa Online Holdings.

He holds a Master of Science degree in Information Systems from University of Nairobi, a Bachelor of Science degree in Mathematics & Physics from Egerton University, a Bachelor of Science degree in Computer Science from University of Natal, South Africa and a Post Graduate Diploma in Computer Science from University of Nairobi.

MARTIN K. MURAGU, MBS
Chairman

CHAIRMAN'S STATEMENT

I am pleased to present to you ICDC's Annual Report and Audited Accounts for the year ended 30 June, 2012.

Despite a difficult business environment, ICDC returned a strong all round performance which is evidenced by increased profitability, rising market profile, growth of customer base, improved customer service, more effective and efficient business processes and strong employee morale, among others.

The specific achievements, challenges and activities that influenced the Corporation's performance during the year under review are as detailed here below.

Overview of the Operating Environment

The year under review was characterized by a slower than forecasted GDP growth rate, high levels of inflation, high bank lending and deposit rates and a generally weak local currency compared to the major foreign currencies. According to the Central Bank of Kenya's Annual Report for the same period, the following were the specific economic performance metrics:

- GDP growth rate of 3.5 % against 4.4% the previous year
- Average Inflation rate of 16% versus 6.9% in 2010/2011
- Average lending rate of 20.41% versus 14.14%
- Average Interest on Deposits rate of 7.88% against 3.85% in 2011
- Average rate of Kshs. 84.8 to the US dollar against Kshs. 89.00 in 2011

These economic trends had a largely adverse impact on the financial performance of ICDC as they curtailed investor appetite for new funding, inhibited profit growth on the part of the Corporation's investee companies thereby limiting their ability to pay dividends, as well as increasing the Corporation's cost of funds.

The latter half of the financial year was also characterized by anxiety and increasing uncertainty over the March, 2013 general elections in Kenya, which further served to undermine investor appetite for starting of new projects, with most choosing to delay investment decisions until after the elections.

Financial Performance

The Corporation responded to the challenges highlighted above mainly through aggressive sales and marketing of its products and services, enhancement of customer service and a focus on keeping operating costs down.

As a result, the Corporation recorded a Profit Before Tax of Kshs 303 million during the financial year 2011/2012 compared to Kshs. 238 million in the previous year, while new disbursements to customers totaled Kshs. 859 million in Equity and Loans, up from Kshs. 460million in 2010/2011. Notably, this increase in new investments reflected the Corporation's improved capacity to execute on its core mandate of supporting new and young business enterprises, with innovative financial solutions.

In the Government of Kenya's Performance Contracting rating system, ICDC recorded a significant improvement, achieving a rating of 'Very Good' compared to 'Good' in the year 2010/2011, ranking 41st out of 178 State Corporations compared to 139th in the preceding year and being 1st among the State Corporations in the financial sector category.

These improvements in performance were a manifestation of the reform program put in place by ICDC's Board of Directors during the last three years, and implemented with the very able assistance of the Corporation's management and staff.

Review of Core Business Activities

During the year under review, ICDC continued to invest significant effort and resources in consolidating its position as a contributor to Kenya's economic development agenda as enshrined in the Vision 2030. The Corporation's long-term aim remains to assist and facilitate Kenya's economic development through the creation and nurturing of new and young businesses, so that they create wealth for their owners, employees and communities.

To reach out to entrepreneurs therefore, ICDC continued to execute an aggressive Sales and Marketing Plan, whose key elements were a public relations and marketing campaign together with an outreach program to prospective customers and business partners. These activities bore fruit in the form of an enhanced market profile for the Corporation, which in turn led to a growth in customer enquiries for financing and related products and services. In order to properly monitor and track these enquiries, ICDC put in place an electronic customer tracking system, otherwise known as a Customer Relationship Management Database, which has worked exceedingly well.

As part of the initiative to more effectively serve our customers, ICDC commissioned work on a new state of the art customer service centre, to be located on the ground floor of the Corporation's head office at Uchumi House. This centre will improve customer service by being a one stop shop at which customers can holistically interact with the Corporation, from making initial enquiries, accessing assistance through the application process to the eventual post-financing support in terms of technical assistance, account maintenance, management and other related services.

The Corporation also remains focused on strengthening relationships with its stakeholders, including Government and Government agencies, other financial institutions, local and external financiers and the public at large. In particular, ICDC recognizes the need to obtain the support of the multilateral Development Finance Institutions, as a means to mobilizing financial resources for its future investment programmes. Discussions to this end were initiated with various institutions during the year.

As part of its active Corporate Social Responsibility agenda, the Corporation offered support to various sections of Kenyan society during the year. This included support for and participation in the World Environmental Day (WED) celebrations for schools, with conservation activities centered on the Ngong Forest; Kenyans 4 Kenya Initiative by Kenya Red Cross, an initiative on drought intervention in Kenya where the Corporation donated UNIMIX food to feed school going children in the drought stricken areas; and donations in support of the Sinai Fire Disaster where the Corporation contributed to the purchase of sanitary towels, blankets and food stuff for the victims.

During the 2011/2012 financial year, ICDC also started work on the development of a new Strategic Plan to run from the year 2012/2013 to 2016/2017. This new Strategic Plan, which was completed and rolled out at the start of the 2012/2013, replaces the earlier Strategic Plan which covered the 5 year period 2007/2008 to 2011/2012. The new Strategic Plan proposes to significantly increase the impact of ICDC's investment activities on the economy, by increasing focus on a few well chosen sectors of the economy and market segments which are presently not adequately catered for by conventional financial institutions in the mainstream arena. This approach is also premised on the belief that ICDC should seek to play a complementary role to the mainstream financial services players, rather than compete with them.

People, Processes and Systems

The Board of ICDC fully recognizes that the key to the Corporation's success is having a skilled, committed and well motivated workforce. In this regard,the Corporation conducts a comprehensive Employee Satisfaction Survey annually, which together with exit interviews of departing employees provide valuable information on the areas of strength and weakness which are accordingly addressed. To further underscore the critical role of human factor in the success of the Corporation, the Board in September 2012 retained the services of Deloitte Consulting, to comprehensively review ICDC's HR management practices with a view to recommending solutions to the identified challenges. Deloitte completed their review in December 2012 and consequently made their recommendations which have since been adopted by the ICDC's Board of Directors. The recommendations which are geared towards ensuring ICDC is properly placed to successfully implement its new Strategic Plan will be implemented in phases over the next 12 to 24 months. The staggered implementation is largely in accordance with the Corporation's capacity to sustain their financial implications.

Corporate Governance

The Board of Directors of ICDC is made up of eight (8) members, including the Chairman, Executive Director and six independent directors. The Board provides oversight over all strategic, financial, operational and compliance issues affecting the Corporation and discharges its mandate through three Board committees, namely Audit and Risk, Finance and Investments and the Staff and General Purposes Committees.

An institutionalized and effective Board induction and training process ensures that each new member of the Board is properly equipped to discharge his or her duties as a director, while an annual Board Performance Evaluation exercise helps to identify areas of improvement for the Board as a whole and directors individually.

