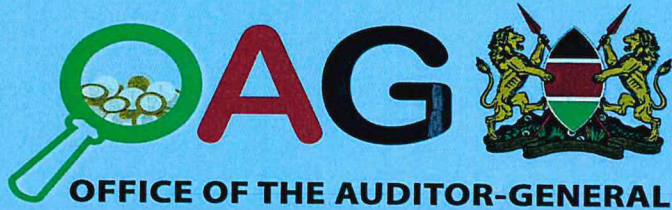



REPUBLIC OF KENYA



Enhancing Accountability

| | |
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| THE NATIONAL ASSEMBLY PAPERS LAID | |
| DATE: 15 OCT 2020 | DAY: THURSDAY |
| TABLED BY: | LEADER OF THE MAJORITY |
| CLERK-AT THE TABLE: | R-K. TIAMBATI  |

OF

THE AUDITOR-GENERAL

ON

**INDUSTRIAL AND COMMERCIAL
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2018**



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION

VISION

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

MISSION

To Be the Catalyst for Wealth Creation.

BRAND PROMISE

Creation of Sustainable Wealth.

CORE VALUES

Reliability, Customer Focus, Creativity, Integrity.

DIRECTORS

| | |
|-------------------------------|--|
| Benard muteti Mungata | -Chairman |
| William Haggai | -Ag Executive director |
| Isaiah Cheruyiot | |
| Cheryl Majiwa | |
| Caroline Akoth Okiro | |
| Francisca Omasaja | |
| Dr. Adam Sheikh Mohamed | |
| Joseph Kipkemoi Kiplagat | -Appointed on 8 May 2018, resigned 1 April 2019 |
| David Wachira | -Resigned on 8 May 2018 |
| Francis Kimemia | -Resigned on 8 May 2018 |
| Ambassador Julius Ole Sunkuli | -Resigned on 8 May 2018 |
| Hon. Wilfred Ombui | -Resigned 8 May 2018 |

REGISTERED OFFICE

Uchumi House
Aga Khan Walk
P O Box 45519 - 00100
Nairobi

CORPORATION SECRETARY

Grace M. Magunga
Certified Public Secretary (Kenya)
P O Box 45519 - 00100
Nairobi

CORPORATE CONTACTS

Telephone: (254) 020-2229213 (254) 020-2771000
Mobile: 0727534572/0736229213
Email: info@icdc.co.ke
Website: www.icdc.co.ke

PRINCIPAL AUDITOR

The Auditor General
Anniversary Towers
P O Box 30084 - 00100
Nairobi

DELEGATED AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092 - 00100 GPO
Nairobi

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION (CONTINUED)

BANKERS

KCB Bank Limited
Moi Avenue
P O Box 30081 - 00100
Nairobi

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

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

LAWYERS

Anjarwalla & Khanna (A&K) Advocates
5th Floor, The Oval, Junction of Ring Road
Parklands & Jalaram Road Westlands
P O Box 200 - 00606, Sarit Centre
Nairobi, Kenya

Coulson Harney LLP
5th Floor, ICEA Lion Centre, West Wing
Riverside Park
Chiromo Road
P O Box 10643 - 00100
Nairobi, Kenya

Hamilton Harrison & Mathews Advocates
1st Floor, Delta Office Suites, Waiyaki Way
P O Box 30333 - 00100
Nairobi, Kenya

Iseme, Kamau & Maema Advocates
IKM Place
5th Floor, Tower A
5th Ngong Avenue
P O Box 11866 - 00400
Nairobi, Kenya

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS' PROFILES

BENARD MUTETI MUNG'ATA - CHAIRMAN



Bernard Muteti Mung'ata is an Advocate of the High Court of Kenya and a member of the Law Society of Kenya.

He has been a legal practitioner of good standing for Twenty-Five (25) years now and is the Managing Partner of a reputable law firm by the name B.M Mung'ata & Company Advocates whose main office is situated in Machakos town.

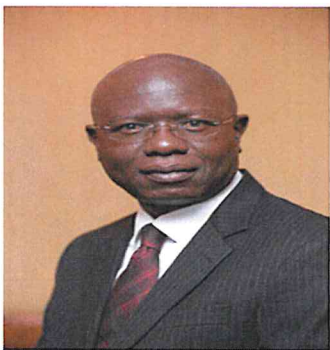
Mr. Mung'ata has a wealth of experience in leadership and management. He has previously served the people of Machakos County as the Speaker of the County Assembly from the year 2013 to 2017. He was also the chairman of Machakos County Assembly Service Board for the said period.

He is currently the Chairman of the Board of Management, Mumbuni Boys High School and the Chair of the old students' alumni. He is also the Chair of the Board of Directors Massmart Kenya Limited and a member of all souls development committee, Machakos diocese.

Mr. Mung'ata holds a Bachelor of Laws degree from the University of Nairobi; a post graduate degree from Kenya School of Law and is currently pursuing a Masters degree in Public International Law at the University of Nairobi.

He is also an astute business man with a passion for social welfare.

WILLIAM HAGGAI - AG. EXECUTIVE DIRECTOR



Mr Haggai was appointed the Ag. Executive Director with effect from 6th June 2018. He has vast knowledge in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation drawn from close to 19 years' experience with IDB Capital Limited.

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

He sits on the Boards of Centum Investments Limited, Isuzu East Africa Limited, Almasi Beverages Limited, Kenya Wine Agencies Limited, Development Bank of Kenya and Kenya National Trading Corporation Limited.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS' PROFILES (CONTINUED)

ENG. ISAIAH KIBET CHERUIYOT -DIRECTOR



Engineer Isaiah Kibet Cheruiyot was appointed to the Board on 2nd October 2016.

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

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

CHERYL ADHIAMBO MAJIWA -ALTERNATE DIRECTOR TO CS NATIONAL TREASURY



Ms. Cheryl Majiwa was appointed to the Board in April 2015 as the Alternate director to the Cabinet Secretary, The National Treasury.

She has a wealth of experience in management of Government investments including management of direct and on-lent loans, revenue collection and review and analysis of budgets and financial reports. She currently works in the Department of Government Investment and Public Enterprises at The National Treasury. She also sits on the boards of selected state corporations as Alternate director to the Cabinet Secretary, The National Treasury.

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

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



Amb. Joseph K. Kiplagat was appointed to the Board on 31st May 2018 and resigned in April 2019.

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

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

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS' PROFILES (CONTINUED)

CAROLINE AKOTH OKIRO – DIRECTOR



Ms. Caroline A. Okiro was appointed to the Board on 31st May 2017.

She previously worked with the Kenya Broadcasting Corporation in the Marketing Department and thereafter as a Consultant in Social budget tracking at the Ministry of Devolution and Planning.

She is currently the Administration and Finance Director at REDPLAN Consultants Limited., an environment and development planning consulting firm.

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

DR. ADAM S. MOHAMED – DIRECTOR



Dr Adam S Mohamed was appointed to the Board on 31st May 2017.

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

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

FRANSISCA ISWAN OMASAJA - DIRECTOR



Ms. Fransisca I. Omasaja was appointed to the Board on 31st May 2017.

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

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

GRACE M. MAGUNGA - CORPORATION SECRETARY



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

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

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

MANAGEMENT TEAM

1. William Haggai - Ag. Executive Director

Mr Haggai was appointed the Ag. Executive Director with effect from 6th June 2018.

He has vast knowledge in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation drawn from close to 19 years' experience with IDB Capital Limited. Mr Haggai holds a Masters of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor. He has attended a wide range of short courses on development financing both locally and outside the country. He is a member of the Computer Society of Kenya, and the Institute of Directors Kenya.

He sits on the Boards of Centum Investments Limited, Isuzu East Africa Limited, Almasi Beverages Limited, Kenya Wine Agencies Limited, Development Bank of Kenya and Kenya National Trading Corporation Limited.

2. Mbatha Mbithi - Chief Manager Operations

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

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

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

3. Grace M. Magunga - Corporation Secretary

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

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

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

4. Joseph Mwaura - Special Projects Manager

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

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

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

MANAGEMENT TEAM (CONTINUED)

5. Faith Nene - Human Resources & Administration Manager

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

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

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

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

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

7. Erasto Shako - Equity Manager

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

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

8. Edward Ibuche - Internal Audit Manager

Mr Ibuche has been the Internal Audit Manager since April 2018. He has experience of over 10 years in Accounting, Finance and Audit having worked in ICDC for the 10 years.

He holds a Bachelor of Business Administration degree from Kenya Methodist University).

He was appointed with effect from March 2018.

9. Edward Gitau - Credit Manager

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

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

10. Kennedy M. Wanderi - Finance Manager

Mr. Kennedy M. Wanderi is ICDC's Finance Manager since 2014.

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

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

CHAIRMAN'S STATEMENT

The global economy grew by 3.6% in financial year 2018 compared to a growth of 3.1% in financial year 2017. This growth was reflected in major world economies except United Kingdom whose growth decelerated to 1.5% in financial year 2018 due to a weaker aggregate demand and uncertainties surrounding the Brexit negotiations. United States of America registered a growth of 2.2% while Chinese economy expanded by 6.8% in financial year 2018 compared to 6.7% in financial year 2017. The Sub Saharan Africa economy on the other hand grew by 2.6% in 2018 mainly due to higher commodity prices and favourable external environment.

The global macro-economic environment was characterized by growth in inflation from 2.8% in financial year 2017 to 3.1% in financial year 2018 due to increase in oil prices. Global manufacturing bounced back due to increased investments and this accelerated world trade from a growth rate of 2.6% in financial year 2018 to 4.8% in financial year 2017.

Kenya's economy is estimated to have expanded by 4.9% in financial year 2018, a slowdown from the revised growth of 5.9% in financial year 2017. This slowdown in performance was attributed to uncertainties associated with a prolonged electioneering period as well as adverse effects of weather conditions especially in the first and second quarters of the financial year under review.

The sectors that drove growth were Accommodation and Food Services, Information and Communication Technology, Education, Wholesale and Retail trade and Public Administration. The sectors that recorded a deceleration in growth were Manufacturing, Agriculture, Forestry, and Fishing and Financial sectors.

Overview of the Operating Environment

The financial year 2017/2018 was characterized by a fairly stable macroeconomic environment. Interest rates remained fairly stable within the capping range. Although the Kenyan shilling strengthened against most of the major trading currencies in the first and second quarter of the financial year, it weakened against the Euro and the US dollar. Inflation increased moderately from 6.3% in 2016 to 8% in 2017 due to increase in oil and food prices.

