



Industrial & Commercial Development Corporation



*Funguo Housing Estate has been
developed and financed by ICDC*



ANNUAL REPORT & ACCOUNTS 1997/98

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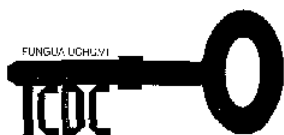
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**CORPORATION'S
INFORMATION**

HEAD OFFICE

Uchumi House, Aga Khan Walk

P.O. Box 45519

NAIROBI

Telephone 254-2-229213

Fax: 254-2-333880

E-mail: icdcitd@africaonline.co.ke

Directors

J.K. Ndoto (Chairman)

E. I. Manasseh (Executive Director)

Permanent Secretary,

Ministry of Industrial Development

Permanent Secretary, Treasury

J.W. Masinde

J. Mwirigi

Prof. A.G. Tumbo-Oeri

V. Mbogho (Mrs)

I. Bett

P. Ayata

J. Ngumi

Secretary to the Board

I.B. Mogaka

Chief Officers

Executive Director

E. I. Manasseh

Corporation Secretary

I.B. Mogaka

Financial Controller

C.L. Mkamba

Manager, Operations Division

W. Shimanyula

Field Offices

Mombasa, Nakuru, Kisumu,

Kakamega, Embu, Garissa,

Kisii, Machakos, Eldoret, Nyeri and

Meru.

Auditors

Bellhouse Mwangi

Ernst & Young

Bankers

Kenya Commercial Bank

Limited, Moi Avenue,

Nairobi

Commercial Bank of Africa

Limited, Wabera Street,

Nairobi

Development Bank of Kenya

Limited, Finance House,

Loita Street,

Nairobi

2007/0419

THE ICDC BOARD OF DIRECTORS



J.K. NDOTO
Chairman



E.I. MANASSEH
Executive Director



W.P. MAYAKA
*Permanent Secretary, Ministry
of Industrial Development*



Z. ACHIRA
*Alternate to the Permanent
Secretary, Treasury*



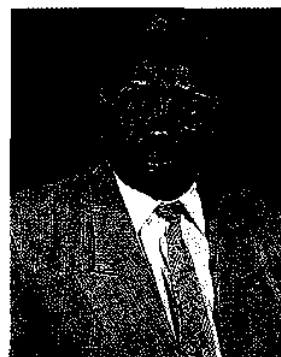
J.W. MASINDE



J. MWIRIGI



PROF. A.G. TUMBO-OERI



I. BETT

CMA-LIBRARY



V. MBOGHO



P. AYATA



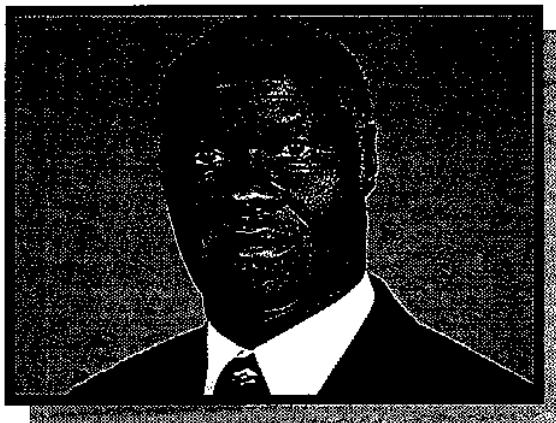
I. B. MOGAKA
Secretary

Note: Photograph of Mr. J. Ngumi is missing.

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A - CHAIRMAN'S STATEMENT



J.K. Ndoti - Chairman

It is with profound pleasure that I take this opportunity to make these few remarks on the I.C.D.C. Annual Report and Audited Accounts for the financial year ended 30th June, 1998.

During the year under review, the country experienced harsh economic and climatic conditions which affected the performance of the Corporation and the lives of each one of us. Nonetheless, the Corporation continued to provide financial facilities to the Industrial & Commercial sectors of the economy. Despite the stiff challenges the Corporation was able to record a reasonable performance attributed to prudent management of the resources, teamwork and dedication to duty by the Board, Management and the entire staff of the Corporation.

Economic Review

Global Scene

The Organization of Economic Co-operation and Development (OECD) member states recorded a modest growth in real Gross Domestic Product (GDP) of 3.0 per cent in 1997 from 2.4 per cent in 1996. The pattern of growth across the OECD remained robust with low and stable inflation, favourable exchange rate, strong financial position of the business sector and stability in the commodity market.

Elsewhere in the Non-OECD area, growth was mixed, with the Dynamic Asian Economies (DAEs) slowing down as a result of financial turbulence which began with a sharp depreciation of the Thai Baht, and subsequently spread to other economies in South East Asia, namely: Malaysia, Philippines and Indonesia.

As the crisis spread, several countries of the world, depending on their degree of integration in the financial market, as well as those with significant levels of trade with the deeply hit sub-regions of South East Asia and Russia experienced loss of trade and fall in foreign direct investments.