Future outlook

As I have highlighted in the preceding sections, the Board of ICDC is committed to achieving a step change in the performance of the Corporation, in order to make it an ever stronger contributor to Kenya's economic development. The overriding objective of the change programme is to ensure that ICDC remains relevant in today's dynamic market place, by providing its clientele with products and services that fully respond to their ever changing needs and demands. The various measures put in place during 2011/2012 are also aimed at ensuring that ICDC remains a self-sustaining entity, able to consistently mobilize its own resources to fund investment programmes and meet its operational costs. The Board firmly believes that ICDC has a bright future as a strong player in the financial services sector, and will strive to ensure that the benefits of the various measures put in place are realized in entirety.

Appreciation

In closing, I would like to express my heartfelt gratitude to my fellow Board members, management and staff of ICDC for their hard work and commitment to delivering strong results for the Corporation during 2011/2012.

I am also grateful to the Government, and particularly our parent Ministry of Trade, investee companies, business partners and customers for their invaluable support to the Corporation during the year.

It is my hope that the entire team at ICDC, together with all our stakeholders, will continue striving to deliver ICDC's promise to its customers which is, ***"turning ideas into wealth"!***

Martin K. Muragu
Chairman

WHY NOT?

If you can imagine it, you can make it happen. At ICDC it is indeed you that we want to talk to.

We are especially excited by projects in the Manufacturing, Agro-processing and Education sectors.

We offer young and not so young businesses flexible financial solutions designed to help you grow to the next level.

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EQUITY FINANCING | JOINT VENTURES | ASSET FINANCE | CORPORATE LOANS | STRATEGIC PARTNERSHIPS

*Terms and conditions apply

REPORT OF DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 2012 in accordance with Section 15(4) of the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya).

1. Principal Activities

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

2. Results for the year

The results for the year are set out on page 15.

3. Dividends

The directors do not recommend the payment of a dividend for the year ended 30 June 2012 (2011 – Nil).

4. Directors

The directors of the Corporation who served since 1 July 2011 are set out on page 3 to 4.

5. Auditors

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

KPMG Kenya was appointed by the Auditor-General to carry out the audit for the year ended 30 June 2012.

6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 29th November 2012

BY ORDER OF THE BOARD

Grace M. Magunga
Secretary

DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of ICDC set out on pages 15 to 43 which comprise the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results.

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Corporation's Board of Directors on 29th November 2012 and were signed on its behalf by:

Martin K. Muragu	**Peter M. Kimurwa**
Chairman	Executive Director

REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Industrial and Commercial Development Corporation set out on pages 15 to 43, which comprise the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by KPMG Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an independent opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

1. Grants and Loans

(i) Disclosed in Note 26 and as similarly reported in 2010/2011 are grants and loans totalling Kshs. 914,285,381 (2011 - 925,837,566). The respective loan agreements were not however made available and therefore the terms of such agreements could not be verified. As in the previous year, the Corporation has explained that there were no formal agreements between Industrial and Commercial Development Corporation (ICDC) and the Government and that a reconciliation of the loans balance to determine the quantum and treatment of Government obligations in the books is under process.

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

(ii) According to information available, the Corporation charged interest expense amounting to Kshs. 8,447,815 during the year. However and as previously reported, the basis of the expense could not be ascertained.

(iii) Grants have been disclosed under non-current liabilities, contrary to International Accounting Standards (IAS) 20 - Accounting for Government Grants and Disclosure of Government Assistance, which requires that such grants be credited directly to reserves.

AUDITOR GENERAL REPORT

2. Loans Receivable

As reported in 2010/2011, included among loans in the financial statements is amount of Kshs. 29,004,499 relating to accrued unpaid interest. The detailed breakdown by account was however not produced for audit verification. Further included in the small loans under Note 17(a) is an amount of Kshs. 583,101 described as unclassified loans whose opening balance was Kshs. 114, 178. This balance, together with the transactions therein which caused the movement in the account have not been explained adequately by management. It was therefore not possible to determine what adjustments would be required if any, to correct or clear this account.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of the Corporation as at 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Industrial and Commercial Development Corporation Act (Cap. 445 of the Laws of Kenya).

Edward R. 0. Ouko, CBS
Auditor-General
Nairobi
28th December 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 KShs	2011 KShs
Income			
Operating income	7	2,132,330,039	2,792,959,399
Other income	8	50,432,209	3,563,570
		2,182,762,248	2,796,522,969
Expenses			
Administration and establishment expenses	9	(318,748,394)	(270,489,030)
Impairment losses	10	(1,552,582,043)	(2,279,412,254)
		(1,871,330,437)	(2,549,901,284)
Operating profit		**311,431,811**	**246,621,685**
Finance charges	11	(8,447,815)	(8,447,815)
Profit before tax		**302,983,996**	**238,173,870**
Income tax expense	13	-	-
Net profit for the year		**302,983,996**	**238,173,870**
Other comprehensive income			
Reversal of fair value on disposed investments		(70,615,311)	-
Revaluation gain		77,906,418	-
Change in fair value of quoted and unquoted investments		(733,160,911)	351,774,611
Total other comprehensive income		(725,869,804)	351,774,611
Total comprehensive income for the year		**(422,885,808)**	**589,948,481**

The notes set out on pages 19 to 43 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	2012 KShs	2011 KShs
ASSETS			
Non-current assets			
Investment in quoted companies	14	2,161,464,230	3,431,170,504
Investment in unquoted companies	15	6,671,787,334	6,116,658,851
Investment in Government securities	16(a)	98,730,861	98,005,550
Loans	17(a)	997,182,655	324,977,795
Intangible assets	19	10,047,463	11,930,027
Prepaid operating leases	20	44,863,483	8,046,227
Property and equipment	21	803,737,567	734,722,377
		10,787,813,593	10,725,511,331
Current assets			
Loans	17(a)	323,314,814	416,068,055
Related companies current accounts	22	18,282,816	17,560,673
Sundry debtors	23	252,844,433	168,886,381
Government securities and short term deposits	16(b)	588,646,945	1,065,279,446
Bank and cash balances	24	20,796,760	23,705,530
		1,203,885,768	1,691,500,085
TOTAL ASSETS		**11,991,699,361**	**12,417,011,416**
RESERVES, GRANTS AND LIABILITIES			
Reserves (page 9)			
Revaluation reserves	25	729,268,937	651,362,519
Fair value reserves	25	7,669,944,168	8,473,720,390
Retained earnings		2,482,199,669	2,179,215,673
		10,881,412,774	11,304,298,582
Grants and non-current liabilities			
Grants and loans	26	914,285,381	925,837,566
Current liabilities			
Creditors	27	71,001,206	61,875,268
Dividend payable	28	125,000,000	125,000,000
		196,001,206	186,875,268
TOTAL RESERVES, GRANTS AND LIABILITIES		**11,991,699,361**	**12,417,011,416**

The financial statements on pages 15 to 43 were approved by the Board of Directors on 29th November 2012 and were signed on its behalf by:

Chairman

Executive Director

The notes set out on pages 19 to 43 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 KShs	2011 KShs
Cash flow from operating activities			
Cash (utilised)/generated from operations	29(a)	(359,388,914)	374,219,100
Investing activities			
Purchase of intangible asset	19	(6,177,786)	(1,976,472)
Purchase of prepaid operating lease	20	(36,928,867)	-
Purchase of property and equipment	21	(14,811,021)	(42,737,574)
Proceeds from sale of equipment/property		416,000	3,034,125
Proceeds from sale of quoted investments		51,321,157	-
Investments in Treasury Bonds		(725,311)	(29,582,450)
Investments in quoted companies		-	(34,272,086)
Investment in unquoted companies		(93,246,529)	-
Cash outflows from investing activities		**(100,152,357)**	**(105,534,457)**
Financing activities			
Repayment of Government of Kenya loans	26	(20,000,000)	(40,000,000)
Cash outflows from financing activities		**(20,000,000)**	**(40,000,000)**
(Decrease)/increase in cash and cash equivalents	29(b)	**(479,541,271)**	**228,684,643**