Despite the stability in the macro-economic environment, Manufacturing sector, one the Corporation's key sectors of focus, was subdued in the first and second quarter of the financial year 2017/2018 posting a marginal growth of 0.2% in 2017 compared to a revised growth of 2.7% in 2016. This unfavourable performance was attributed to uncertainties related to the 2017 general elections, high cost of inputs and stiff competition from cheap imports. Agro- processing, one of the key subsectors of manufacturing experienced constrained domestic supply of agricultural raw materials due to depressed long rains.

The poor performance of manufacturing sector resulted into non-performing loans amounting to Shs 39.5billion, which translates to 14.94% of the total loans extended to the sector by commercial banks. Manufacturing sector, was the third most defaulter after household and trade sectors of the economy.

The manufacturing sector is ICDC's key sector of focus and just like the commercial banks, the sector's poor performance had a huge negative impact on the Corporation's bottom line.

Future Outlook

The global economy is expected to continue with its growth trend into the year 2018-2019 on account of higher growth in both advanced and emerging market economies. Overly, the global economy is projected to grow by 3.9%. This growth is expected to be driven by strong aggregate demand by consumers on account of lower inflation, better wages, lower cost of energy and supportive financial conditions. The domestic and international repercussions of expansionary fiscal policy in the United States is equally expected to impact on the global economic growth.

The growth in the economies of Sub Saharan Africa is projected to increase to 2.8% in 2018 from 3.7% in 2019. This growth is expected to be supported by stronger global growth, higher commodity prices, and improved market access.

On the domestic front, the Kenyan economy is expected to recover strongly in the financial year 2018/2019 supported by improved weather conditions which is expected to support agriculture. Stable macroeconomic environment, continued government investment in infrastructure, improvements in ease of doing business and recovery of the global economy are all expected to accelerate the growth of domestic economy.

CHAIRMAN'S STATEMENT (CONTINUED)

Future Outlook (continued)

The famous 'handshake' is expected to cool down political temperatures and stabilize the political environment. This coupled with Government's priority on the Big-4, namely manufacturing, affordable housing, health care and food security, is expected to stimulate economic activity and boost growth.

ICDC being a central player in the big-4 agenda, has positioned itself appropriately to harness the benefits that will accrue from this development programme. The Corporation therefore looks forward to a stronger performance in the coming financial year

Financial Performance

During the fiscal year 2017-2018, the Corporation realized a profit before tax of Shs.222.8 million compared to a total of Shs.515.31 million realized during the previous year representing a year-on-year decline of 57%. The Corporation's profitability was adversely affected by a significant increase in provision for losses on investments which closed the fiscal year at Shs. 399.5m million compared to Shs. 6.9 million the previous financial year.

Annual operating costs excluding provisions increased marginally year-on-year by 1.3% from Shs.427.9million to Shs.433.3 million.

Capital investments amounting to Shs 638 million were approved during the year while actual investments undertaken amounted to Shs 434.1 million which declined by 56.6% from a total of Shs. 1.0billion invested the prior year 2016-2017.

The Corporation closed the year with a total asset position of Shs 23.7billion up from Shs 22.6billion in the prior year mainly due to unrealized revaluation gains on equity investments.

Review of Core Business

The Corporation has continued to source for opportunities in its sectors of focus with a keen interest in delivering the social impact as engendered in the Government Agenda. Through the investments, we endeavor to create employment, grow the manufacturing GDP and create profitable businesses that will exist long after we provide the finances.

During the year 2017-18, the Corporation invested in the following areas;

- i) We Invested Shs 39.7 million in a Textile Company in Mlolongo, Machakos County to enable the company set up a textile factory for the production of duvets and bed sheets and other bedding accessories such as pillows. The investment is in line with the Government Agenda of reviving the Textile sector and resulted in the creation of 32 direct jobs and more indirect jobs. At full capacity, this project will substitute more than 2% of the home textile imports.
- ii) We extended a loan of Shs 85 million to Steel Company that manufactures Iron sheets, nails and other steel products. The funds were to boost the company's working capital and has catalyzed the creation of 65 new direct jobs and played a role in the growth of the manufacturing sector.
- iii) We advanced Shs 85 million to a Company that manufactures high quality continuous computer paper to enable them diversify their existing printing business to include printing of labels and packaging material. The diversification has created 72 new direct jobs at the factory, improving export value and transfer of technology to the local workforce.
- iv) We provided a loan of Shs 55 million for expansion of a Fish Processing Factory located in Kyang'ombe Nairobi County. Our funding enabled the processor to tap new export for its products hence becoming the leading fish processing Company in Kenya. The Company sources its raw materials from Lake Victoria which has promoted socio-economic development in the region by creating 493 jobs in the value chain.
- v) We extended a loan of Shs 10 million to a company located in Lari, Kiambu County whose core business is production, packaging and distribution of safe drinking water with guaranteed quality. Being the only Company in the area, it has improved the lives of the locals by creating 228 jobs in the value chain.

CHAIRMAN'S STATEMENT (CONTINUED)

Review of Core Business (continued)

- vi) Located in Nanyuki, Laikipia County is a beverage manufacturing company which produces and distributes Sparkler Vodka range of products. The Corporation advanced a loan of Shs 90 million to fund expansion. Since its initiation, the company has impacted the neighborhood both socially and economically by employing a total of 264 people and many more in the value chain.
- vii) We provided Shs 25 million to finance turnaround of a company located in Msabaha, Kilifi County for working capital to run a modern fruit puree processing plant. The investment sought to curb the challenge of lack of market for mangoes at the coast and to further the Government's Agenda in Manufacturing and Agro-processing

Human capital

The Corporation recognizes people as a critical asset and key part for the success of its strategy. Key focus has been to ensure employees are satisfied, highly motivated and engaged.

As a learning organization and to ensure it sustains emotionally intelligent knowledgeable employees, the Corporation implemented various competency based learning and development programs with a focus to Project Finance, Investments Appraisal, Risk Analysis, Coaching, Leadership and Management Development, all geared towards building specific competencies in employees that will ultimately give the Corporation a competitive edge

HIV/AIDS Awareness

The Corporation recognizes that HIV and AIDS presents the greatest challenge to the performance of the affected and infected employees and ultimately leads to succession management problems due to deaths of experienced employees and loss of man-hours due to prolonged illnesses and absenteeism. On that basis, ICDC continues to participate in the fight against stigmatization, discrimination and prevention of HIV/AIDS by ensuring staff are regularly made aware of the behavioral aspects and other risk reduction interventions.

Employees and their families are also supported through Employee Assistance Program.

Gender mainstreaming

The Corporation continuously participates in gender mainstreaming activities by providing gender awareness training opportunities to employees. The Corporation also strives to ensure equality of job opportunities, equality of rewards for work and equality of employee voice to ensure irrespective of gender they influence and contribute to the Corporation's decision making processes and development agenda

Corporate social responsibility

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

During the year under review ICDC sponsored Engineering Career Workshop at the Technical University of Kenya, participated at World Environment Day 2018 themed "join the race to make the world a better place" which focused on pressing environmental concerns that affect the planet and supported tree planting initiative in Shartuka area, in Transmara, Narok County.

Corporate Governance

ICDC has adopted high standards and applies strict rules of conduct based on the best corporate practices. As part of this commitment, the Board of Directors adheres to good corporate governance by embracing the following principles:

Observing high standards of ethical and moral behaviour and encourage ICDC employees to maintain personal integrity and honesty in their dealings;

CHAIRMAN'S STATEMENT (CONTINUED)

Corporate Governance (continued)

Acting in the best interests of the organization and in compliance with the Constitution, the ICDC Act and all applicable laws; Remunerating and promoting industrial and economic growth in Kenya fairly and responsibly;

Recognizing the legitimate interests of all stakeholders through participation in policy making, resource allocation and access to public funds; and

Ensuring that the organization acts as a good corporate citizen.

Board members act in the best interest of the organization and uphold their fiduciary responsibilities and duty of care. The culture of good corporate governance permeates all levels of the Corporation from the Board of Directors, Management to all members of staff. We endeavour to act honestly and in good faith so as to create a culture built on principles of integrity, accountability and transparency. Our operations are driven by the desire to maximize shareholder value while safeguarding the rights and interests of all stakeholders. This has led to the continued success of the Corporation.

Board of Directors

The Board of Directors is comprised of appointed members who jointly oversee the activities of the organization. There are ten members including the Chairman and Executive Director, seven of whom are independent while two represent the Ministries of Industry, Trade and Co-operatives and The National Treasury and Planning. The Board provides strategic direction, exercise control and remain accountable through effective leadership, enterprise, integrity and good judgment.

The Board oversees risk management, is responsible for investment decisions and ensures a high level of compliance with relevant laws and regulations. To achieve this, the Board has adopted and continues to adhere to Mwongozo, Code of Governance for State Corporations to deliver value to Kenyans in a transparent and accountable manner.

Committees of the Board

In line with good corporate governance, the Board has constituted the following three (3) standing committees with specific terms of reference to assist in discharging its duties.

Board Risk and Audit Committee

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

Human Resource, Governance and General Purposes Committee.

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

Finance and Investment Committee

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

CHAIRMAN'S STATEMENT (CONTINUED)

Board Service Charter and Work Plan

The Corporation has developed and implemented a Board Service Charter which details out the various responsibilities of the members of the Board, their approach to business and ethical behavior.

Included in the Charter are methodologies of receiving and deliberating on information relating to Board business, decision making processes and directors independence and objectivity to board business.

The operations of the Board are guided by a work plan that is prepared, approved and adopted by the Board at the beginning of each financial year.

Board Evaluation

The Corporation's Board performance during the year was rated as very good with an average score of 90.61%.

The Board has put in place a performance improvement program to ensure continuous improvement in performance

Acknowledgement

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

1st OCTOBER

2019

Benard Muteti Mung'ata

Chairman

A handwritten signature in black ink, appearing to read 'Benard Mung'ata', is written over a horizontal line. The signature is stylized and includes a large loop at the end.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT OF DIRECTORS

The directors present their annual report together with the audited financial statements of Industrial and Commercial Development Corporation (the Corporation) for the year ended 30 June 2018 which show the state of the Corporation's financial affairs.

PRINCIPAL ACTIVITIES

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

KEY PERFORMANCE STATISTICS

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

| Performance ratios | 2018 | 2017 | 2016 |
|-------------------------------------|------------|------------|------------|
| Operating profit % | 24% | 58% | 79% |
| | ===== | ===== | ===== |
| Profit before income tax (Shs '000) | 222,750 | 515,315 | 580,303 |
| | ===== | ===== | ===== |
| Return on assets | 1% | 2% | 3% |
| | ===== | ===== | ===== |
| Net assets (Shs '000) | 22,483,925 | 21,449,690 | 21,273,930 |
| | ===== | ===== | ===== |

DIRECTORS

The directors who held office during the year up to the signing are listed on page 2.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

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

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

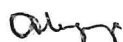
TERMS OF APPOINTMENT OF AUDITORS

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Section 23 of the Public Audit Act, 2016, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Deloitte and Touché was nominated by the Auditor General to carry out the audit of the Industrial and Commercial Development Corporation for the year ended 30 June 2018.