The United States experienced strong economic activity while in Japan expansion faltered in 1997. On the other hand, the United Kingdom and Continental Europe, enjoyed higher growth rates from 1.6 per cent in 1996 to 2.6 per cent in 1997. For the North, therefore, the main issues of concern in this period were unemployment in Europe, the effect of the financial crisis in the Asian region, and a smooth transition process towards the European Economic and Monetary Union in Continental Europe.

The African continent recorded a lower GDP growth of 3.5 per cent down from 5.0 per cent in 1996. Several of these economies had to contend with high fiscal deficits, low domestic savings, low private and foreign direct investment levels coupled with civil strife and climatic disasters.

A - CHAIRMAN'S STATEMENT

Domestic Scene

During the year under review, GDP grew by 3.2 per cent compared to 4.6 per cent in 1996. The main underlying reasons responsible for the economic slowdown were political uncertainties in the election year and adverse weather conditions (the El Nino phenomenon). Other factors included a decline in gross domestic investment following the lapse of the International Monetary Fund, Enhanced Structural Adjustment Facility programme and dilapidated state of physical infrastructure. Consequently, the ratio of Gross Domestic Investment to the GDP declined from 21.0 per cent in 1996 to 18.7 per cent in 1997. Additionally, the negative publicity in tourist originating countries led to a reduction in tourism earnings.

The annual inflation increased marginally by 2.1 per cent from 9.1 per cent in 1996. The moderate growth in inflation is partially explained by the reduced agricultural output leading to rising prices of basic foodstuffs. In addition, the shilling experienced depreciation against the major international currencies following the withholding of donor aid under the Enhanced Structural Adjustment Facility. Stringent management of the money supply by the Central Bank of Kenya significantly contained the general inflation.

The interest rates on 91 days Treasury Bills varied from 18.45 per cent in July 1997, to 26.4 per cent in December 1997. Thereafter, it maintained a steady decline to 24.7 per cent in June 1998. The commercial bank lending interest rates remained high during the period, fluctuating between 28.5 per cent in June 1997 and 30.2 per cent in June 1998. The high cost of credit underscored by the high interest rates that prevailed accounted for reduced demand for borrowing.

Key sectors of the economy such as agriculture and manufacturing recorded substantial declines in both output and growth. The agricultural sector, accounted for 26.3 per cent of the GDP and grew by 1.2 per cent in 1997, a decrease from 4.4 per cent in 1996. The decline in output was traced to the drought in the first half of the year and the heavy rains during the last half of the year occasioned by the El Nino.

The manufacturing sector accounted for 14.5 per cent of the GDP and grew by 1.9 per cent compared to 3.7 per cent in 1996. The slowdown in the sectoral performance was attributed to the irregularity of power supply, the dilapidated state of physical infrastructure, the strong competition from cheap imports and the slowdown in investment. The high cost of borrowing impacted negatively on the performance of the manufacturing enterprises through the erosion of margins and returns from investment.

The instability in the financial sector in the later part of the year, resulted in five banks being placed under CBK statutory management. This fact notwithstanding, the sector recorded the highest growth among other sectors of 5.2 per cent. The good performance was attributed to continued implementation of prudent monetary policies.

The Corporation's Performance

During the year under review, the Corporation's net assets employed increased by Ksh 654.1m(19.6%) from Ksh 3.34 billion to Ksh 4.0 billion mainly due to investment in the Funguo Housing Estate. The net profit decreased by Ksh 27.4m (18.2%) from Ksh 150.9m in 1996/97 to Ksh 123.5m in the year under review. This decrease was mainly because of an exceptional item of Ksh 262.2m which was largely as a result of the DEG Put Option.

Receipt of dividends decreased to Ksh 183.9m as compared to Ksh 245.7m in the previous year mainly because a high proportion of dividends declared during the

A - CHAIRMAN'S STATEMENT

period had not been received by year-end. There has also been a decline in dividend earnings due to the ongoing privatization.

Collections from large and medium loans amounted to Ksh 33.3m as compared to Ksh 46.9m collected during the previous year while receipts from small loans collections increased to Ksh 291.8m from Ksh 239.4m received in 1996/97.

The overall increase in the resources available to the Corporation enabled it to fund the enhanced volume of its business activities.

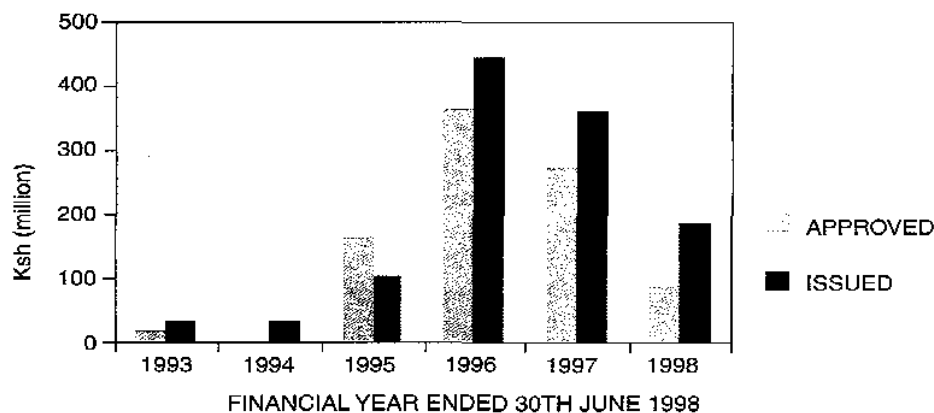
Loan Programme

The Corporation's Loan Programme continued to attract many potential customers during the financial year under review.