The notes set out on pages 19 to 43 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Revaluation Reserves KShs	Fair Value Reserves KShs	Retained Earnings KShs	Total Reserves KShs
2011:				
At 1 July 2010	1,909,590,447	8,121,945,779	682,813,875	10,714,350,101
Comprehensive income				
Net profit for the year	-	-	238,173,870	238,173,870
Other comprehensive income				
Change in fair value of quoted and unquoted investments	-	351,774,611	-	351,774,611
Transactions with owners recorded directly in equity				
Transfer to retained earnings*	(1,258,227,928)	-	1,258,227,928	-
At 30 June 2011	**651,362,519**	**8,473,720,390**	**2,179,215,673**	**11,304,298,582**
2012:				
At 1 July 2011	**651,362,519**	**8,473,720,390**	**2,179,215,673**	**11,304,298,582**
Comprehensive income				
Net profit for the year	-	-	**302,983,996**	**302,983,996**
Other comprehensive income				
Revaluation gain	77,906,418	-	-	77,906,418
Reversal of fair value on disposed investment	-	(70,615,311)	-	(70,615,311)
Change in fair value of quoted and unquoted investments	-	(733,160,911)	-	(733,160,911)
Total other comprehensive income for the year	**77,906,418**	**(803,776,222)**	-	**(725,869,804)**
At 30 June 2012	**729,268,937**	**7,669,944,168**	**2,482,199,669**	**10,881,412,774**

* The transfers relate to capital gains on disposal of investments in unquoted companies that had previously been transferred from retained earnings since these were not distributable.

The notes set out on pages 19 to 43 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1. Reporting Entity

The Corporation is incorporated as a Government Parastatal in Kenya under the Industrial and Commercial Development Corporation (ICDC) Act (Cap. 445 Laws of Kenya). The address of its registered office is as follows:

Uchumi House
Aga Khan Walk
P.O. Box 45519
00100 Nairobi GPO

2. Basis of Preparation

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

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

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

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

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

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

3. Significant Accounting Policies

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

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

(b) Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated to Kenya Shillings at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kenya Shillings at foreign exchange rates ruling at the dates the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

(c) Property and equipment

All categories of property, plant and equipment are initially recorded at cost. Property, plant and equipment is 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 external independent valuers.

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

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

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

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

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

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

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

(d) Intangible assets

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

(e) Income

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

(i) Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(ii) Dividend income is recognised as income in the period in which the right to receive payment is established.

(f) Prepaid operating leases

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

(g) Financial instruments

(i) Classification

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

Financial assets at fair value through profit and loss

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

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

Held-to-maturity

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

Available-for-sale

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

Financial liabilities

Are classified either as trading financial liabilities or other financial liabilities.

(ii) Recognition and measurement
Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Corporation commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Corporation's right to receive payments is established. Changes in the fair value of monetary and non monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement when the Corporation's right to receive payments is established.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

(h) Offsetting of financial assets and liabilities

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

(i) Taxation

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

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

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

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

(j) Grants and donations

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

(k) Employee benefits

(i) Pension obligations

The Corporation operates a defined contribution pension scheme for all its employees. The assets of the scheme are held in a separate administered fund that is funded by both the Corporation and the employees.
The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently limited to KShs 200 per employee per month.

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

(ii) Employee entitlements

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

(l) Provisions

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

(m) Impairment for non-financial assets

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

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

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

(n) Cash and cash equivalents

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

(o) Related party transactions

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

(p) Finance charges

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

(q) Comparatives

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

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2012, and have not been applied in preparing these financial statements as follows:

- IFRS 9 *Financial Instruments*. IFRS 9 will become mandatory for the Company's 2015 financial statements.
- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 *Employee Benefits (Amended)* (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (2011) *Separate Financial Statements* (effective 1 January 2013).
- IAS 28 (2011) *Investments in Associates and Joint Ventures* (effective 1 January 2013).
- Amendments to IAS 1 *presentation of items of other comprehensive income* (effective 1 July 2012).
- Amendments to IAS 12 *Deferred tax: Recovery of underlying assets statements* (effective 1 January 2012).

The directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Corporation's operations and concluded that they will not have a significant impact on the Corporation's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

4. Critical Accounting Estimates and Judgements

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

(i) Income taxes

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

(ii) Key sources of estimation uncertainty - Allowance for credit losses

The specific component of total allowances for impairment applies to loans and advances evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Collectively assessed impaired allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In considering the collective loan loss allowances, management considers the historical loan loss rate and the emergence period.

(iii) Estimation of fair value of unquoted equity investments

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

- The determination of the comparable quoted companies that have similar characteristics as the Corporation and whose price-earnings ratios have been used to fair value the Corporation's investments in unquoted securities;
- The determination of whether the average net assets of the unquoted investee companies adjusted using comparable quoted companies' price to book ratios are reflective of the fair values of these unquoted investee companies; and
- The determination of the weighting that should be allocated to the valuation based on the price-earnings ratio vis-à-vis the valuation based on the net assets of the unquoted investee companies. Management has assigned equal weights to the two criteria.

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

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

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

5. Financial Risk Management

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

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

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

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

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

(a) Credit risk

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. Financial Risk Management (continued)

(a) Credit risk (continued)

(i) Credit risk exposure
The Corporation's exposure to credit risk is analysed as follows:

	2012 Gross carrying Amount KShs'000	2012 Impairment Losses KShs'000	2012 Net carrying Amount KShs'000	2011 Net carrying Amount KShs'000
Investments-quoted	2,161,464,230	-	2,161,464,230	3,431,170,504
Investments-unquoted	6,671,787,334	-	6,671,787,334	6,116,658,851
Government securities and term deposits	687,377,806	-	687,377,806	1,163,284,996
Loans	16,596,784,803	(15,276,287,334)	1,320,497,469	741,045,850
Advances	58,066,213	(58,066,213)	-	-
Related companies current accounts	42,721,917	(24,439,101)	18,282,816	17,560,673
Sundry debtors	307,481,665	(54,637,232)	252,844,433	168,886,381
Bank and cash balances	20,796,760	-	20,796,760	23,705,530
	26,546,480,728	**(15,413,429,880)**	**11,133,050,848**	**11,662,312,785**

(ii) Impairment losses

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

30 June 2012	Balance brought forward	Additions during the year	Write backs during the year	Write offs/ adjustments during the year	Balance carried forward
Loans	14,358,310,894	1,549,825,105	(48,456,738)	(583,391,927)	15,276,287,334
Advances	75,352,786	-	(9,100,000)	(8,186,573)	58,066,213
Other companies current accounts	809,249,251	-	(449,375)	(784,360,775)	24,439,101
Sundry debtors	117,914,784	2,756,938	(1,856,608)	(64,177,882)	54,637,232
Total	**15,360,827,715**	**1,552,582,043**	**(59,862,721)**	**(1,440,117,157)**	**15,413,429,880**

30 June 2011	Balance brought forward	Additions during the year	Write backs during the year	Write offs/ adjustments during the year	Balance carried forward
Loans	12,408,008,755	2,277,890,492	(77,731,675)	(249,856,678)	14,358,310,894
Advances	76,353,648	-	(1,000,862)	-	75,352,786
Other companies current accounts	809,249,251	-	-	-	809,249,251
Sundry debtors	121,062,392	1,521,762	(4,003,316)	(666,054)	117,914,784
Total	**13,414,674,046**	**2,279,412,254**	**(82,735,853)**	**(250,522,732)**	**15,360,827,715**

(b) Liquidity risk

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

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

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

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

The table below analyses financial liabilities into relevant maturity based on the remaining period as at 30 June 2012 to the contractual maturity date.