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

BY ORDER OF THE BOARD



Grace M. Magunga
COMPANY SECRETARY

Nairobi

1st OCTOBER 2019

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Industrial and Commercial Development Corporation Act and the Public Audit Act 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the corporation as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the corporation maintains proper accounting records that are sufficient to show and explain the transactions of the corporation and disclose, with reasonable accuracy, the financial position of the corporation. The directors are also responsible for safeguarding the assets of the corporation, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial period ended on June 30, 2018. This responsibility includes:

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

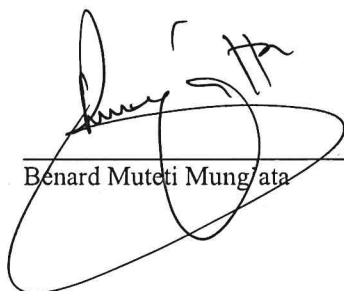
The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and Industrial and Commercial Development Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2018, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Having made an assessment of the corporation's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the corporation's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 1ST OCTOBER 2019 and signed on its behalf by:


Benard Muteti Mung'ata


Wilson M Waithaka

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

Report on the Audit of financial statements

Qualified Opinion

We have audited the accompanying financial statements of Industrial and Commercial Development Corporation (the "Corporation") set out on pages 19 to 58, which comprise the statement of financial position at 30 June 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the accompanying financial statements give a true and fair view of the financial position of the Corporation at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Industrial and Commercial Development Act (Cap. 445 of the Laws of Kenya).

Basis for qualified Opinion

Lack of agreements to support Government of Kenya Loans and Grant balances

Included in the financial statements are grants and loans from the Government of Kenya amounting to Shs 842,974,000 (2017: Shs 854,526,000) and related interest expense of Shs 8,448,000 (2017: Shs 8,448,000). The grants and loans relate to amounts advanced or given as grants to the Corporation by the Government of Kenya, most of them more than 25 years ago. There are no agreements between the Government and the Corporation to support these balances and we are therefore unable to verify the terms of the loans and/or grants including interest rates, or to confirm the accuracy of the balances and the split between loans and grants as these are subject to different accounting treatments under International Financial Reporting Standards and the Corporation's accounting policies.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (CONTINUED)

Report on the Audit of financial statements (Continued)

Other information

The directors are responsible for the other information, which comprises of the chairman's statement, directors' report and the statement of directors' responsibilities. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other matters

The financial statements of Industrial and Commercial Development Corporation for the year ended 30 June 2017 were audited by another auditor who expressed a modified opinion on those financial statements on 22 December 2017.

Responsibilities of directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

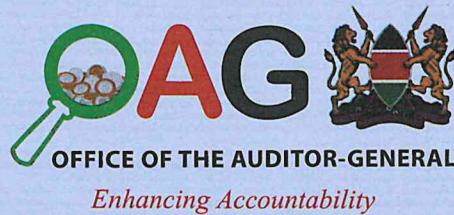
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

REPUBLIC OF KENYA

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Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Industrial and Commercial Development Corporation (ICDC) set out on pages 19 to 59, which comprise the statement of financial position as at 30 June, 2018, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touché, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of ICDC as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Industrial and Commercial Development Act, Cap 445 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Loans and Advances

The statement of financial position as at 30 June, 2018 reflects loans and advances totalling Kshs.1,809,966,000 being recoverable loans lent by the Corporation. The balance is equivalent to only 6% of its loan portfolio totalling Kshs.29,749,993,000 as at 30 June, 2018. The remainder loans totalling Kshs.27,539,927,000 equivalent to 94% of the portfolio are considered by Management as unrecoverable.

Management have provided for the whole amount of non-performing loans totalling Kshs.27,539,927,000 in accordance with the Corporation's loan provisioning policy and, further, filed an application with The National Treasury for write-off of the loans. However, in the absence of records on the loans, it is not possible to confirm the criteria applied in selecting the loans provisioned for eventual write-off.

In view of the missing information, it is not possible to confirm the accuracy, completeness and validity of the loans and advances balance totalling Kshs.1,809,966 reflected in the statement of assets and liabilities as at 30 June, 2018.

2. Unsupported Long-term Liabilities

The statement of financial position as at 30 June, 2018 reflects loans and grants liabilities totalling Kshs.842,974,000 (2017: Kshs.854,526,000) out of which Kshs.529,971,000 are grants (2017:Kshs.529,971,000),Kshs.302,820,000(2017:Kshs.309,892,000)are loans and Kshs.7,928,000(2017:Kshs.7,928,000) accrued interest expense on the loans. The loans are owed to the National Government (GoK), with a large portion of the portfolio having been advanced to the Corporation twenty-five (25) or more years ago.

However, agreements between the GoK and the Corporation to support these balances have not been made available for audit review and as a result, it has not been possible to verify the terms of the grants and loans, including interest payable on the latter.

Further, although the grants are accounted for as liabilities, Management have not explained why this has remained so for such a long time given that International Accounting Standard 20 requires such grants to be released to income if the conditions for the grants have been met.

In view of these anomalies, the accuracy, validity and completeness of Government grants and loans to the Corporation totalling Kshs.842,974,000 reflected in the statement of financial position as at 30 June, 2018 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Industrial and Commercial Development Corporation in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the basis for Qualified Opinion section of

my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either is aware of the intention to liquidate the Corporation or have its operations cease.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

07 October, 2020

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

| | | 2018 | 2017 |
|--|-------|------------------|-----------------------|
| | Notes | Shs'000 | (Restated) Shs'000 |
| Revenue | | | |
| Operating income | 6 | 969,417 | 910,404 |
| Other income | 7 | 94,626 | 48,162 |
| | | <hr/> | <hr/> |
| Total revenue | | 1,064,043 | 958,566 |
| | | <hr/> | <hr/> |
| Operating expenses | | | |
| Administration costs | 8(a) | (418,346) | (406,450) |
| Amortisation of intangible assets | 11 | (2,646) | (3,091) |
| Depreciation of property and equipment | 12 | (12,330) | (18,326) |
| Provision for losses | 20 | (399,523) | (6,936) |
| | | <hr/> | <hr/> |
| Total operating expenses | | (832,845) | (434,803) |
| | | <hr/> | <hr/> |
| Operating profit | | 231,198 | 523,763 |
| Finance cost | 9 | (8,448) | (8,448) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 222,750 | 515,315 |
| Taxation charge | 10(a) | (51,260) | (52,046) |
| | | <hr/> | <hr/> |
| Profit for the year | | 171,490 | 463,269 |
| | | <hr/> | <hr/> |
| Other comprehensive income | | | |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | | |
| Fair value gain on unquoted investments | 16 | 1,561,276 | 75,054 |
| Fair value loss on quoted investments | 17 | (707,425) | (362,563) |
| | | <hr/> | <hr/> |
| Total other comprehensive income/(loss) for the year | | 853,851 | (287,509) |
| | | <hr/> | <hr/> |
| Total comprehensive income for the year | | <u>1,025,341</u> | <u>175,760</u> |

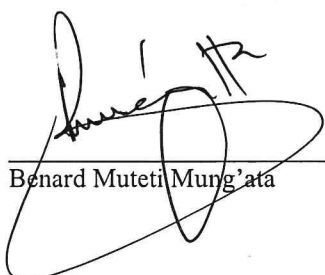
The notes on pages 23 to 58 are an integral part of these financial statements

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION FOR YEAR ENDED 30 JUNE 2018

| | Notes | 2018 Shs'000 | 2017 (Restated) Shs'000 | 1 July 2016 (Restated) Shs'000 |
|---|-------|-------------------|-------------------------------|--------------------------------------|
| Assets | | | | |
| Intangible assets | 11 | 8,649 | 4,895 | 7,622 |
| Property and equipment | 12 | 114,704 | 92,707 | 106,177 |
| Investment property | 13 | 2,112,141 | 2,050,087 | 2,031,897 |
| Inventory – units for sale | 14 | 970,322 | 934,218 | 699,873 |
| Government securities (Held to maturity) | 15 | 12,555 | 17,010 | 29,827 |
| Unquoted investments (Available for sale) | 16 | 11,113,158 | 9,707,782 | 6,913,609 |
| Quoted investments (Available for sale) | 17 | 5,843,621 | 6,551,046 | 9,166,962 |
| Trade and other receivables | 18 | 241,752 | 248,331 | 300,495 |
| Loans and advances | 19(a) | 1,809,966 | 1,717,752 | 1,507,535 |
| Related companies current balances | | 277 | 277 | 277 |
| Corporate tax recoverable | 10(c) | - | 948 | - |
| Cash and cash equivalents | 21 | 1,458,624 | 1,323,653 | 1,669,967 |
| Total assets | | 23,685,769 | 22,648,706 | 22,434,241 |
| Reserves | | | | |
| Revaluation reserve | 22 | 61,948 | 53,054 | 53,054 |
| Fair value adjustment reserve | 22 | 14,611,568 | 13,757,717 | 14,045,226 |
| Retained earnings | 22 | 7,810,409 | 7,638,919 | 7,175,650 |
| Total reserves | | 22,483,925 | 21,449,690 | 21,273,930 |
| Liabilities | | | | |
| Loans and Grants | 23 | 842,974 | 854,526 | 866,078 |
| Trade and other payables | 25 | 115,036 | 132,048 | 112,684 |
| Deferred revenue | 26 | 195,025 | 151,457 | 79,840 |
| Dividend payable | 27 | 38,730 | 60,985 | 90,000 |
| Taxation payable | 10(c) | 10,079 | - | 11,709 |
| Total liabilities | | 1,201,844 | 1,199,016 | 1,160,311 |
| Total reserves and liabilities | | 23,685,769 | 22,648,706 | 22,434,241 |

The notes on pages 23 to 58 are an integral part of these financial statements. The financial statements on pages 19 to 58 were approved and authorised for issue by the board of directors on 15 OCTOBER 2019 and were signed on its behalf by:


Benard Muteti Mung'ata


Wilson M Waithaka

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

| | Revaluation reserve Shs'000 | Fair value adjustment reserve Shs'000 | Retained earnings Shs'000 | Total equity Shs'000 |
|--|-----------------------------------|--|---------------------------------|-------------------------|
| Year ended 30 June 2017 | | | | |
| <i>At 1 July 2016 – as previously stated</i> | 1,061,087 | 14,045,226 | 6,047,534 | 21,153,847 |
| Prior year adjustment (note 33) | (1,008,033) | - | 1,008,033 | - |
| Prior year adjustment (note 33) | - | - | 120,083 | 120,083 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>At 1 July 2016 – restated</i> | 53,054 | 14,045,226 | 7,175,650 | 21,273,930 |
| Total comprehensive income for the year | | | | |
| Profit for the year | - | - | 463,269 | 463,269 |
| Other comprehensive loss for the year | - | (287,509) | - | (287,509) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2017 | <u>53,054</u> | <u>13,757,717</u> | <u>7,638,919</u> | <u>21,449,690</u> |
| Year ended 30 June 2018 | | | | |
| <i>At 1 July 2017 – restated</i> | 53,054 | 13,757,717 | 7,638,919 | 21,449,690 |
| Total comprehensive income for the year | | | | |
| Profit for the year | - | - | 171,490 | 171,490 |
| Other comprehensive income for the year | 8,894 | 853,851 | - | 862,745 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2018 | <u>61,948</u> | <u>14,611,568</u> | <u>7,810,409</u> | <u>22,483,925</u> |

The notes on pages 23 to 58 are an integral part of these financial statements

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 2018 Shs'000 | 2017 (Restated) Shs'000 |
|--|-------|-----------------|-------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net cash generated from operations | 28(a) | 293,954 | 460,735 |
| Income tax paid | 10(c) | (40,233) | (52,994) |
| | | <hr/> | <hr/> |
| Net cash generated from operating activities | | 253,721 | 407,741 |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of intangible assets | 11 | (6,400) | (364) |
| Purchase of property and equipment | 12 | (25,433) | (7,174) |
| Development of investment property | 13 | - | (999) |
| Development of inventory | 14 | (36,104) | (234,345) |
| Proceeds on Maturity treasury bonds | 15 | 4,455 | 12,817 |
| Purchase of unquoted investments | 16 | (21,576) | (465,766) |
| Proceeds on disposal of unquoted investments | | 7,224 | - |
| Proceeds on disposal of property and equipment | | 1,339 | 2,500 |
| | | <hr/> | <hr/> |
| Net cash used in investment activities | | (76,495) | (693,331) |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Loan repayment | 23 | (20,000) | (20,000) |
| Dividend payment | 27 | (22,255) | (29,015) |
| | | <hr/> | <hr/> |
| Net cash used in financing activities | | (42,255) | (49,015) |
| | | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | | 134,971 | (334,605) |
| | | <hr/> | <hr/> |
| Movement in cash and cash equivalents | | | |
| At start of year | 21 | 1,323,653 | 1,658,258 |
| Decrease in cash and cash equivalents | | 134,971 | (334,605) |
| | | <hr/> | <hr/> |
| At end of year | 21 | 1,458,624 | 1,323,653 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 23 to 58 are an integral part of these financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 REPORTING ENTITY

The Industrial and Commercial Development Corporation (“the Corporation”) is established as a Corporation under the Act of Parliament and the Industrial and Commercial Development Corporation Act, and is domiciled in Kenya. The Corporation is involved in facilitating the industrial and economic development of Kenya by the initiation, assistance or expansion or by aiding the initiation, assistance or expansion of industrial, commercial or other undertaking or enterprises in Kenya or elsewhere. The corporation is to act principally as an auxiliary finance organization and afford financial assistance by way guarantee, loan or investment. The address of its registered office is as follows:

Uchumi House
Aga Khan Walk
P O Box 45519 - 00100
Nairobi

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, 2012 and the ICDC Act, 1954. The accounting policies adopted have been consistently applied to all the years presented.

a) Adoption of new and revised international financial reporting standards (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

| | |
|---|--|
| Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses | The amendments to IAS 12 Income Taxes clarify the following aspects: |
| | <ul style="list-style-type: none">Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.The carrying amount of an asset does not limit the estimation of probable future taxable profits.Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. |

The amendments to IAS 12 Income Taxes clarify the following aspects:

- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments to the standard has had no impact on the Corporation's financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Adoption of new and revised international financial reporting standards (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

- | | |
|---|--|
| Amendments to IAS 7 Disclosure Initiative | The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: <ul style="list-style-type: none">a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;c) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;d) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;e) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; andf) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. |
|---|--|

The amendments to the standard has had no impact on the Corporation's financial statements

Annual Improvements to 2014-2016

The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 1 delete the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

The amendments to IFRS 12 clarify that the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendments to IAS 28 clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Adoption of new and revised international financial reporting standards (IFRS) (continued)

(ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018*

| <i>New standards and Amendments to standards</i> | <i>Effective for annual periods beginning on or after</i> |
|---|---|
| IFRS 9 Financial Instruments | 1 January 2018 |
| IFRS 15 Revenue from contracts with customers | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) | 1 January 2019 |
| Transfers of Investment Property (Amendments to IAS 40) | 1 January 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28) | 1 January 2018 |

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for:

- the classification and measurement of financial assets and financial liabilities;
- impairment methodology; and
- general hedge accounting.

Key requirements of IFRS 9:

- Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2015 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment.** The 2015 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a loss event to have occurred before a credit loss is recognised
- Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- The Directors of the Corporation plan to implement IFRS 9 in 2019 and anticipate that the application of the standard in future may not have a material impact on amounts reported in respect of the Corporation's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the Company

IFRS 15 Revenue from Contracts with Customers

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised international financial reporting standards (IFRS) (continued)

(ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018*

IFRS 15 Revenue from Contracts with Customers (Continued)

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Directors of the Corporation are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Directors of the Corporation do not anticipate that the application of the amendments in the future will have an impact on the Corporation's financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Adoption of new and revised international financial reporting standards (IFRS) (continued)

(ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018 (continued)*

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The amendments clarify the following:

- i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity settled share-based payments.
- ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- The original liability is derecognised;
- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors do not anticipate that the application of the amendments in future will have a significant impact on the Corporation's financial statements as it does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Transfers of Investment Property (Amendments to IAS 40)

This amends paragraph 57 of IAS 40 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The Directors of the Corporation are assessing the impact of the application of Amendments to IAS 40 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the Corporation's financial statements

(iii) *Early adoption of standards*

The Corporation did not early-adopt any new or amended standards in the year 2018.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

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

Functional and presentation currency

The financial statements are presented in Kenya shillings (Shs), which is the Corporation's functional currency.

Revenue recognition

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

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

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

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

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

Other income is recognised as it accrues.

Consolidation

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

Investment property

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

Inventory

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

Property and equipment

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

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

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

The annual rates in use are:

| | |
|--|-------|
| Motor vehicle and motor cycles | 20% |
| Furniture, fittings and office equipment | 10% |
| Computers | 33.3% |

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

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

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

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

Computer software development costs

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

Financial assets

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

Classification

i) Loans and receivables

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

Held- to- maturity

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

Available – for – sale financial assets

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Classification (continued)

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

i) Loans and receivables

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

ii) Investments

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

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

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

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

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

Impairment and collectability of financial assets

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

Cash and cash equivalents

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

Provisions

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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

Impairment of non-financial assets

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

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

Current and deferred income tax

Income tax expense represents the sum of tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be generated against which the unused tax credit can be utilised, while deferred tax liabilities are recognised for all taxable temporary differences.

Borrowings

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

Employee benefits:

Retirement benefit obligations

The Corporation operates a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. The scheme is administered by independent fund managers and is funded by contributions from both the employer and the employees.

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

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

Other entitlements

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

In the normal course of business, the Corporation has entered into transactions with related parties. The related party transactions are at arm's length.

Grants

Grants are recognized initially as deferred income at cost when there is reasonable assurance that they will be received and the Corporation will comply with the conditions.

Dividends payable

Dividends payable to the government of Kenya in the period in which they are declared and charged to the profit and loss. Proposed dividends are not accrued for until ratified in an annual general meeting.

Finance costs

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

Comparatives

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

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the entities accounting policies are dealt with below:

Impairment losses

At the end of each reporting period, the Corporation reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective.

Current and deferred income tax

Evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs

Valuation of unquoted investments

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Income taxes

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

Useful lives of property, plant and equipment

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

Valuation of investment properties

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

4 FINANCIAL RISK MANAGEMENT

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

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

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

Risk management framework

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

The Corporation's general risk management approach is to increase the likelihood of success in its strategic activities, that is, to raise the potential reward of its activities relative to the risks undertaken.

Accordingly, the Corporation's approach to risk management is intended to increase risk awareness and understanding, and thus support taking risks where appropriate, in a structured and controlled manner.

The Corporation however recognises that in pursuit of its mission and investment objectives it may choose to accept a lower level of reward in order to mitigate the potential hazard of the risks involved.

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management framework (Continued)

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

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

a. Market risk

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

(i) Interest rate risk

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

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

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management framework (continued)

a. Market risks (continued)

(i) Interest rate risk (continued)

Interest rate risk analysis

| | Effective interest rate | Due between 0 and 12 months | Due between 1 and 5 years | Due after 5 years | Total |
|--------------------------------------|-------------------------|-----------------------------|---------------------------|-------------------|------------------|
| | % | Shs'000 | Shs'000 | Shs'000 | Shs'000 |
| 2018: | | | | | |
| Financial assets | | | | | |
| Short term deposits | 8.48 | 568,613 | - | - | 568,613 |
| Investment in Government securities | 6.33 | - | 12,555 | - | 12,555 |
| Loans | 11.87 | 235,015 | 1,425,746 | 149,205 | 1,809,966 |
| Total financial assets | | <u>809,628</u> | <u>1,438,301</u> | <u>149,205</u> | <u>2,391,134</u> |
| Financial liabilities | | | | | |
| Grants and Government of Kenya loans | 5.70 | - | - | (842,974) | (842,974) |
| Total financial liabilities | | <u>-</u> | <u>-</u> | <u>(842,974)</u> | <u>(842,974)</u> |
| Interest sensitivity gap | | | | | <u>1,548,160</u> |
| 2017: | | | | | |
| Financial assets | | | | | |
| Short term deposits | 8.99 | 396,461 | - | - | 396,461 |
| Investment in Government securities | 9.19 | - | 17,010 | - | 17,010 |
| Loans | 14.34 | 322,380 | 1,275,896 | 119,476 | 1,717,752 |
| Total financial assets | | <u>718,841</u> | <u>1,292,906</u> | <u>119,476</u> | <u>2,131,223</u> |
| Financial liabilities | | | | | |
| Grants and Government of Kenya loans | 5.70 | - | - | (854,526) | (854,526) |
| Total financial liabilities | | <u>-</u> | <u>-</u> | <u>(854,526)</u> | <u>(854,526)</u> |
| Interest sensitivity gap | | <u>718,841</u> | <u>1,292,906</u> | <u>(735,050)</u> | <u>1,276,697</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (continued)

a. Market risks (continued)

(i) Interest rate risk (continued)

Interest rate risk analysis (continued)

An increase or decrease of 100 basis point in interest rates at the reporting date would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2017:

Statement of comprehensive income

| | 2018 Shs'000 | 2017 Shs'000 |
|--------------------|-----------------|-----------------|
| Loans and advances | 6,432 | 2,001 |

(ii) Price risk

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

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

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

Investment holding period risk

Over 66% of the Corporation's investments are private equity investments, which are not traded on any formal exchange. Disposal of these investments is constrained in many instances by pre-emptive rights, shareholder agreements and the absence of willing trade buyers or an active secondary market. The timing of realised proceeds on disposal may pose a risk to the Corporation. The Corporation mitigates this risk by seeking influence the investee company's operations through large shareholding or board representation. The Corporation also seeks compensation for this risk through high return hurdles during the investment appraisal and laying emphasis on dividend generating potential. However, the Corporation has got no fixed time horizon for its investments, and does not enforce exit options on investments as it believes current practice makes it easier to acquire attractive investments.