A total of 150 loan applications worth Ksh 300.2m were received and registered. The Corporation subsequently approved loans worth Ksh 89m to 84 entrepreneurs in industrial, commercial, service and horticultural sectors. Loans amounting to Ksh 186.7m were disbursed to 123 clients during the year.

Small loans approved

	Approved Ksh	Issued Ksh
1993	16,150,000	32,856,370
1994	-	30,748,830
1995	164,213,000	103,961,430
1996	364,426,000	444,445,560
1997	275,300,000	360,700,000
1998	89,017,000	186,708,951



Venture Capital Investments

The Corporation received a total of 37 applications during the period under review for consideration under its venture capital/equity investment business. The Corporation was able to appraise and approve for investment a total of 9 projects amounting to Ksh 268.32m.

Amongst these projects was Funguo Housing Estate whose construction work commenced in September 1997. It comprises of 40 flats, 92 maisonettes, 5 shop/flats and a nursery school.

At the same time, the rehabilitation of Kenatco Taxis Limited, Rivatex Limited and Farm Fresh Commodities Limited were undertaken.

A - CHAIRMAN'S STATEMENT

Privatization & Divestiture

During the year under review, the Corporation continued to pursue the privatization and divestiture programme. The sale of assets of Synthetic Fibres Kenya Limited was finalised, while the Corporation managed to dispose its shareholding in Kenya National Properties Limited through pre-emption rights.

Other companies where privatization was being actively pursued included General Motors (K) Limited, where the Corporation intends to dilute its shareholding to 20%, Kenya Bowling Centres Limited, East Africa Industries Limited, Infusion (K) Limited and Rehabilitation Advisory Services.

Management Support and Consultancy Services

The Corporation provided Company Secretarial services, computer consultancy services, property valuation, feasibility studies, legal services, company rehabilitations, accountancy services and financial syndications for various companies.

The above services were rendered to a total of 19 companies which include Uchumi Supermarkets Limited, ICDC Investment Company Limited, Dawa Pharmaceuticals Limited and Mount Kenya Bottlers Limited.

Board Tour

The Board of Directors toured the Coast Province from 25th to 31st, August 1997. During the tour, the Board visited Soya Oil and Food Industries Limited (SOFI) site, Athi River Mining Limited in Kilifi, ICDC plot at Kipevu and East African Coast Fisheries Limited. During the tour the Board held its meeting, attended the Mombasa Show and later briefed the Minister for Commerce and Industry on the activities of the Corporation.

Nairobi International Show

In 1997 the Corporation participated in this annual event and exhibited within the stand its line of Financial, Management and Consultancy Services. It also provided exhibition facilities for seven of its Subsidiary and Associate Companies namely: African Retail Traders Limited, Eveready Batteries Kenya Limited, Kenya Wine Agencies Limited, Agro Chemical and Food Company Limited, Njoka Tanners Limited, Rivatex Limited and Crescent Limited. The Show theme articulated the utilization of local resources for development.

Centre for Human Resource Development

During the year under review the Corporation continued to finance the construction of the Centre for Human Resource Development at Moi University, Eldoret by donating a further Ksh 14.1m to the project.



Acknowledgements

I wish to record my sincere thanks and appreciation to the Management and the entire staff of ICDC whose hard work and proper management of the resources is instrumental to the success of the Corporation. During the year under review, despite the harsh economic climate that prevailed, the Corporation was able to make profit and declare a dividend of Ksh 20m to the Government.

Special thanks go to the Ministry of Industrial Development, the Treasury, the Office of the President, other Government Departments, and the investing public whose continued support to us is invaluable.

Finally, I have received tremendous co-operation and dedication from the Board, who worked tirelessly for the best interest of the Corporation and the Nation at large.