30 June 2012: (KShs)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
LIABILITIES						
Grant and loans	-	-	-	-	914,285,381	914,285,381
Creditors	-	2,928,004	68,073,202	-	-	71,001,206
Dividends payable	-	-	-	-	125,000,000	125,000,000
Total liabilities	**-**	**2,928,004**	**68,073,202**	**-**	**1,039,285,381**	**1,110,286,587**
30 June 2011: (KShs)						
LIABILITIES						
Grant and loans	-	-	-	-	925,837,566	925,837,566
Creditors	-	2,452,105	59,423,163	-	-	61,875,268
Dividends payable	-	-	-	-	125,000,000	125,000,000
Total liabilities	**-**	**2,452,105**	**59,423,163**	**-**	**1,050,837,566**	**1,112,712,834**

(c) Market risk

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

(i) Interest rate risk

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

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

5. Financial Risk Management (continued)

c) Market risk (continued)

(i) Interest rate risk analysis - continued

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

2012:	Effective interest rate	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non -interest bearing	Total
Assets	%	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Non current assets								
Investments in quoted companies		-		-	-	-	2,161,464,230	**2,161,464,230**
Investments in other companies		-		-	-	-	6,671,787,334	**6,671,787,334**
Investment in Government securities	11.87	-		-	-	98,730,861	-	**98,730,861**
Loans	13.88	-		-	997,182,655	-	-	**997,182,655**
Intangible assets		-		-	-	-	10,047,463	**10,047,463**
Prepaid operating lease rentals		-		-	-	-	44,863,483	**44,863,483**
Property and equipment		-		-	-	-	803,737,567	**803,737,567**
Total- non current assets		-	-	-	**997,182,655**	**98,730,861**	**9,691,900,077**	**10,787,813,593**
Current assets								
Other companies' current accounts		-	-		-	-	18,282,816	**18,282,816**
Sundry debtors		-	-		-	-	252,844,433	**252,844,433**
Loans	13.88	-	-	323,314,814	-	-	-	**323,314,814**
Government securities & short term investments	18.92	-	588,646,945	-	-	-	-	**588,646,945**
Bank and cash balances			-	-	-	-	20,796,760	**20,796,760**
Total current assets		-	**588,646,945**	**323,314,814**	-	-	**291,924,009**	**1,203,885,768**
Total assets		-	**588,646,945**	**323,314,814**	**997,182,655**	**98,730,861**	**9,983,824,086**	**11,991,699,361**
Reserves, grants and liabilities								
Reserves		-	-	-	-	-	10,881,412,774	**10,881,412,774**
Grants and non current liabilities								
Grants and Government of Kenya loans	5.70	-	-	-	-	914,285,381	-	**914,285,381**
Current liabilities								
Creditors							71,001,206	**71,001,206**
Dividends payable							125,000,000	**125,000,000**
		-	-	-	-	-	**196,001,206**	**196,001,206**
Total reserves, grants & liabilities		-	-	-	-	**914,285,381**	**11,077,413,980**	**11,991,699,361**
Interest sensitivity gap		-	**588,646,945**	**323,314,814**	**997,182,655**	**(815,554,520)**	**(1,093,589,894)**	**-**

5. Financial Risk Management (continued)

c) Market risk (continued)

(i) Interest rate risk analysis - continued

2011:	Effective interest rate	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non -interest bearing	Total
Assets	%	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Non current assets								
Investments in quoted companies		-		-	-	-	3,431,170,504	**3,431,170,504**
Investments in other companies		-		-	-	-	6,116,658,851	**6,116,658,851**
Investment in Government securities	**11.87**	-		-	-	98,005,550	-	**98,005,550**
Loans	**10.49**	-		-	324,977,795	-	-	**324,977,795**
Intangible assets		-		-	-	-	11,930,027	**11,930,027**
Prepaid operating lease rentals		-		-	-	-	8,046,227	**8,046,227**
Property and equipment		-		-	-	-	734,722,377	**734,722,377**
Total- non current assets		-	-	-	**324,977,795**	**98,005,550**	**10,302,527,986**	**10,725,511,331**
Current assets								
Other companies' current accounts		-	-	-	-	-	17,560,673	**17,560,673**
Sundry debtors		-	-	-	-	-	168,886,381	**168,886,381**
Loans	**10.49**	-	-	416,068,055	-	-	-	**416,068,055**
Government securities & short term investments	**7.88**	-	1,065,279,446	-	-	-	-	**1,065,279,446**
Bank and cash balances		-	-	-	-	-	23,705,530	**23,705,530**
Total current assets		-	**1,065,279,446**	**416,068,055**	-	-	**210,152,584**	**1,691,500,085**
Total assets		-	**1,065,279,446**	**416,068,055**	**324,977,795**	**98,005,550**	**10,512,680,570**	**12,417,011,416**
Reserves, grants and liabilities								
Reserves		-	-	-	-	-	11,304,298,582	**11,304,298,582**
Grants and non current liabilities								
Grants and Government of Kenya loans	**5.29**	-	-	-	-	925,837,566	-	**925,837,566**
Current liabilities								
Creditors		-	-	-	-	-	61,875,268	**61,875,268**
Dividends payable		-	-	-	-	-	125,000,000	**125,000,000**
		-	-	-	-	-	**186,875,268**	**186,875,268**
Total reserves, grants & liabilities		-	-	-	-	**925, 837,566**	**11,491,173,850**	**12,417,011,416**
Interest sensitivity gap		-	**1,065,279,446**	**416,068,055**	**324,977,795**	**(827,832,016)**	**(978,493,280)**	**-**

5 Financial Risk Management (continued)

(c) Market risk (continued)

(i) Interest rate risk analysis - continued

Sensitivity analysis on interest rates
An increase of 1 percentage point in interest rates at the reporting date would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2011:

Effect in Shillings

	Statement of comprehensive income	
	2012 KShs	**2011 KShs**
Loans and advances	10,935,899	9,784,933

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

(ii) Equity prices

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

At 30 June 2012, if the prices of all quoted investments had increased/decreased by 5% with all other variables held constant, the increase in net assets available for the year would have been KShs. 108,073,211 (2011 – KShs 171,558,525) higher/lower.

At 30 June 2012, if price earnings for unquoted investments had increased/decreased by 5% with all other variables held constant, the increase/decrease in net assets available for the year would have been KShs 54,904,465 (2011 – KShs 104,220,633).