4 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (continued)

a. Market risks (continued)

(ii) Price risk (continued)

| Company security | No. of shares | 30 June 2018 | | 30 June 2017 | |
|--|---------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| | | Market price 2018 Shs | Market value 2018 Shs'000 | Market price 2017 Shs | Market value 2017 Shs'000 |
| Main Investment Market Segment | | | | | |
| Banking | | | | | |
| Barclays Bank of Kenya Limited | 156,800 | 11.40 | 1,787 | 9.95 | 1,560 |
| Standard Chartered Bank Limited | 14,700 | 198 | 2,910 | 208 | 3,058 |
| Commercial & Services | | | | | |
| Nation Media Group Limited | 19,272 | 90 | 1,734 | 108 | 2,081 |
| Uchumi Supermarkets Limited | 7,288,472 | 1.45 | 10,568 | 2.15 | 15,670 |
| Kenya Airways PLC | 53,500 | 10.65 | 142 | 5.05 | 270 |
| Energy & Petroleum | | | | | |
| Total Kenya Limited | 93,600 | 29.75 | 2,785 | 21.25 | 1,989 |
| Kenya Power & Lighting Company Limited | 109,800 | 6.85 | 752 | 7.95 | 873 |

4 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (continued)

a. Market risks (continued)

(ii) Price risk (continued)

| Company security | 30 June 2018 | | | 30 June 2017 | | |
|---|---------------|---------------------------------|---------------------------------|---------------|-----------------------------|---------------------------------|
| | No. of shares | Market price 2018 Shs'000 | Market value 2018 Shs'000 | No. of shares | Market price 2017 Shs | Market value 2017 Shs'000 |
| <i>Main Investment Market Segment</i> | | | | | | |
| Insurance | | | | | | |
| Jubilee Holdings Limited | 19,965 | 505 | 10,082 | 19,965 | 440 | 8,785 |
| Investment | | | | | | |
| Centum Investments Limited | 152,847,897 | 37 | 5,655,372 | 152,847,897 | 41.50 | 6,343,188 |
| Manufacturing & Allied | | | | | | |
| British American Tobacco Limited | 17,000 | 600 | 10,200 | 17,000 | 847 | 14,399 |
| Eveready Batteries Kenya Limited | 36,583,575 | 1.50 | 54,875 | 36,583,575 | 2.35 | 85,971 |
| East African Breweries Limited | 21,300 | 218 | 4,643 | 21,300 | 259 | 5,517 |
| Telecommunication & Technology | | | | | | |
| Safaricom Limited | 2,975,200 | 29.50 | 87,768 | 2,975,200 | 22.75 | 67,686 |
| Total | | | 5,843,621 | | | 6,551,046 |

At 30 June 2018, if the prices of all quoted equity investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Shs 327,552,328 (2017: Shs 345,680,465) higher/lower.

At 30 June 2018, if the prices earnings for unquoted investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Shs 485,389,750 (2017: Shs 489,389,114) higher/lower.

(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.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (continued)

b. Liquidity risk

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

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

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

The table in the next page analyses financial liabilities into relevant maturity based on the remaining period at 30 June 2018 to the contractual maturity date.

| | 0 - 12 months (Shs' 000) | 1 - 5 years (Shs' 000) | Over 5 years (Shs' 000) | Total (Shs' 000) |
|--------------------------|--------------------------------|------------------------------|-------------------------------|---------------------|
| 30 June 2018 | | | | |
| Liabilities | | | | |
| Grants and loans | - | - | 842,974 | 842,974 |
| Deferred revenue | 195,025 | - | - | 195,025 |
| Trade and other payables | 115,036 | - | - | 115,036 |
| Dividends payable | 38,730 | - | - | 38,730 |
| Total liabilities | 348,791 | - | 842,974 | 1,191,765 |
| 30 June 2017 | | | | |
| Liabilities | | | | |
| Grants and loans | - | - | 854,526 | 854,526 |
| Deferred revenue | 151,457 | - | - | 151,457 |
| Trade and other payables | 132,048 | - | - | 132,048 |
| Dividends payable | 60,985 | - | - | 60,985 |
| Total liabilities | 344,490 | - | 854,526 | 1,199,016 |

c. Credit risk

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

The credit risk exposures are classified in three categories:

- Neither past due nor impaired
- Past due
- Impaired

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (continued)

c. Credit risk (continued)

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

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

| | 2018 Shs'000 | 2017 Shs'000 |
|---|------------------|------------------|
| Investment in Government securities (Note 15) | 12,555 | 17,010 |
| Trade and other receivables (Note 18) | 241,752 | 248,331 |
| Loans (Note 19) | 1,809,966 | 1,717,752 |
| Cash and cash equivalents (Note 21) | 1,458,624 | 1,323,653 |
| Related companies current account | 277 | 277 |
| | <u>3,523,174</u> | <u>3,307,023</u> |

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

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

| | 2018 Shs'000 | 2017 Shs'000 |
|--|-----------------|-----------------|
| Sundry debtors individually determined to be impaired: | | |
| Carrying amount before provision for impairment loss | 186,900 | 156,012 |
| Provision for impairment loss | (186,900) | (156,012) |
| Net carrying amount | <u>-</u> | <u>-</u> |
| Loans individually determined to be impaired: | | |
| Carrying amount before provision for impairment loss | 14,101,790 | 13,767,949 |
| Provision for impairment loss | (13,959,801) | (13,753,191) |
| Net carrying amount | <u>141,989</u> | <u>14,758</u> |

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

| | 2018 Shs'000 | 2017 Shs'000 |
|---------------------|------------------|------------------|
| Commercial loans | 1,425,746 | 1,398,730 |
| Property loans | 252,432 | 311,179 |
| Net carrying amount | <u>1,678,178</u> | <u>1,709,909</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (continued)

d. Capital management

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

5 FINANCIAL ASSETS AND LIABILITIES AND OTHER FAIR VALUES

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

| As at 30 June 2018 | Held to maturity Shs'000 | Loans and receivables Shs'000 | Available-for-sale Shs'000 | Other amortised cost Shs'000 | Total carrying amount Shs'000 | Fair values Shs'000 |
|--------------------------------------|-----------------------------|----------------------------------|-------------------------------|---------------------------------|----------------------------------|------------------------|
| Assets | | | | | | |
| Quoted companies | - | - | 5,843,621 | - | 5,843,621 | 5,843,621 |
| Unquoted investments | - | - | 11,113,190 | - | 11,113,190 | 11,113,190 |
| Investments in Government securities | 12,555 | - | - | - | 12,555 | 12,555 |
| Loans | - | 1,809,966 | - | - | 1,809,966 | 1,809,966 |
| Related companies current accounts | - | 277 | - | - | 277 | 277 |
| Trade Receivables | - | 241,752 | - | - | 241,752 | 241,752 |
| Cash and short term deposits | - | 1,458,624 | - | - | 1,458,624 | 1,458,624 |
| Total assets | 12,555 | 3,510,619 | 16,956,811 | - | 20,479,985 | 20,479,985 |
| Liabilities | | | | | | |
| Trade and other Payables | - | - | - | 115,036 | 115,036 | 115,036 |
| Dividend payable | - | - | - | 38,730 | 38,730 | 38,730 |
| Deferred revenue | - | - | - | 195,025 | 195,025 | 195,025 |
| Loans and grants | - | - | - | 842,974 | 842,974 | 842,974 |
| | - | - | - | 1,191,765 | 1,191,765 | 1,191,765 |
| As at 30 June 2017 | | | | | | |
| Assets | | | | | | |
| Quoted companies | - | - | 6,551,046 | - | 6,551,046 | 6,551,046 |
| Unquoted investments | - | - | 9,707,782 | - | 9,707,782 | 9,707,782 |
| Investments in Government securities | 17,010 | - | - | - | 17,010 | 17,010 |
| Loans | - | 1,717,752 | - | - | 1,717,752 | 1,717,752 |
| Related Companies Current accounts | - | 277 | - | - | 277 | 277 |
| Trade Receivables | - | 248,331 | - | - | 248,331 | 248,331 |
| Cash and short term deposits | - | 1,323,653 | - | - | 1,323,653 | 1,323,653 |
| Total assets | 17,010 | 3,290,013 | 16,258,828 | - | 19,565,851 | 19,565,851 |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 FINANCIAL ASSETS AND LIABILITIES AND OTHER FAIR VALUES (Continued)

| Liabilities | Held to maturity Shs'000 | Loans and receivables Shs'000 | Available-for-sale Shs'000 | Other amortised cost Shs'000 | Total carrying amount Shs'000 | Fair values Shs'000 |
|--------------------------|-----------------------------|----------------------------------|-------------------------------|---------------------------------|----------------------------------|------------------------|
| Trade and other payables | - | - | - | 132,048 | 132,048 | 132,048 |
| Dividend payable | - | - | - | 60,985 | 60,985 | 60,985 |
| Deferred revenue | - | - | - | 151,457 | 151,457 | 151,457 |
| Loans and grants | - | - | - | 854,526 | 854,526 | 854,526 |
| | - | - | - | 1,199,018 | 1,199,018 | 1,199,018 |