J.K. Ndoto
Chairman

B - DIRECTORS REPORT

B - DIRECTORS REPORT

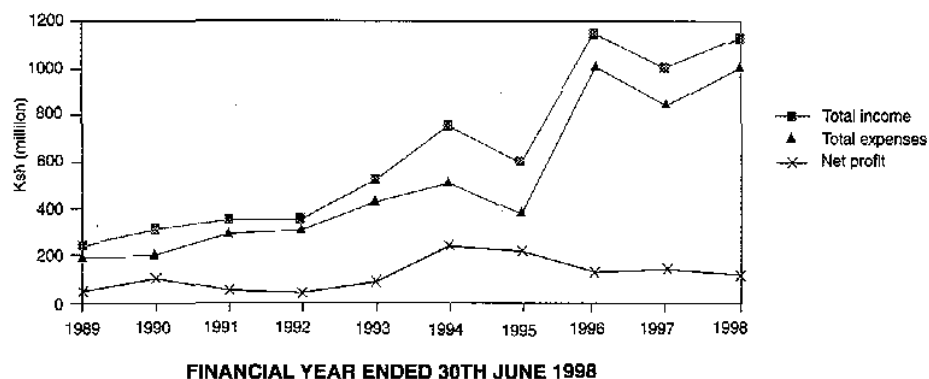
The Board of Directors has the pleasure of submitting the Annual Report together with the Audited Accounts for the financial year ended 30th June, 1998 in accordance with Section 15(4) of the Industrial & Commercial Development Corporation Act (Cap.445).

1. Financial Report

The Corporation's gross income increased by Ksh 138.0m (13.9%) from Ksh 994.3m in the previous year to Ksh 1.13 billion in the year under review. The increase in income realised was due to higher level of profit on disposal of investments. On the other hand expenses increased by Ksh 165.4m from Ksh 843.3m in previous year to Ksh 1 billion mainly due to the exceptional item of Ksh 262.2m which was largely in respect of the DEG Put Option. As a result, the net profit realized during the period amounted to Ksh 123.5m as compared to Ksh 150.9m in the previous year.

PROFITS TREND

Year	Total Income Ksh	Total Expenses Ksh	Net Profit Ksh
1989	238,496,140	189,096,550	49,399,590
1990	308,332,320	198,841,420	109,490,900
1991	355,641,960	297,588,550	58,053,410
1992	354,263,290	309,976,030	44,287,260
1993	523,421,780	431,007,370	92,414,410
1994	755,729,500	511,306,040	244,423,460
1995	597,289,210	374,046,320	223,242,890
1996	1,142,017,850	1,008,877,630	133,140,220
1997	994,267,000	843,333,240	150,933,760
1998	1,132,316,500	1,008,792,230	123,524,270



The cash position of the Corporation improved from an overdraft of Ksh 22.3m to a cash balance of Ksh 21.1m mainly because of inflow of privatisation proceeds.

The Corporation continued to encounter enormous challenges arising from the on-going restructuring of the economy. However, as a result of internal re-organization, its performance has continued to be stable. In view of this and in accordance with the Corporation's commitment to providing a fair return to its shareholders, the Directors recommend the declaration of a dividend of Ksh 20m to the Exchequer.

Year 2000 Computer Compliance

The Corporation's Computerised Systems are Year 2000 Compliant. The Directors are, thus, of the opinion that the impact of the year 2000 bug will not create errors in the accounting procedures or adversely impact operations or customer service.

2. Organisation

The Management

During the year under review, there were various changes in the Management. Mr. William Shimanyula was promoted to the post of Manager, Operations Division while Mr. Charles Mkamba was elevated to the position of Financial Controller. Mr. Joseph Mwaura and Mr. Nelson Chesoni were promoted to the positions of Chief Accountant and Equity Manager respectively, while Mr. Nicholas Kositany joined the Corporation as the Administration Manager.

Manpower Development

In recognition of manpower development, the Corporation continued to train Staff in various relevant disciplines.

A total of forty-five (45) members of staff attended various seminars and workshops both locally and abroad. The areas covered locally included Project Management, Small and Medium Enterprises Programme, Strategic Review Workshop which were attended by all Managers, and Disaster Recovery Seminar for Computer Programmers among others.

The Executive Director, Mr. Edgar Manasseh attended the 24th Annual General Assembly for the Association of Africa Development Finance Institutions (AADFI) in Abidjan, Cote D'Ivoire. Mr. Charles Mkamba and Mr. Manasseh Kigame, who are the Financial Controller and Human Resources Manager respectively, accompanied him.

Mrs. Ruth Kigundu attended a course in Advanced Programme on Management of Training in Cape Town, South Africa. Four members of staff from Operations Division attended a Workshop on Private Investment and Appraisal held in Khartoum, Sudan organised by AADFI. Mr. Osolika Ndombi attended an International Project Procurement and Control Negotiation Course, while Mrs. Grace Magunga attended an International Commercial Arbitration Course both held in Kampala, Uganda and organised by the International Law Institute.

REPORT OF THE AUDITORS ON THE ACCOUNTS OF ICDC

We have audited the accounts on pages 9 to 20 which have been prepared on the basis of the accounting policies set out on pages 12 to 13. We obtained all information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND INDEPENDENT AUDITORS

The directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and operating results of the Corporation. Our responsibility is to express an independent opinion on the accounts based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with generally accepted auditing standards. We planned and performed our audit so as to obtain a reasonable assurance that the accounts are free from material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of significant estimates and judgements made by the directors in preparation of the accounts and whether the accounting policies are appropriate in the Corporation's circumstances, consistently applied and adequately disclosed.