5 Financial Risk Management (continued)

(c) Market risk (continued)

(ii) Equity prices - continued

This is analysed in the table below:

Company security	**2012**			**2011**		
Main Investment Market Segment	**No. of shares**	**Market price KShs**	**Market value KShs**	**No. of shares**	**Market Price KShs**	**Market value KShs**
Banking						
Barclays Bank of Kenya Ltd	156,800	13.05	2,046,240	156,800	5.80	2,696,960
Standard Chartered Bank Ltd	14,700	201.00	2,954,700	14,700	234.00	3,439,800
Commercial & Services						
Nation Media Group	16,060	176.00	2,826,560	16,060	167.00	2,682,020
Uchumi Supermarkets Ltd	7,288,472	15.90	115,886,705	7,288,472	11.40	83,088,581
Kenya Airways Ltd	53,500	13.10	700,850	53,500	38.00	2,033,000
Energy & Petroleum						
Total Kenya Ltd	93,600	15.45	1,446,120	93,600	23.50	2,199,600
Kenya Power & Lighting Company Ltd	109,800	15.10	1,657,980	97,600	21.50	2,098,400
Insurance						
Jubilee Holdings Ltd	18,150	163.00	2,958,450	16,500	178.00	2,937,000
Investment						
Centum Investments Ltd	152,847,897	12.75	1,948,810,687	142,234,543	22.75	3,235,835,853
Manufacturing & Allied						
British American Tobacco Ltd	17,000	372.00	6,324,000	17,000	264.00	4,488,000
Eveready Batteries Kenya Ltd	36,583,575	1.65	60,362,898	36,583,575	2.00	73,167,150
East African Breweries Ltd	21,300	227.00	4,835,100	21,300	195.00	4,153,500
Telecommunication & Technology						
Access Kenya Ltd	82,000	4.75	389,500	82,000	7.30	598,600
Safaricom Limited	2,975,200	3.45	10,264,440	2,975,200	3.95	11,752,040
Total			**2,161,464,230**			**3,431,170,504**

(iii) ***Currency risk***

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

(d) Operational risk

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

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

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

(e) Capital management

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

6. Financial Assets and Liabilities and their Fair Values

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

As at 30 June 2012	Held for trading KShs	Held to maturity KShs	Loans and receivables KShs	Available-for-sale KShs	Other amortised cost KShs	Total carrying amount KShs	Fair values KShs
Assets							
Investments in quoted companies		-	-	2,161,464,230	-	2,161,464,230	2,161,464,230
Investments in other companies	-	-	-	6,671,787,334	-	6,671,787,334	6,671,787,334
Investments in Government securities	-	98,730,861	-	-	-	98,730,861	98,730,861
Long term Loans	-	-	997,182,655	-	-	997,182,655	997,182,655
Advances	-	-	-	-	-	-	
Current portion of loans receivable	-	-	323,314,814	-	-	323,314,814	323,314,814
Other Companies Current accounts	-	-	-	-	18,282,816	18,282,816	18,282,816
Sundry debtors	-	-	-	-	252,844,433	252,844,433	252,844,433
Short term deposits	-	-	-	-	588,646,945	588,646,945	588,646,945
Cash and cash equivalents	-	-	-	-	20,796,760	20,796,760	20,796,760
Total assets	-	**98,730,861**	**1,320,497,469**	**8,833,251,564**	**880,570,954**	**11,133,050,848**	**11,133,050,848**
Liabilities and shareholders' funds							
Government loans and grants	-	-	-	-	914,285,381	914,285,381	914,285,381
Total liabilities	-	-	-	-	**914,285,381**	**914,285,381**	**914,285,381**
As at 30 June 2011							
Assets							
Investments in quoted companies	-	-	-	3,431,170,504	-	3,431,170,504	3,431,170,504
Investments in other companies	-	-	-	6,116,658,851	-	6,116,658,851	6,116,658,851
Investments in Government securities	-	98,005,550	-	-	-	98,005,550	98,005,550
Long term Loans	-	-	324,977,795	-	-	324,977,795	324,977,795
Advances	-	-	-	-	-	-	-
Current portion of loans receivable	-	-	416,068,055	-	-	416,068,055	416,068,055
Other Companies Current accounts	-	-	-	-	17,560,673	17,560,673	17,560,673
Sundry debtors	-	-	-	-	168,886,381	168,886,381	168,886,381
Short term deposits	-	-	-	-	1,065,279,446	1,065,279,446	1,065,279,446
Cash and cash equivalents	-	-	-	-	23,705,530	23,705,530	23,705,530
	-						
Total assets	-	**98,005,550**	**741,045,850**	**9,547,829,355**	**1,275,432,030**	**11,662,312,785**	**11,662,312,785**
Liabilities and shareholders' funds							
Government loans and grants	-	-	-	-	925,837,566	925,837,566	925,837,566
Total liabilities	-	-	-	-	**925,837,566**	**925,837,566**	**925,837,566**

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

	2012 KShs	2011 KShs

7. Income

	2012 KShs	2011 KShs
Dividends	173,381,039	218,938,805
Interest on loans and advances	1,619,831,028	2,296,852,691
Application fees	12,473,153	6,625,000
Valuation fees and other services	7,588,665	6,831,229
Rental income	86,703,723	88,473,860
Interest on deposits	172,489,710	85,550,012
Write back on provision for sundry debtors and related companies' current accounts	2,305,983	10,955,265
Write back on provisions for loans and advances	57,556,738	78,732,537
	2,132,330,039	**2,792,959,399**

8. Other Income

	2012 KShs	2011 KShs
Profit on disposal of Investments	47,273,059	-
Profit on disposal of equipment	416,000	2,327,956
Sundry income	2,743,150	1,235,614
	50,432,209	**3,563,570**

9. Administration and Establishment Expenses

	2012 KShs	2011 KShs
Staff costs	159,486,510	135,506,695
Directors' fees and other	16,306,082	13,581,630
Rent and rates	1,974,727	1,153,939
Audit fees	3,403,895	2,541,000
Depreciation (Note 21)	23,702,249	22,461,123
Amortisation – prepaid leases (Note 20)	111,611	113,194
Amortisation – intangible assets (Note 19)	8,060,350	7,335,498
Repairs and maintenance	9,394,157	2,531,206
Insurance	3,435,578	3,631,300
Bank charges	639,054	565,159
Printing and stationery	2,364,619	3,069,437
Water and electricity	18,744,866	16,429,764
Publicity and advertising	12,728,675	14,455,129
Telephone and telex	2,382,126	1,909,242
Travelling and subsistence	7,381,486	3,727,731
Motor vehicle running	1,476,446	1,015,478
Professional expenses	7,840,196	3,746,987
Computer expenses	6,428,794	9,774,627
Legal fees	3,552,342	6,789,507
Uchumi House security	8,360,352	7,207,200
VAT and other taxes	12,538,470	7,141,496
Subscriptions	2,230,570	1,312,780
Uchumi House administration	5,937,019	3,851,339
Donations and other	268,220	637,569
	318,748,394	**270,489,030**

The number of employees at the end of the year was 63 (2011 – 67).

Included in staff costs are contributions to a defined contribution retirement benefit plan. During the year, the Corporation expensed KShs 6,222,615 (2011 – KShs 5,766,961) in contributions payable.