Fair value hierarchy

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

a) Level 1

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

b) Level 2

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

c) Level 3

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

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

| | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Total Shs'000 |
|-----------------------------|--------------------|--------------------|--------------------|------------------|
| 30 June 2018 | | | | |
| Financial assets: | | | | |
| Unquoted equity instruments | - | 11,113,190 | - | 11,113,190 |
| Quoted equity instruments | 5,843,621 | - | - | 5,843,621 |
| Investment property | - | - | 977,141 | 977,141 |
| | ===== | ===== | ===== | ===== |
| 30 June 2017 | | | | |
| Financial assets: | | | | |
| Unquoted equity instruments | - | 9,707,782 | - | 9,707,782 |
| Quoted equity instruments | 6,551,046 | - | - | 6,551,046 |
| Investment property | - | - | 967,141 | 967,141 |
| | ===== | ===== | ===== | ===== |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 Shs'000 | 2017 Shs'000 |
|---|-----------------|-----------------|
| 6 OPERATING INCOME | | |
| Dividends | 444,193 | 380,793 |
| Interest on loans and advances | 215,890 | 237,246 |
| Application fees | 12,579 | 2,365 |
| Management & advisory services | 11,019 | 10,329 |
| Rental income | 156,457 | 156,380 |
| Interest on deposits | 129,279 | 123,291 |
| | <u>969,417</u> | <u>910,404</u> |
| 7 OTHER INCOME | | |
| Gain on disposal of property and equipment | 1,339 | 182 |
| Gain on disposal of shares | 7,192 | - |
| Fair value gains on investment property (note 13) | 62,054 | 17,191 |
| Sundry income | 13,190 | 754 |
| Write back on loans and advances | 10,851 | 30,035 |
| | <u>94,626</u> | <u>48,162</u> |
| 8(a) ADMINISTRATION COSTS | | |
| Staff costs (Note 8b) | 242,119 | 213,329 |
| Directors' expenses and emoluments | 11,507 | 14,003 |
| Rent and rates | 1,422 | 3,566 |
| Bank charges | 464 | 400 |
| Electricity and water | 17,791 | 15,971 |
| Publicity and advertising | 8,286 | 9,522 |
| Transportation, travelling and subsistence | 14,824 | 13,356 |
| Printing, stationery and photocopying | 1,980 | 2,764 |
| Motor vehicle operating expenses | 1,334 | 1,500 |
| Insurance costs | 4,049 | 4,194 |
| Professional expenses | 4,022 | 9,366 |
| Donations and other contributions | 379 | 397 |
| ICT expenses | 6,144 | 6,279 |
| Auditors' remuneration | 3,860 | 4,170 |
| Legal expenses | 20,006 | 11,505 |
| Uchumi House security | 7,720 | 9,264 |
| VAT and other taxes | 8,627 | 6,255 |
| Uchumi House administration expenses | 9,788 | 7,173 |
| Repairs and maintenance | 12,153 | 9,557 |
| Subscriptions | 2,253 | 1,776 |
| Other operating expenses | 15,459 | 15,017 |
| Provision for impairment of preferential dividends receivable (note 18) | 19,967 | 42,068 |
| Provision for impairment of Uchumi House debtors (note 18) | 4,192 | 5,018 |
| | <u>418,346</u> | <u>406,450</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 Shs'000 | 2017 Shs'000 |
|---|-----------------|-----------------|
| 8(b) STAFF COSTS | | |
| Salaries and allowances of permanent employees | 195,658 | 158,401 |
| Staff welfare | 28,919 | 35,827 |
| Other pension contributions | 14,955 | 14,287 |
| Compulsory National Health Insurance schemes | 1,686 | 1,186 |
| Wages of temporary employees | 764 | 900 |
| Compulsory National Social Security schemes | 137 | 140 |
| Leave pay and gratuity provisions | - | 2,588 |
| | <u>242,119</u> | <u>213,329</u> |
| | ===== | ===== |
| The average number of employees at the end of the year was: | | |
| Permanent employees - Management | 57 | 56 |
| Temporary and contract employees | 4 | 4 |
| | <u>61</u> | <u>60</u> |
| | ===== | ===== |
| 9 FINANCE COSTS | | |
| Interest expense on loans | <u>8,448</u> | <u>8,448</u> |
| | ===== | ===== |
| 10 TAXATION | | |
| (a) Taxation charge | | |
| Current income tax based on adjusted profit at 30% | 45,178 | 29,972 |
| Under-provision of current tax prior year | 6,082 | 22,074 |
| Under-provision of deferred tax prior year | (28,834) | (5,266) |
| Deferred tax (credit)/charge (note 24) | (80,023) | 1,425 |
| Deferred tax asset not recognised | 108,857 | 3,841 |
| | <u>51,260</u> | <u>52,046</u> |
| | ===== | ===== |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 TAXATION (Continued)

(b) Reconciliation of tax charge to the expected tax based on accounting profit

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

| | 2018 Shs'000 | 2017 Shs'000 |
|--|-----------------|-----------------|
| Profit before taxation | 222,750 | 515,315 |
| Tax at using the applicable taxation rate at 30% | 66,825 | 154,595 |
| Tax effects of :- | | |
| Income not subjected to tax | (140,360) | (146,399) |
| Expenses not deductible for tax | 9,856 | 15,085 |
| Under provision of current tax in prior year | 6,082 | 22,074 |
| Under-provision of deferred tax prior year | 28,834 | 5,266 |
| Movement in deferred income tax not recognised | 80,023 | 1,425 |
| Taxation Charge | 51,260 | 52,046 |

(c) Taxation payable/(recoverable)

| | | |
|--|----------|----------|
| At start of year (recoverable) | (948) | - |
| Taxation charge | 45,178 | 29,972 |
| Prior year under provision for current tax | 6,082 | 22,074 |
| Tax paid | (40,233) | (52,994) |
| At end of year payable/(recoverable) | 10,079 | (948) |

11 INTANGIBLE ASSETS

| | | |
|---------------------|--------|--------|
| Cost | | |
| At start of year | 44,612 | 44,248 |
| Additions | 6,400 | 364 |
| At end of year | 51,012 | 44,612 |
| Amortisation | | |
| At start of year | 39,717 | 36,626 |
| Charge for the year | 2,646 | 3,091 |
| At end of year | 42,363 | 39,717 |
| Net book value | 8,649 | 4,895 |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| 12 | PROPERTY AND EQUIPMENT | Land and buildings Shs'000 | Motor Vehicles Shs'000 | Furniture & equipment Shs'000 | Total Shs'000 |
|----|---|-------------------------------|---------------------------|----------------------------------|------------------|
| | Year ended 30 June 2017 - restated | | | | |
| | Cost / valuation | | | | |
| | At start of year – as previously stated | 1,139,943 | 20,236 | 65,288 | 1,225,467 |
| | Prior year adjustment – 2016 (note 13) | (1,082,946) | - | - | (1,082,946) |
| | Additions | - | - | 7,174 | 7,174 |
| | Disposals | - | (2,897) | - | (2,897) |
| | At year end - restated | <u>56,997</u> | <u>17,339</u> | <u>72,462</u> | <u>146,798</u> |
| | Depreciation | | | | |
| | At start of year | 126,403 | 7,644 | 22,380 | 156,427 |
| | Prior year adjustment – 2016 (note 13) | (120,083) | - | - | (120,083) |
| | Charge for the year - restated | 956 | 2,517 | 14,853 | 18,326 |
| | Disposal | - | (579) | - | (579) |
| | At year end - restated | <u>7,276</u> | <u>9,582</u> | <u>37,233</u> | <u>54,091</u> |
| | Net book value at year end - restated | <u>49,721</u> | <u>7,757</u> | <u>35,229</u> | <u>92,707</u> |
| | Year ended 30 June 2018 | | | | |
| | Cost / valuation | | | | |
| | At start of year | 56,997 | 17,339 | 72,462 | 146,798 |
| | Additions | 7,341 | 6,732 | 11,360 | 25,433 |
| | Revaluation | 662 | - | - | 662 |
| | Disposals | - | (4,187) | - | (4,187) |
| | At year end | <u>65,000</u> | <u>19,884</u> | <u>83,822</u> | <u>168,706</u> |
| | Depreciation | | | | |
| | At start of year | 7,276 | 9,582 | 37,233 | 54,091 |
| | Charge for the year | 956 | 1,937 | 9,437 | 12,330 |
| | Eliminated on valuation | (8,232) | - | - | (8,232) |
| | Disposal | - | (4,187) | - | (4,187) |
| | At year end | <u>-</u> | <u>7,332</u> | <u>46,670</u> | <u>54,002</u> |
| | Net book value at year end | <u>65,000</u> | <u>12,552</u> | <u>37,152</u> | <u>114,704</u> |

Uchumi House Building was valued as at 30 June 2018 by an internal valuer, Paul A. Okwiri, on an open market on the basis of highest and best use. Paul is a registered member of the Institute of Surveyors of Kenya. He has appropriate qualifications and relevant and recent experience in the fair value measurement of properties.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 | 2017 (Restated) |
|--|-----------------------------|-----------------------------|
| | Shs'000 | Shs'000 |
| 13 INVESTMENT PROPERTY | | |
| At the start of the year | 2,050,087 | 948,951 |
| Prior year adjustment - 2016 (note 13) | - | 1,082,946 |
| Additions | - | 999 |
| Fair value gain | 62,054 | 17,191 |
| | <u> </u> | <u> </u> |
| At the end of the year | <u>2,112,141</u> | <u>2,050,087</u> |

The fair value model has been applied for the investment property, an internal professional valuer determines the fair value of the investment property as at 30 June 2018 based on open market method.

| | 2018 | 2017 |
|------------------------------|-----------------------------|-----------------------------|
| | Shs'000 | Shs'000 |
| 14 INVENTORY- UNITS FOR SALE | | |
| Property - Nyali | 586,497 | 551,061 |
| - Kizingo | 383,825 | 383,157 |
| | <u> </u> | <u> </u> |
| | <u>970,322</u> | <u>934,218</u> |

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

| | 2018 | 2017 |
|---|-----------------------------|-----------------------------|
| | Shs'000 | Shs'000 |
| Movement of inventory balances during the year is as below; | | |
| At the start of the year | 934,218 | 699,873 |
| Additions | 36,104 | 234,345 |
| | <u> </u> | <u> </u> |
| At the end of the year | <u>970,322</u> | <u>934,218</u> |

| | | |
|---|-----------------------------|-----------------------------|
| 15 GOVERNMENT SECURITIES - HELD TO MATURITY | | |
| At start of year | 17,010 | 29,827 |
| Bond maturity during the year | (4,455) | (12,817) |
| | <u> </u> | <u> </u> |
| At end of year | <u>12,555</u> | <u>17,010</u> |

The running Government Of Kenya bond will mature in August 2019 with a maturity value of Shs 17,000,000. The effective interest rate on treasury bonds at 30 June 2018 was 8.7 % (2017: 6.33%).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 Shs'000 | 2017 Shs'000 |
|---|-------------------|------------------|
| 16 UNQUOTED INVESTMENTS - AVAILABLE FOR SALE | | |
| Valuation | | |
| At start of the year | 9,897,946 | 9,357,126 |
| Additions | 21,576 | 465,766 |
| Disposals | (32) | - |
| Fair value gain | 1,561,276 | 75,054 |
| | <u>11,480,766</u> | <u>9,897,946</u> |
| Impairment | | |
| At start of the year | (190,164) | (190,164) |
| Impairment loss in the year | (177,444) | - |
| | <u>(367,608)</u> | <u>(190,164)</u> |
| Net carrying value | <u>11,113,158</u> | <u>9,707,782</u> |