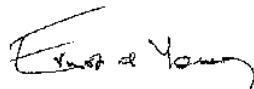
1. The Soya Oil & Food Industries limited project was financed by the Corporation through a loan contracted between the Corporation and Banque Indosuez. This loan is guaranteed by the Government of Kenya. Though the bulk of equipment and machinery needed for the project has been acquired, subsequent appraisal indicated that the project was economically not viable with a recommendation to sell the assets acquired. Information available indicates that the Government accepted this recommendation, and proceeds be used to pay off the liabilities and accumulated interest incurred on the project which amounted to Ksh. 954,024,743 as at 30th June, 1998.

The terms of the financial arrangement between the Government of Kenya and the Corporation in respect of this project are not clear. There is a dispute between the two parties as to who is liable for this project (loan). The Government of Kenya is claiming from the Corporation an amount of Kshs. 437,758,725 which it has so far paid to Banque Indosuez in respect of this loan. Under the circumstances we are unable to form an opinion whether the amount incurred by the Corporation on the project amounting to Kshs. 954,024,743, is recoverable. However, the directors are of the opinion that the Government will assume this loss.

2. Included in the grants is an amount of Kshs. 82,665,620 received on behalf of the Government of Kenya in relation to bilateral grant given to the Government of Kenya in 1994 by the Belgium Government in respect of the Soya Oil & Food Industries loan. The Corporation has accounted for this amount as a grant from the Government of Kenya. We have, however, not confirmed this.
3. There is a proposal to the Government of Kenya to restructure the Corporation's balance sheet. This will include conversion of grants and loans from the Government and managed funds into equity. The directors are of the opinion that this will be approved and implemented by the Government.

OPINION

In our opinion, subject to the above, proper books of account have been kept and the accounts, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Corporation as at 30th June 1998 and of the profit and cash flows of the Corporation for the year then ended and comply with the Industrial and Commercial Development Corporation Act (Cap 445).



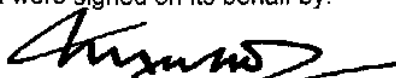
Bell House Mwangi Ernst & Young
Nairobi
6th October 1999



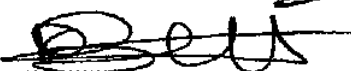
BALANCE SHEET
AS AT 30TH JUNE
1998

		1997/98	1996/97
	Note	Ksh	Ksh
ASSETS EMPLOYED			
Shares in Subsidiary Companies	9	130,385,040	129,861,540
Shares in other Companies	10	337,210,020	336,739,380
Investment Properties	11	199,755,560	16,545,070
Loans	12	780,692,820	969,745,630
Fixed Assets	13	630,784,510	513,664,110
Advances	14	854,773,570	761,722,390
		<u>2,933,601,520</u>	<u>2,728,278,120</u>
CURRENT ASSETS			
Short Term Loans Receivable	15	26,187,610	23,412,250
Subsidiary Companies' Current Account	16	69,984,680	67,362,640
Debtors		835,242,440	764,581,890
Current Portion of Loans Receivable	12	518,013,640	224,577,900
Bank Balances and Cash		<u>21,140,100</u>	<u>5,795,170</u>
		<u>1,470,568,470</u>	<u>1,085,729,850</u>
CURRENT LIABILITIES			
Short Term Loans Payable	17	26,187,610	23,412,250
Current Portion of Loans Payable	18	106,780,520	14,613,200
Creditors		162,194,180	282,950,790
Bank Overdraft	19	0	28,085,120
Dividends Payable		<u>115,000,000</u>	<u>125,000,000</u>
		<u>410,162,310</u>	<u>474,061,360</u>
NET CURRENT ASSETS		<u>1,060,406,160</u>	<u>611,668,490</u>
		<u>3,994,007,680</u>	<u>3,339,946,610</u>
FINANCED BY:-			
Grants and Loans from the			
Kenya Government	20	1,400,874,690	872,002,540
Capital Reserve	21	1,399,577,770	1,053,125,700
Retained Profits		451,961,240	582,745,320
Other Loans	18	<u>741,593,980</u>	<u>832,073,050</u>
		<u>3,994,007,680</u>	<u>3,339,946,610</u>

The Accounts were approved by the Board of Directors on 30th September 1999
and were signed on its behalf by:-



CHAIRMAN



EXECUTIVE DIRECTOR

**PROFIT AND LOSS
ACCOUNT FOR
THE YEAR ENDED
30TH JUNE 1998**

		1997/98	1996/97
	Note	Ksh	Ksh
Income	2	<u>1,132,316,500</u>	<u>994,267,000</u>
LESS:			
Interest Charges	3	46,664,050	56,902,300
Administrative Costs and Other Expenses	4	320,366,840	269,655,560
Loss/(Gain) on Foreign Exchange	4	<u>(12,054,910)</u>	<u>55,473,210</u>
		<u>354,975,980</u>	<u>382,031,070</u>
Profit before Provision for Losses and exceptional items		777,340,520	612,235,930
Exceptional Items	5	<u>(262,203,170)</u>	<u>(28,013,540)</u>
Profit before Provision for Losses and after exceptional items		515,137,350	584,222,390
Less: Provision for Losses	6	<u>(391,613,080)</u>	<u>(433,288,630)</u>
Profit before and after Taxation	7	123,524,270	150,933,760
LESS: Dividends		<u>(20,000,000)</u>	<u>(30,000,000)</u>
Retained Profits for the year		<u>103,524,270</u>	<u>120,933,760</u>