NOTES TO THE FINANCIAL STATEMENTS

	2012 KShs	2011 KShs
10. Impairment Losses		
Arising from:		
Loans	1,549,825,105	2,277,890,492
Sundry debtors	2,756,938	1,521,762
	1,552,582,043	**2,279,412,254**
11. Finance Charges		
Interest on Government of Kenya loans	**8,447,815**	**8,447,815**
12. Profit Before Taxation		
Profit before taxation is stated after charging:		
Depreciation	23,702,249	22,461,123
Amortisation – prepaid leases	111,611	113,194
Amortisation – intangible assets	8,060,350	7,335,498
Directors' emoluments: - Personal remunerations	16,306,082	13,581,630
- Gratuity	3,754,685	3,605,040
Auditors' remuneration	2,804,880	2,697,000
13. Taxation		
Income tax expense		
Current tax at 30%	-	-
Deferred tax expense	-	-
	-	-

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

	2012 KShs '000	2011 KShs '000
Accounting profit before taxation	302,983,996	238,173,870
Computed tax using the applicable tax rate at 30%	90,895,199	71,452,161
Non-deductible costs and non-taxable income	162,325,025	19,715,100
Movement in deferred income tax not recognised	(253,220,224)	(91,167,261)
Income tax expense	-	-

A deferred tax asset estimated at KShs 1,833,352,800 (2011 – KShs 2,086,573,024) has not been recognised in these financial statements as the directors are of the opinion that the benefit will not crystallise in the foreseeable future.

As at 30 June 2012, the Corporation had cumulative tax losses of KShs 646,392,941 (2011-KShs 811,468,943). The cumulative tax losses expire in 2014 under the current tax legislation.

13. Taxation (continued)

Deferred tax asset - unrecognised

The movement in the deferred tax asset is as follows:

2012:	**At 1 July 2011 KShs**	**Movement in the year KShs**	**At 30 June 2012 KShs**
Property and equipment	391,053	935,190	1,326,243
Provisions	(1,843,523,394)	202,762,234	(1,640,761,160)
Tax losses	(243,440,683)	49,522,800	(193,917,883)
	(2,086,573,024)	**253,220,224**	**(1,833,352,800)**

2011:	**At 1 July 2010 KShs**	**Movement in the year KShs**	**At 30 June 2011 KShs**
Property and equipment	3,698,081	(3,307,028)	391,053
Provisions	(1,924,238,691)	80,715,297	(1,843,523,394)
Tax losses	(257,199,675)	13,758,992	(243,440,683)
	(2,177,740,285)	**91,167,261**	**(2,086,573,024)**

14. Investment in Quoted Companies

	2012 KShs	**2011 KShs**
Investment in shares	3,431,170,504	3,690,020,683
Sale of shares	(74,663,342)	-
Change in fair value	(1,195,042,932)	(258,850,179)
	2,161,464,230	**3,431,170,504**

15. Investment in Unquoted Companies

	2012 KShs	2011 KShs
At 1 July	6,116,658,851	6,093,923,179
Additional investment	93,246,529	-
Fair value adjustment	461,882,353	22,735,672
	6,671,787,333	**6,116,658,851**

The carrying amount of investment in unquoted entities above is net of KShs 138,422,264 relating to investments that have been fully provided for. During the year, the Corporation wrote off investments amounting to KShs 174,208,262 which had been fully provided for in the previous year.

	Kshs
Rift Valley Textiles Limited (In receivership)	157,532,263
Farm Fresh Commodities Limited	16,340,000
Rehabilitation Advisory Services (Liquidated)	336,000
	174,208,263

Managed funds

Investment in unquoted companies include funds disbursed to the following companies being managed funds administered on behalf of the Government of Kenya, and against which no provision for losses is made the Corporation's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

15. Investment in Unquoted Companies (continued)

	2012 KShs	2011 KShs
Rift Valley Textiles Limited (in receivership) – equity	-	43,400,000
Kenatco Transport Limited (in receivership) – equity	6,900,000	6,900,000
Kisumu Cotton Mills (1983) Limited (in liquidation) – equity	19,500,000	19,500,000
Pan African Vegetable Products Limited (in liquidation) – equity	1,265,000	1,265,000
Pan Vegetable Processors Limited – equity	15,805,390	15,805,390
South Nyanza Sugar Limited – equity	10,000,000	10,000,000
	53,470,390	**96,870,390**

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

16. Government Securities and Short Term Deposits

(a) Treasury Bonds – Held to Maturity

	2012 KShs	2011 KShs
Maturing after 90 days	**98,730,861**	**98,005,550**

The Treasury bonds will mature on 14 March 2016. The effective interest rate on Treasury bonds at 30 June 2012 was 11.87% (2011 – 11.87%).

(b) Maturing within 90 days

	2012 KShs	2011 KShs
Short term deposits	**588,646,945**	**1,065,279,446**

The weighted average effective interest rate on short term deposits was 18.92% (2011-7.88%)

17. Loans

	2012 KShs	2011 KShs
(a) Outstanding loans		
Large and medium loans		
Loans to significant companies	364,285,528	541,903,736
Less: Impairment losses (Note 17 (b))	(5,400,000)	(216,670,200)
Total large and medium loans	**358,885,528**	**325,233,536**
Small loans		
Commercial	5,306,556,592	8,180,791,374
Property	1,097,432,450	829,384,444
Industrial	2,704,358,879	4,105,684,441
Machinery	319,500,034	270,573,848
ICDC/General Motors Kenya Limited/ ICDC/Kenya Breweries Limited	10,677,548	9,221,439
Personal loans	107,927,512	177,797,661
ICDC – Kenya Bus Services Limited	24,850,172	21,048,606
Hire purchase	68,358,783	31,652,833
Corporate	965,305,754	931,184,184
Corporate	5,628,114,659	-
Unclassified loans	(583,101)	114,178
	16,232,499,282	14,557,453,008
Less: Impairment losses (Note 17 (b))	(15,270,887,341)	(14,141,640,694)
Total small loans-Net	**961,611,941**	**415,812,314**
Total loans-Net	**1,320,497,469**	**741,045,850**
Classified as:		
Due within one year	323,314,814	416,068,055
Due after one year	997,182,655	324,977,795
Total loans	**1,320,497,469**	**741,045,850**

The weighted average effective interest rate on loans and advances at 30 June 2012 was 13.88% (2011 - 10.49%).