Managed funds

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

| | 2018 Shs' 000 | 2017 Shs' 000 |
|--|------------------|------------------|
| Kenatco Transport Limited (in receivership) - Equity | 6,900 | 6,900 |
| Kisumu Cotton Mills (1983) Limited (in liquidation) - Equity | 19,500 | 19,500 |
| Pan African Vegetable Products Limited (in liquidation) - Equity | 1,265 | 1,265 |
| Pan Vegetable Processors Limited - Equity | 15,805 | 15,805 |
| South Nyanza Sugar Limited - Equity | 10,000 | 10,000 |
| | <u>53,470</u> | <u>53,470</u> |
| Gross amount | 53,470 | 53,470 |
| Less: Provision for impairment | (53,470) | (53,470) |
| | <u>-</u> | <u>-</u> |
| Net amount | <u>-</u> | <u>-</u> |

17 QUOTED INVESTMENTS - AVAILABLE FOR SALE

| | | |
|----------------------|------------------|------------------|
| At start of the year | 6,551,046 | 6,913,609 |
| Fair value loss | (707,425) | (362,563) |
| | <u>5,843,621</u> | <u>6,551,046</u> |
| At end of the year | <u>5,843,621</u> | <u>6,551,046</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 Shs'000 | 2017 Shs'000 |
|---|-----------------|-----------------|
| 18 TRADE AND OTHER RECEIVABLES | | |
| Prepayment on staff loans | - | 72,267 |
| Recoverable expenses from associate companies | 24,405 | 19,103 |
| Dividends receivable | 122,546 | 119,780 |
| Receivable from Uchumi House tenants | 114,918 | 72,930 |
| Other debtors | 166,783 | 120,263 |
| | <hr/> | <hr/> |
| Gross trade and other receivables | 428,652 | 404,343 |
| Less: Provision for impairment losses | (186,900) | (156,012) |
| | <hr/> | <hr/> |
| Net trade and other receivables | <u>241,752</u> | <u>248,331</u> |
| The movement in the provision for impairment losses of debtors is as follows: | | |
| At start of year | 156,012 | 108,876 |
| Movement during the year | 30,888 | 47,136 |
| | <hr/> | <hr/> |
| At end of the year | <u>186,900</u> | <u>156,012</u> |
| The movement in provision is made up of: | | |
| Provision of preferential dividend receivable (Note 8a) | 19,967 | 42,068 |
| Provision for Uchumi House debtors (Note 8 a) | 4,192 | 5,018 |
| Provision for other debtors (Note 20) | 6,729 | - |
| | <hr/> | <hr/> |
| | <u>30,888</u> | <u>47,136</u> |
| | <hr/> | <hr/> |
| 19 LOANS AND ADVANCES | | |
| (a) Outstanding loans | | |
| (i) Large and medium size loans | | |
| Loans to significant companies | 5,421 | 5,421 |
| Less: Provision for impairment losses | (5,400) | (5,400) |
| | <hr/> | <hr/> |
| Net large and medium loans | <u>21</u> | <u>21</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 LOANS AND ADVANCES (Continued)

(a) Outstanding loans (continued)

(ii) Small loans

| As at 30 June 2018 | Performing loans Shs'000 | Non-performing loans Shs'000 | Total Shs'000 |
|--|--------------------------------|------------------------------------|------------------|
| Commercial | 1,425,746 | 2,877,102 | 4,302,848 |
| Property | 252,432 | 499,763 | 752,195 |
| Industrial | - | 2,591,955 | 2,591,955 |
| Machinery | - | 412,333 | 412,333 |
| Personal loans | - | 147,924 | 147,924 |
| Hire purchase | - | 145,427 | 145,427 |
| Corporate | - | 7,427,287 | 7,427,287 |
| | <hr/> | <hr/> | <hr/> |
| Total small loans | 1,678,178 | 14,101,791 | 15,779,969 |
| Less: Impairment losses | (10,223) | (13,959,801) | (13,970,024) |
| | <hr/> | <hr/> | <hr/> |
| Net small loans | 1,667,955 | 141,989 | 1,809,945 |
| | <hr/> | <hr/> | <hr/> |
| Net large and medium size loans (note 19a (i)) | - | 21 | 21 |
| Total net loans | 1,667,955 | 142,010 | 1,809,966 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The weighted average effective interest rate effective on the loans and advances to customers as at 31 December 2018 was 12.4% (2017-14%)

| As at 30 June 2017 | Performing loans Shs'000 | Non-performing loans Shs'000 | Total Shs'000 |
|--|--------------------------------|------------------------------------|------------------|
| Commercial | 1,398,730 | 2,628,069 | 4,026,799 |
| Property | 311,179 | 414,954 | 726,133 |
| Industrial | - | 2,591,955 | 2,591,955 |
| Machinery | - | 412,333 | 412,333 |
| Personal loans | - | 147,924 | 147,924 |
| Hire purchase | - | 145,427 | 145,427 |
| Corporate | - | 7,427,287 | 7,427,287 |
| | <hr/> | <hr/> | <hr/> |
| Total small loans | 1,709,909 | 13,767,949 | 15,477,858 |
| | <hr/> | <hr/> | <hr/> |
| Less: Impairment losses | (6,936) | (13,753,191) | (13,760,127) |
| Net small loans | 1,702,973 | 14,758 | 1,717,731 |
| Net large and medium size loans (note 19a (i)) | - | 21 | 21 |
| | <hr/> | <hr/> | <hr/> |
| Total net loans | 1,702,973 | 14,779 | 1,717,752 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The weighted average effective interest rate effective on the loans and advances to customers as at 31 December 2017 was 14% (2016-16%).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 LOANS AND ADVANCES (Continued)

| | 2018 Shs'000 | 2017 Shs'000 |
|--|-------------------|-------------------|
| (b) Impairment losses on loans | | |
| At start of the year | 13,765,527 | 13,788,986 |
| Provision for impairment during the year | 215,348 | 6,936 |
| Provision for impairment reversals | (10,851) | (30,395) |
| | <u>13,970,024</u> | <u>13,765,527</u> |
| Net large and medium loans | <u>13,970,024</u> | <u>13,765,527</u> |
| Comprising of: | | |
| Large and medium size loans (note 19a (i)) | 5,400 | 5,400 |
| Small loans (note 19a (ii)) | 13,970,024 | 13,760,127 |
| | <u>13,975,424</u> | <u>13,765,527</u> |
| Total provision for impairment on loans | <u>13,975,424</u> | <u>13,765,527</u> |

20 PROVISIONS FOR LOSSES

The Corporation analyses the recoverability of its debtors, loans and unquoted securities. During the year, the following amounts were charged to profit or loss.

| | 2018 Shs' 000 | 2017 Shs' 000 |
|--|------------------|------------------|
| Impairment provisions of loans and advances | 215,350 | 6,936 |
| Provision for impairment of unquoted investments | 177,444 | - |
| Provision for impairment of trade debtors | 6,729 | - |
| | <u>399,523</u> | <u>6,936</u> |
| Total provisions | <u>399,523</u> | <u>6,936</u> |

21 CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows:

| | | |
|---------------------------|------------------|------------------|
| Short term deposits | 568,613 | 396,461 |
| Cash in bank | 890,011 | 927,192 |
| | <u>1,458,624</u> | <u>1,323,653</u> |
| Cash and cash equivalents | <u>1,458,624</u> | <u>1,323,653</u> |

The average effective interest rate on the short term deposits as at June 30, 2018 was 8.46 % (2017: 8.48%).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 RESERVES

Revaluation reserve

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

Fair value adjustment reserve

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

Retained earnings

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

| | 2018 Shs'000 | 2017 Shs'000 |
|---------------------------------------|-----------------|-----------------|
| 23 LOANS AND GRANTS | | |
| Grants | | |
| From the Government of Kenya | 529,971 | 529,971 |
| | <hr/> | <hr/> |
| Loans from Government of Kenya | | |
| Balance at beginning of the year | 309,892 | 316,964 |
| Accrued additional interest | 7,928 | 7,928 |
| Interest repaid during the year | (15,000) | (15,000) |
| | <hr/> | <hr/> |
| Balance at end of the year | 302,820 | 309,892 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Loans from KFW of West Germany | | |
| Balance at beginning of the year | 14,663 | 19,143 |
| Accrued additional interest | 520 | 520 |
| Repayment during the year | (5,000) | (5,000) |
| | <hr/> | <hr/> |
| Balance at end of the year | 10,183 | 14,663 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Total loans and grants | 842,974 | 854,526 |
| | <hr/> <hr/> | <hr/> <hr/> |

Included in loans from the Government of Kenya is an amount of Shs 82,665,620 which relates to a bilateral grant given to the Government of Kenya in 1994 by the Government of Belgium in respect of Soya Oil & Food Industries. There is a proposal to the Government of Kenya to restructure the Corporation's balance sheet. This will include conversion of some of the above loans and grants into equity and the balance into term loans at agreed interest rates. The directors are of the opinion that the restructuring proposal will be implemented in the near future.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 DEFERRED TAXATION

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30% (2017: 30%) except for deferred tax calculated using the enacted rate of 5% on capital gains arising on investment property and unquoted investments. Tax on capital gains was re-introduced and became effective 1 January 2016.

| | 2018 Shs'000 | 2017 Shs'000 |
|---|-------------------|-------------------|
| Movement in deferred tax account: | | |
| At start of year | - | - |
| (Credit)/charge to income statement (Note 10) | (80,023) | 1,425 |
| Prior year under provision | (28,834) | (5,266) |
| Deferred tax not recognised | 108,857 | 3,841 |
| | <u> </u> | <u> </u> |
| At end of year | - | - |
| | <u> </u> | <u> </u> |
| The net deferred tax is made up as follows: | | |
| Excess depreciation over capital allowances | (3,485) | (12,903) |
| Provisions | (1,243,425) | (1,071,243) |
| Revaluation gain on investment property | 18,617 | - |
| | <u> </u> | <u> </u> |
| Net deferred income tax asset | (1,221,323) | (1,084,146) |
| Deferred income tax asset not recognized | 1,221,323 | 1,084,146 |
| | <u> </u> | <u> </u> |
| Deferred income tax liability/(asset) | - | - |
| | <u> </u> | <u> </u> |

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

| | 2018 Shs'000 | 2017 Shs'000 |
|-----------------------------|-------------------|-------------------|
| 25 TRADE AND OTHER PAYABLES | | |
| General creditors | 74,084 | 98,435 |
| Rent deposit | 40,952 | 33,613 |
| | <u> </u> | <u> </u> |
| Total | 115,036 | 132,048 |
| | <u> </u> | <u> </u> |
| 26 DEFERRED REVENUE | | |
| Nyali | 46,050 | 31,650 |
| Kizingo | 148,975 | 119,807 |
| | <u> </u> | <u> </u> |
| Total | 195,025 | 151,457 |
| | <u> </u> | <u> </u> |

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 DIVIDEND PAYABLE

As a state Corporation Industrial And Commercial Development Corporation is supposed to Pay dividends to the Government of Kenya. The corporation's policy is to remit 5% of the prior year's profit after tax on an annual basis.