STATEMENT OF RETAINED PROFITS

Retained Profit brought forward as previously stated		601,101,960	535,146,570
Prior year adjustment	8	<u>(18,356,640)</u>	<u>(23,517,180)</u>
As Restated		582,745,320	511,629,390
Retained Profit for the year		<u>103,524,270</u>	<u>120,933,760</u>
		686,269,590	632,563,150
LESS: Transfer to Capital Reserve	21	<u>(234,308,350)</u>	<u>(49,817,830)</u>
		<u>451,961,240</u>	<u>582,745,320</u>

**CASH FLOW
STATEMENT
FOR THE
YEAR ENDED
30TH JUNE
1998**

	NOTE	1997/98 Ksh	1996/97 Ksh
NET CASH INFLOW FROM OPERATING ACTIVITIES	24(a)	<u>276,106,820</u>	<u>344,868,970</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividend Paid		(30,000,000)	0
Increase in Loans		560,970,900	0
Long term loans repayments		(14,613,200)	(27,471,360)
Repayment of loans:-			
-Associate Companies		570,000	3,173,730
-Small loans		291,814,080	239,429,150
Repayment of advances:-			
-Associate Companies		152,000	1,765,780
-Subsidiary Companies		<u>184,760</u>	<u>25,380,700</u>
NET CASH INFLOW/(OUTFLOW) ON RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>809,078,540</u>	<u>242,278,000</u>
INVESTING ACTIVITIES			
Investment Properties		(199,755,560)	0
(Increase)/Decrease in investments		(36,943,780)	(4,000,000)
Proceeds from sale of fixed assets		373,860	2,161,100
Proceeds from sale of investments		265,812,060	50,858,630
Purchase of fixed assets		(9,463,060)	(15,450,890)
Small loans advanced and interest charged there on		(659,278,580)	(748,108,870)
Adjustments in loans:-			
-Associate companies		(60,034,150)	149,469,630
-Subsidiary companies		(6,707,330)	26,346,860
Increase in Loans:-			
-Associates Companies		(11,500,000)	(58,457,480)
Increase in Advances:-			
-Associate Companies		(23,910,440)	(10,545,800)
-Subsidiary Companies		(31,854,740)	(29,786,900)
Adjustments in loans		(264,538,470)	(151,745,490)
Adjustments in fixed Assets		<u>(3,955,120)</u>	<u>0</u>
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		<u>(1,041,755,310)</u>	<u>(789,259,210)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	24(b)	<u>43,430,050</u>	<u>(202,112,250)</u>

Report of the Auditors Page 8.

The Notes and Schedules from Page 12 form part of these accounts.

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

1. PRINCIPAL ACCOUNTING POLICIES

The accounts are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets. The following is a summary of the more important accounting policies used:

(a) CONSOLIDATION:

In view of the nature of the Corporation's operations which include substantial Subsidiary and Associate Companies with dissimilar activities and different accounting periods, consolidated accounts are not prepared.

(b) DEPRECIATION AND AMORTISATION

Depreciation is calculated to write off the cost or valuation of fixed assets on a straight line basis over the expected useful lives of the assets concerned except for furniture and fittings where depreciation is based on the written down value. The annual rates for this purposes are:

Motor Vehicles	20%
Furniture and Equipments	10%

Leasehold Properties are amortised by equal annual instalments over the lease term.

(c) BAD AND DOUBTFUL DEBTS:

(i) Large and Medium Loans:

Known bad debts are written off and specific provision made against those loans, including accrued interest, which are doubtful of recovery.

(ii) Small Loans:

Known bad debts are written off and specific provision made against those loans, including accrued interest, which are doubtful of recovery. In addition, a general provision is made on the balances remaining at the following rates:

Industrial	25%
Commercial	20%
Property	5%
Machinery	50%

(d) INVESTMENTS

Equity investments in Subsidiary and other Companies are shown at cost, and specific provision is made against those investments where the Directors are of the opinion that there has been a permanent diminution in value. In addition a general provision is made on the remaining balances at 5% for Subsidiary Companies and 1% for other Companies. This does not take account of any appreciation in market value of individual investments. The policy for provision against bad and doubtful loans and current accounts in Subsidiaries and other Companies is as for large and medium loans as stated in paragraph (c) (i) above.

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

(e) MANAGED FUNDS:

No provision is made against investments and loans financed by Government funds received for such purposes, where the Corporation is merely managing such funds.