(b) Impairment losses on loans	2012 KShs	2011 KShs
As at 1st July	14,358,310,894	12,408,008,755
Increase in impairment	1,549,825,105	2,277,890,492
Impairment losses no longer required	(48,456,738)	(77,731,675)
Loans written off	(583,391,927)	(249,856,678)
	15,276,287,334	**14,358,310,894**
Comprising of:		
Large and medium loans	5,400,000	216,670,200
Small loans	15,270,887,334	14,141,640,694
Total loans	**15,276,287,334**	**14,358,310,894**

NOTES TO THE FINANCIAL STATEMENTS

18. Advances

	2012 KShs	2011 KShs
Loans to significant companies	14,289,091	22,475,664
Other companies	43,777,122	52,877,122
	58,066,213	75,352,786
Less: Impairment losses	(58,066,213)	(75,352,786)
	-	-

19. Intangible Assets

	2012 KShs	2011 KShs
Cost		
As at 1 July	28,509,424	26,532,952
Additions in the year	6,177,786	1,976,472
As at 30 June	34,687,210	28,509,424
Amortisation		
As at 1 July	16,579,397	9,243,899
Charge for the year	8,060,350	7,335,498
As at 30 June	24,639,747	16,579,397
Net book value at 30th June	**10,047,463**	**11,930,027**

20. Prepaid Operating Leases

	2012 KShs	2011 KShs
Cost		
At 1 July	8,499,059	8,499,059
Additions	36,928,867	-
At 30 June	45,427,926	8,499,059
Amortisation		
At 1 July	452,832	339,638
Charge for the year	111,611	113,194
At 30 June	564,443	452,832
Net book value at 30 June	**44,863,483**	**8,046,227**

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

21. Property and Equipment

2012:	Buildings KShs	Motor vehicles KShs	Furniture and office equipment KShs	Total KShs
Cost/valuation				
At 1 July 2011	724,814,206	22,508,690	57,659,272	804,982,168
Additions	2,058,154	-	12,752,867	14,811,021
Revaluation	77,906,418	-	-	77,906,418
Disposals	-	(2,706,870)	(740,000)	(3,446,870)
At 30 June 2012	804,778,778	19,801,820	69,672,139	894,252,737
Comprising:				
Cost	115,847,764	19,801,820	29,334,216	164,983,800
Valuation	688,931,014	-	40,337,923	729,268,937
	804,778,778	19,801,820	69,672,139	894,252,737
Depreciation				
At 1 July 2011	43,023,771	14,783,534	12,452,486	70,259,791
Disposals	-	(2,706,870)	(740,000)	(3,446,870)
Charge for the year	11,755,007	3,122,859	8,824,383	23,702,249
At 30 June 2012	54,778,778	15,199,523	20,536,869	90,515,170
Net book value				
At 30 June 2012	**750,000,000**	**4,602,297**	**49,135,270**	**803,737,567**

2011:	Buildings KShs	Motor vehicles KShs	Furniture and office equipment KShs	Total KShs
Cost/valuation				
At 1 July 2010	689,168,454	30,829,776	50,627,450	770,625,680
Additions	35,645,752	60,000	7,031,822	42,737,574
Disposals	-	(8,381,086)	-	(8,381,086)
At 30 June 2011	724,814,206	22,508,690	57,659,272	804,982,168
Comprising:				
Cost	113,789,610	22,508,690	17,321,349	153,619,649
Valuation	611,024,596	-	40,337,923	651,362,519
	724,814,206	22,508,690	57,659,272	804,982,168
Depreciation				
At 1 July 2010	31,687,900	18,653,420	5,132,262	55,473,582
Disposals	-	(7,674,914)	-	(7,674,914)
Charge for the year	11,335,871	3,805,028	7,320,224	22,461,123
At 30 June 2011	43,023,771	14,783,534	12,452,486	70,259,791
Net book value				
At 30 June 2011	**681,790,435**	**7,725,156**	**45,206,786**	**734,722,377**

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

The revaluation of Uchumi House and Prepaid leases were carried out in June 2012 by the Corporation's qualified valuers, based on an open market value. The resulting surplus on revaluation was credited to capital reserves.

Included in the property and equipment are fully depreciated assets whose initial cost was KShs 4,187,530 (2011 – KShs 11,804,640). If they had been depreciated at existing rates, a notional depreciation charge of KShs. 837,506 (2011 – KShs 1,378,880) would have resulted.

NOTES TO THE FINANCIAL STATEMENTS

22. Related Companies' Current Accounts

	2012 KShs	2011 KShs
Current accounts	42,721,917	826,809,924
Less: Impairment losses	(24,439,101)	(809,249,251)
	18,282,816	**17,560,673**

23. Sundry Debtors

	2012 KShs	2011 KShs
Dividends receivable	110,352,017	118,125,935
Receivable from Uchumi House tenants	54,411,739	43,236,127
Recoverable expenses from associate companies	16,820,837	43,058,422
Prepayment of staff loans	34,775,032	-
Other debtors	91,122,040	82,380,681
	307,481,665	286,801,165
Less: Impairment losses	(54,637,232)	(117,914,784)
	252,844,433	**168,886,381**

24. Bank and Cash Balances

	2012 KShs	2011 KShs
Bank and cash balances	8,126,760	11,035,530
Restricted funds	12,670,000	12,670,000
	20,796,760	**23,705,530**

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

25. Reserves

Revaluation reserves
The revaluation reserve relates to the revaluation of property, plant and equipment.

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

26. Grants and Loans

	2012 KShs	2011 KShs
From Government of Kenya		
Grants:		
Government grants	529,971,270	529,971,270
Loans:		
At 1 July 2012 and 2011	369,326,976	401,399,791
Interest for the year	7,927,185	7,927,185
Repayment during the year	(20,000,000)	(40,000,000)
	357,254,161	369,326,976
From KFW of West Germany		
Loans:		
At 1 July 2012 and 2011	26,539,320	26,018,690
Interest for the year	520,630	520,630
Sub total KFW of West Germany	**27,059,950**	**26,539,320**
Total grants and loans	**914,285,381**	**925,837,566**

26. Grants and Loans (continued)

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

27. Creditors

	2012 KShs	2011 KShs
General creditors	52,032,885	47,417,993
Rent deposit	18,968,321	14,457,275
	71,001,206	**61,875,268**

28. Dividends Payable to Government of Kenya

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

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

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

29. Notes to the Statement of Cash Flows

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2012 KShs	2011 KShs
Profit before tax	302,983,996	238,173,870
Adjustments for:		
Depreciation (Note 21)	23,702,249	22,461,123
Amortisation – prepaid leases (Note 20)	111,611	113,194
Amortisation – intangible assets (Note 19)	8,060,350	7,335,498
Interest on Government loans (Note 11)	8,447,815	8,447,815
Gain on disposal of property and equipment (Note 8)	(416,000)	(2,327,953)
Gain on disposal of quoted investments (Note 8)	(47,273,059)	-
Working capital changes:		
Net movement in loans and advances	(579,451,619)	112,929,521
Increase/(decrease) in creditors	9,125,938	(525,866)
Increase in sundry debtors	(83,958,052)	(26,053,799)
(Increase)/decrease in other companies current accounts	(722,143)	13,665,697
Net cash (outflow)/inflow from operating activities	**(359,388,914)**	**374,219,100**

(b) Analysis of cash and cash equivalents

	2012 KShs	2011 KShs	Change in the year KShs
Government securities and short term investments (Note 16(b))	588,646,945	1,065,279,446	(476,632,501)
Bank and cash balances (Note 24)	20,796,760	23,705,530	(2,908,770)
	609,443,705	**1,088,984,976**	**(479,541,271)**

30. Bank Overdraft

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

31. Related Party Transactions

Grants and loans

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to finance the operation of the Corporation. The relevant balances are shown in Note 26.