The movement in dividends payables is below:

| | 2018 Shs'000 | 2017 Shs'000 |
|----------------------|-----------------|-------------------------------|
| At start of the year | 60,985 | 90,000 |
| Paid during the year | (22,255) | (29,015) |
| | <hr/> | <hr/> |
| At end of year | 38,730 | 60,985 |
| | <hr/> <hr/> | <hr/> <hr/> |
| | 2018 Shs'000 | 2017 (Restated) Shs'000 |

28 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of profit before taxation to cash generated from operations:

| | | |
|--|-------------|-------------|
| Profit before taxation | 222,750 | 515,315 |
| Adjustments for: | | |
| Depreciation of property and equipment (Note 12) | 12,330 | 18,326 |
| Amortisation of intangible assets (Note 11) | 2,646 | 3,091 |
| Gain on disposal of property and equipment | (1,339) | (182) |
| Gain on disposal of unquoted investments | (7,192) | - |
| Interest on Government of Kenya loans (Note 9) | 8,448 | 8,448 |
| Gain on revaluation of investment property (Note 13) | (62,054) | (17,191) |
| Provision for impairment of unquoted investments (Note 20) | 177,444 | - |
| | <hr/> | <hr/> |
| Operating profit before changes in working capital | 353,033 | 527,807 |
| Loans and advances | (92,214) | (210,217) |
| Deferred revenue | 43,568 | 71,617 |
| Trade and other receivables | 6,579 | 52,164 |
| Trade and other Payables | (17,012) | 19,364 |
| | <hr/> | <hr/> |
| Cash generated from operations | 293,954 | 460,735 |
| | <hr/> <hr/> | <hr/> <hr/> |

b) Analysis of changes in loans

| | | |
|----------------------|-------------|-------------|
| At start of the year | 1,717,752 | 1,507,535 |
| Net change | 92,214 | 210,217 |
| | <hr/> | <hr/> |
| At end of year | 1,809,966 | 1,717,752 |
| | <hr/> <hr/> | <hr/> <hr/> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 RELATED PARTIES

a) **Government of Kenya**

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

b) **Investment in other related companies**

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

| | 2018 Shs'000 | 2017 Shs'000 |
|--|-----------------|-----------------|
| i. Dividends earned during the year are as follows: | | |
| Dividends (Note 6) | 443,234 | 380,793 |
| | <u>=====</u> | <u>=====</u> |

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

ii. **Key management compensation:**

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

| | 2018 Shs'000 | 2017 Shs'000 |
|----------|-----------------|-----------------|
| Salaries | 5,612 | 5,266 |
| Pension | 277 | 277 |
| | <u>-----</u> | <u>-----</u> |
| | 5,889 | 5,543 |
| | <u>=====</u> | <u>=====</u> |

iii. **Directors' remuneration**

| | | |
|---|--------------|--------------|
| Fees for services as non-executive directors | 10,006 | 13,174 |
| Other included in key management compensation above | 5,889 | 5,543 |
| | <u>-----</u> | <u>-----</u> |
| | 15,895 | 18,717 |
| | <u>=====</u> | <u>=====</u> |

i. **Loans and advances to staff**

| | | |
|-----------------------------|--------------|--------------|
| Loans and advances to staff | 249,209 | 109,252 |
| | <u>=====</u> | <u>=====</u> |

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 Shs'000 | 2017 Shs'000 |
|--------------------------------|-----------------|-----------------|
| 29 RELATED PARTIES (continued) | | |

c) Investment in other related companies (continued)

ii. Loans and advances to staff

| | | |
|-----------------------------|--------------|--------------|
| Loans and advances to staff | 249,209 | 109,252 |
| | <u>=====</u> | <u>=====</u> |

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

iii. Advances to other related parties

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

iv. Uchumi House tenants

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

| | 2018 Shs'000 | 2017 Shs'000 |
|--|-----------------|-----------------|
| Rent receivable from Government ministries and Parastatals | 41,761 | 11,990 |
| Rent receivable from other tenants | 11,836 | 55,086 |
| | <u>-----</u> | <u>-----</u> |
| Total rent receivable | 53,598 | 67,076 |
| | <u>=====</u> | <u>=====</u> |

30 CAPITAL COMMITMENTS

Amounts authorised and contracted for:

| | | |
|------------------------------|--------------|--------------|
| a) Investments | | |
| Loans | 639,210 | 503,690 |
| Equity | 43,800 | 30,530 |
| | <u>-----</u> | <u>-----</u> |
| Total investments approved | 683,010 | 534,220 |
| | <u>=====</u> | <u>=====</u> |
| b) Capital commitments | | |
| Total commitments | 71,286 | 488,484 |
| Less: Contracted and engaged | (7,341) | (404,215) |
| | <u>-----</u> | <u>-----</u> |
| | 63,945 | 84,269 |
| | <u>=====</u> | <u>=====</u> |
| Total commitments | 746,955 | 618,489 |
| | <u>=====</u> | <u>=====</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2018 Shs'000 | 2017 Shs'000 |
|---------------------------|-----------------|-----------------|
| 31 CONTINGENT LIABILITIES | | |
| Bank guarantees | 39,325 | 16,000 |
| Legal claims against ICDC | 40,542 | 29,832 |
| | <u>79,867</u> | <u>45,832</u> |

As at 30 June 2018, the Corporation had issued guarantees amounting to Shs 39,325,000 (2017: Shs 16,000,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to Shs 40,542,000 (2017: Shs 29,832,162) including the interest thereon and costs of the suits. These cases were still pending determination in the courts as at the end of the financial year.

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

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

32 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

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

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

| | 2018 Shs'000 | 2017 Shs'000 |
|---|-----------------|-----------------|
| Due within one year | 97,329 | 128,063 |
| Due within one year but less than 5 years | 317,214 | 177,858 |
| Due after 5 years | 43,345 | 7,235 |
| | <u>457,888</u> | <u>313,156</u> |

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 PRIOR YEAR ADJUSTMENT

Restatement of audited statement of profit or loss and other comprehensive income for the year ended 30 June 2017

| | As previously reported 30 June 2017 Shs 000 | Prior year adjustment Shs 000 | Restated 30 June 2017 Shs 000 |
|--|--|-------------------------------------|-------------------------------------|
| Depreciation on Property and equipment | 36,493 | 18,167 | 18,326 |

Restatement of audited statement of financial position as at 30 June 2016

| | As previously reported 1 July 2016 Shs 000 | Prior year adjustment Shs 000 | Restated 1 July 2016 Shs 000 |
|------------------------|---|-------------------------------------|------------------------------------|
| Property and equipment | 1,069,040 | (962,863) | 106,177 |
| Investment property | 948,951 | 1,082,946 | 2,031,897 |
| Retained earnings | 6,047,534 | 1,128,116 | 7,175,650 |
| Revaluation reserve | 1,061,087 | (1,008,033) | 53,054 |

Restatement of audited statement of financial position as at 30 June 2017

| | As previously reported 1 July 2017 Shs 000 | Prior year adjustment Shs 000 | Restated 1 July 2017 Shs 000 |
|------------------------|---|-------------------------------------|------------------------------------|
| Property and equipment | 74,540 | 18,167 | 92,707 |
| Retained earnings | 7,620,752 | 18,167 | 7,638,919 |

As at 30 June 2017 the Corporation erroneously classified Uchumi house as property and equipment yet approximately 85% of the property is leased out to generate rental income while 15% is owner occupied and used for administration purposes. This treatment did not comply with the requirements of IAS 40:10 that requires the portion that is rented out (if significant) to be classified as investment property and be subjected to valuation at each reporting date as per the Corporation's accounting policy for investment property with the owner occupied portion being accounted for as property and equipment. The portion leased out has been reclassified to investment property as at that date.

Management therefore decided to carry out a valuation of the entire property as at 30 June 2018 and split the property between property and equipment and investment property to comply with the provisions of IAS 40.

34 INCORPORATION

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION
OTHER INFORMATION

ICDC SUBSIDIARIES AND ASSOCIATE COMPANIES AS AT 30TH JUNE 2018

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

APPENDIX I

STATEMENT OF PROFIT AND LOSS

| | Final budget 2017-2018 Shs '000 | Actuals on comparable basis 2017-2018 Shs '000 | Performance differences 2017-2018 Shs '000 | % deviation from budget % |
|--|---------------------------------------|--|---|---------------------------------|
| REVENUE | | | | |
| Operating income | 1,154,139 | 969,417 | (184,722) | (16%) |
| Other income | 74,418 | 34,041 | (40,377) | (54%) |
| Total Income | 1,228,557 | 1,003,458 | (225,099) | (18%) |
| OPERATING EXPENSES | | | | |
| Staff costs | (316,826) | (242,119) | 74,707 | (24%) |
| Board expenses | (29,433) | (11,507) | 17,926 | (61%) |
| Depreciation | (33,121) | (34,144) | (1,023) | 3% |
| Repairs and maintenance | (15,768) | (12,153) | 3,615 | (23%) |
| Admin expenses | (200,263) | (127,408) | 72,855 | (36%) |
| Interest expense on borrowings | (10,722) | (8,448) | 2,274 | (21%) |
| Total Operating Expenses | (606,133) | (435,779) | 170,354 | (28%) |
| Operating profit before provisions | 622,424 | 567,679 | (54,745) | (9%) |
| provisions for losses- Loans | - | (215,350) | (215,350) | (100%) |
| Provision for Equity | - | (177,444) | (177,444) | (100%) |
| Provision for sundry debtors | (24,189) | (30,888) | (6,699) | 28% |
| Total provisions | (24,189) | (423,682) | 399,493 | 1652% |
| <i>Operating profit after provisions</i> | 598,235 | 143,997 | (454,238) | (76%) |
| Add: Profit on sale of asset | 1,339 | 1,339 | - | 0% |
| Add: Profit on sale of investments | 7,192 | 7,192 | - | 0% |
| Profit for period | 606,766 | 152,528 | (454,238) | (75%) |