(f) RESERVES:

Capital profits on the disposal of investments in Subsidiary and other Companies, and of fixed assets are appropriated to Capital reserves in the year of disposal. Losses on such disposal are written off to Profit and Loss Account.

(g) INCOME:

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

- (i) Interest on loans, rents and management fees include income received and accrued during the accounting period.
- (ii) Dividends are taken into account when declared during the accounting period.

(h) FOREIGN CURRENCIES:

These accounts are presented to the nearest Ksh. 10. Loan balances expressed in foreign currencies are translated to Kenya Shillings at approximate of Exchange rate ruling at the balance sheet date. Exchange rate differences arising are charged or credited to the Profit and Loss account.

(i) DEFERRED TAX:

Provision for deferred tax is made only when the directors consider that a tax benefit or charge is likely to crystallise in the foreseeable future.

	1997/98 Ksh	1996/97 Ksh
2. INCOME		
Dividends:		
Subsidiary Companies	34,872,360	69,749,840
Other Companies	187,184,850	291,278,470
Interest on loans and advances:		
Large and medium size loans and advances	115,107,740	113,753,750
Small loans	482,541,880	387,421,070
Application Fees	5,109,580	6,682,700
Management and other services	18,996,400	22,525,040
Rents	40,372,690	36,193,510
Profit on disposal of fixed assets and investments	234,308,350	49,817,830
Computer Income	2,633,020	1,501,980
Interest on Deposits	7,388,690	13,584,250
Sundry Income	3,800,940	1,758,560
	<u>1,132,316,500</u>	<u>994,267,000</u>
3. INTEREST CHARGES		
Kenya Government Loans	8,447,820	8,447,820
Other loans charges	38,216,230	48,454,480
	<u>46,664,050</u>	<u>56,902,300</u>

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

	1997/98 Ksh	1996/97 Ksh
4. ADMINISTRATIVE COSTS AND OTHER EXPENSES		
Staff Costs	215,020,960	182,536,350
Directors Fees and other Expenses	7,960,260	3,763,230
Rent and Rates	3,260,990	3,136,200
Audit Fees	670,000	530,000
Depreciation	8,442,400	14,839,940
Repairs and Maintenance	14,566,070	6,537,490
Insurances	8,346,250	4,668,230
Printing and Stationery	4,279,200	3,361,820
Water and Electricity	5,975,500	7,562,950
Publicity and Advertising	3,540,990	3,715,960
Telephone and Telex	6,004,910	6,075,360
Travelling and Subsistence	15,530,320	11,323,670
Motor Vehicle Operating Expenses	5,514,300	5,038,100
Computer Rental and other E.D.P. Expenses	2,486,410	1,837,970
ICDC Voluntary Early Retirement Scheme	0	26,020
Legal Charges	214,610	1,090,200
Bank Charges	2,357,590	1,300,800
Uchumi House Security	3,261,310	2,433,700
VAT Unrecoverable	2,537,470	1,299,810
Uchumi House Administrative Expenses	1,478,400	1,222,520
Subscription	745,060	526,435
Other Expenses	8,173,840	6,828,805
	<u>320,366,840</u>	<u>269,655,560</u>
Loss/(Gain) or Foreign Exchange	(12,054,910)	55,473,210
5. EXCEPTIONAL ITEMS		
Legal fees on DEG Put Option Case	7,731,930	9,037,540
Donation to Moi University- Human Resource Centre	14,177,870	18,976,000
Specific Provision - DEG PUT Option	<u>240,293,370</u>	<u>0</u>
	<u>262,203,170</u>	<u>28,013,540</u>
6. PROVISION FOR LOSSES		
Specific Provision:		
Small loans	236,488,600	195,796,800
Equity Investment	19,331,990	17,930,000
Large and medium size loans and advances:		
Principal	32,870,580	59,552,840
Interest	65,604,280	100,770,550
Sundry Debtors	17,211,070	2,523,460
General Provisions:		
Small Loans	18,821,440	56,714,980
Equity Investment	<u>1,285,120</u>	<u>0</u>
	<u>391,613,080</u>	<u>433,288,630</u>

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

7. TAXATION

There is no charge on taxation as profit for the year is adjusted in the taxation computation to a loss due to the non-taxable nature of the bulk of the Corporation's income.

A deferred tax liability estimated at KSH 1,366,060 has not been recognised in these accounts as the directors are of the opinion that it will not crystallise in the foreseeable future.

8. PRIOR YEAR ADJUSTMENT

Prior year adjustment relates to over-accrued income and adjustment in relation to Soya Oil & Food Industries Ltd. Last year's adjustment was in relation to over-accrued dividends from Pan African Paper Mills Ltd.