Investment in other related companies

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

Dividends earned during the year are as follows:	2012 KShs	2011 KShs
Dividends (Note 7)	**173,381,039**	**218,938,805**

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

Advances to other related companies

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

Compensation to executive management	2012 KShs	2011 KShs
Short term compensation benefits (salaries)	6,000,000	5,868,705
Executive Director's gratuity	1,488,000	1,440,000
	7,488,000	**7,308,705**
Loans and advances to staff		
Staff and management	**116,239,623**	**100,944,739**

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

32. Commitments

These include the following:	2012 KShs	2011 KShs
Small loans	134,000,000	46,500,000
Equity Investment	70,000,000	-
Capital commitments – approved	6,731,294	10,563,213
	210,731,294	**57,063,213**

33. Contingent Liabilities

As at 30 June 2012, the Corporation had issued guarantees amounting to KShs 36,000,000 (2011 – KShs 22,000,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to KShs 71,579,012 (2011 – KShs 110,337,805) together with the interest thereon and costs of the suits. In addition as per Note 24, the Corporation has deposited KShs 12,670,000 in a joint interest earning account with the advocates of parties in a suit with the Corporation and obtained a bank guarantee of the same amount in respect of the matter. No provision has been made in these financial statements as the directors are of the opinion that no liability in respect of the above matters will crystallise.

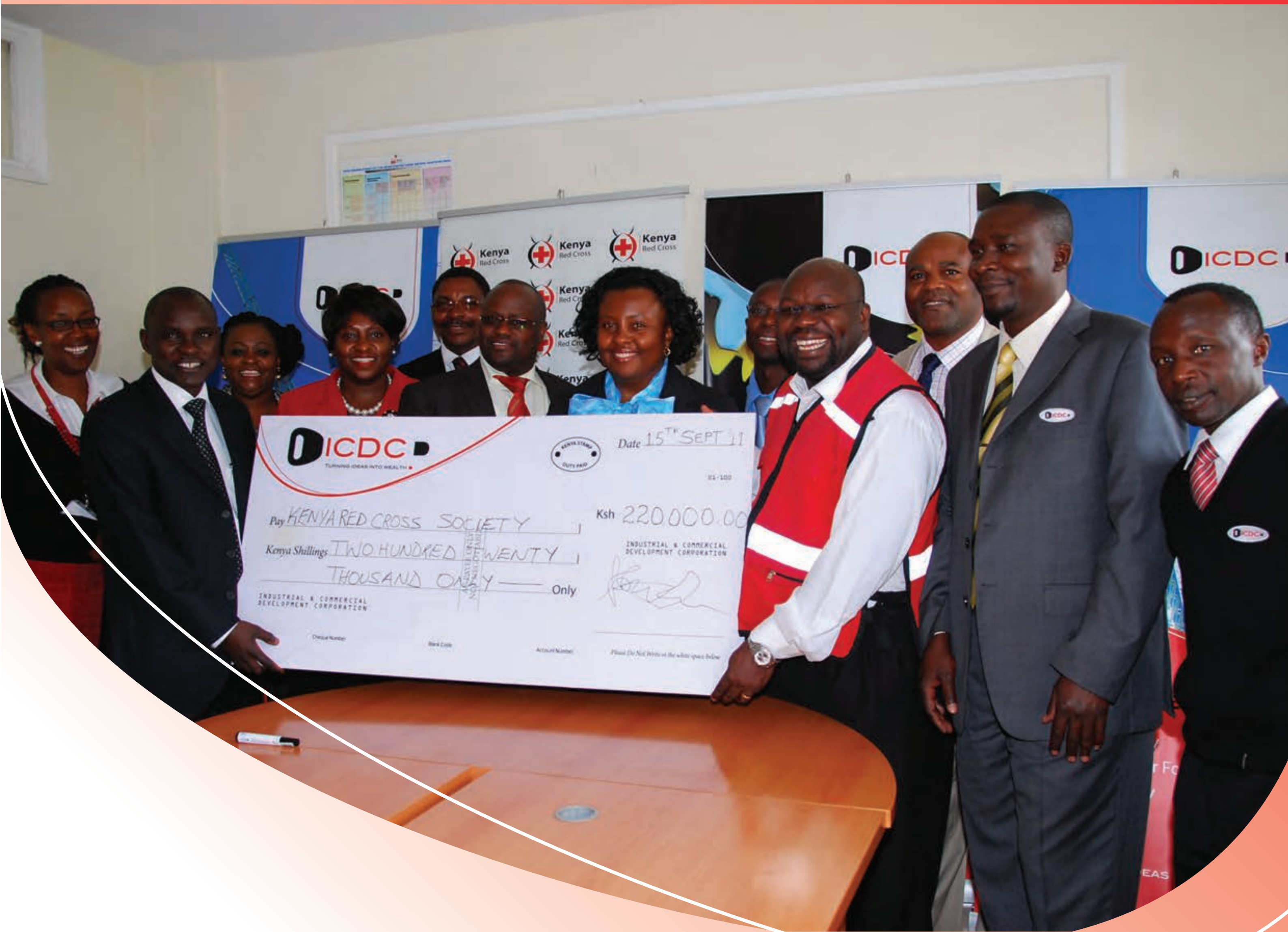
34. Future Rental Commitment Under Operating Leases

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

	2012 KShs	**2011 KShs**
Due within 1 year	75,392,299	78,922,002
After 1 year but less than 5 years	220,200,678	45,004,149
After 5 years	33,947,141	505,856
	329,540,118	**124,432,007**

ICDC'S SHAREHOLDING IN SUBSIDIARY AND ASSOCIATE COMPANIES AS AT 30 JUNE 2012

	Number of Total Paid Up Shares	Number of Shares Held By ICDC	Percentage Shareholding
(i) Un-Quoted Investments			
Agro-Chemical and Food Company Limited	3,000,000	845,000	28.17
AON Kenya Insurance Brokers Limited	1,545,700	309,140	20.00
Development Bank of Kenya Limited	17,375,000	15,520,000	89.32
East African Coast Fisheries Limited (In Receivership)	1,862,950	511,520	27.46
Focus Container Freight Station	100,000	25,000	25.00
Funguo Investments Limited	8,193,699	2,190,000	26.73
General Motors East Africa Limited	1,567,500	313,500	20.00
IDB Capital Limited	40,500,750	1,735,500	4.29
Kenatco Taxis Limited (In Receivership)	250,000	250,000	100.00
Kenya National Trading Corporation Ltd	1,600,000	1,600,000	100.00
Kisii Bottlers Limited	17,866,900	8,046,337	45.03
KWA Holdings Limited	96,000,000	69,748,132	72.65
Meatland Processing Limited (In Receivership)	723,810	227,688	31.46
Mount Kenya Bottlers Limited	4,498,293	831,250	18.48
Mountain Region Poultry Farmers Company Limited (In Receivership)	573,000	160,000	27.92
Njoka Tanners Limited	3,770,000	1,250,000	33.16
Palm Health Care International Ltd	216,775	50,000	23.07
Pan African Paper Mills (E.A.) Limited	59,310,000	3,293,925	5.55
Rift Valley Bottlers Limited	18,368,760	5,051,490	27.50
South Nyanza Sugar Company Limited	18,000,000	125,000	0.69
ii) Quoted Investments			
Eveready Batteries Kenya Limited	210,000,000	36,583,575	17.42
Centum Investment Company Limited	665,441,714	152,847,897	22.97
Uchumi Supermarkets Limited	265,426,614	7,288,472	2.75



ICDC team led by the Executive Director, Mr. Peter M. Kimurwa (L) presents a cheque of Kshs 220,000.00 to Mr. Arthur Omollo (R) of Kenya Red Cross to purchase two tons of Unimix Food to feed school going children in support of Kenyans for Kenya initiative.

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