	1997/98	1996/97
	Ksh	Ksh
9. SHARES IN SUBSIDIARY COMPANIES		
Shares at cost (unquoted)	303,817,550	303,288,770
LESS: Provision	<u>(173,432,510)</u>	<u>(173,427,230)</u>
	<u>130,385,040</u>	<u>129,861,540</u>
Directors Valuation of unquoted shares	<u>557,985,060</u>	<u>239,325,390</u>
10. SHARES IN ASSOCIATE COMPANIES		
Shares at Cost:		
Quoted	37,526,600	37,526,600
Unquoted	<u>342,879,670</u>	<u>321,797,180</u>
	380,406,270	359,323,780
LESS: Provisions	<u>(43,196,250)</u>	<u>(22,584,400)</u>
	<u>337,210,020</u>	<u>336,739,380</u>
Market value of quoted shares	472,711,920	405,815,910
Directors valuation of unquoted shares	<u>2,321,432,690</u>	<u>1,329,127,010</u>
	<u>2,794,144,610</u>	<u>1,734,942,920</u>

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

	1997/98	1996/97
	Ksh	Ksh
11. INVESTMENT PROPERTIES		
Cost of Land	16,545,070	16,545,070
Construction costs	<u>183,210,490</u>	<u>0</u>
	<u>199,755,560</u>	<u>16,545,070</u>
These are in relation to amounts incurred in the development of Funguo Estate.		
12. LOANS		
Large and Medium Loans:		
Subsidiary Companies	261,045,070	254,337,740
Associate Companies	<u>95,914,910</u>	<u>91,542,430</u>
	356,959,980	345,880,170
LESS: Provision for bad and doubtful debts	<u>(238,527,000)</u>	<u>(220,537,740)</u>
	118,432,980	125,342,430
LESS: Current portion of loans under current assets	<u>(97,633,900)</u>	<u>(34,265,790)</u>
	<u>20,799,080</u>	<u>91,076,640</u>
Small Loans:		
Commercial	1,553,217,840	1,397,762,280
Property	347,055,900	256,752,070
Industrial	539,404,130	473,936,930
Machinery	<u>76,254,900</u>	<u>63,778,540</u>
	2,515,932,770	2,192,229,820
LESS: Provision for bad and doubtful debts	<u>(1,335,659,290)</u>	<u>(1,123,248,720)</u>
	1,180,273,480	1,068,981,100
LESS: Current portion of loans shown under current assets	<u>(420,379,740)</u>	<u>(190,312,110)</u>
	<u>759,893,740</u>	<u>878,668,990</u>
TOTAL LONG TERM LOANS	<u>780,692,820</u>	<u>969,745,630</u>
TOTAL CURRENT PORTION OF LOANS	<u>518,013,640</u>	<u>224,577,900</u>

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

	Leasehold Over 50 Years Ksh	Leasehold under 50 Years Ksh	Motor Vehicles Ksh	Furniture & Office Equipment Ksh	Total Ksh
13, FIXED ASSETS					
Cost or Valuation:					
1st July 1997	517,883,190	734,530	31,847,600	42,079,670	592,544,990
Additions	0	0	2,740,040	6,723,020	9,463,060
Disposals/adjustments	(29,648,160)	0	(349,000)	(8,702,970)	(38,700,130)
Surplus on Revaluation	<u>114,709,260</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>114,709,260</u>
30th June 1998	<u>602,944,290</u>	<u>734,530</u>	<u>34,238,640</u>	<u>40,099,720</u>	<u>678,017,180</u>
DEPRECIATION:					
1st, July 1997	23,184,390	669,130	16,442,120	22,040,170	62,335,810
charge for year	33,140	0	5,579,350	2,829,910	8,442,400
Disposal	0	0	(349,000)	(190,570)	(539,570)
Surplus on Revaluation	<u>(23,005,970)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(23,005,970)</u>
30th June 1998	<u>211,560</u>	<u>669,130</u>	<u>21,672,470</u>	<u>24,679,510</u>	<u>47,232,670</u>
NET BOOK VALUE					
30TH JUNE 1998	<u>602,732,730</u>	<u>65,400</u>	<u>12,566,170</u>	<u>15,420,210</u>	<u>630,784,510</u>
30TH JUNE 1997	<u>478,153,730</u>	<u>65,400</u>	<u>15,405,480</u>	<u>20,039,500</u>	<u>513,664,110</u>

The revaluation of Uchumi House, a leasehold property over 50 years, was carried out on 30th June, 1998 by the Corporation's qualified valuation surveyors, based on an open market value. The resulting surplus on revaluation was transferred to capital reserve (note 21)

NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998

	1997/98 Ksh	1996/97 Ksh
14. ADVANCES		
Subsidiary Companies	209,481,610	177,812,500
Other Companies	905,974,810	815,624,710
	<u>1,115,456,420</u>	<u>993,437,210</u>
Less: Provision for bad and doubtful debts	<u>(260,682,850)</u>	<u>(231,714,820)</u>
	<u>854,773,570</u>	<u>761,722,390</u>
15. SHORT TERM LOANS RECEIVABLE		
Short term bank loan obtained for on lending to Rift Valley Textiles Limited.	<u>26,187,610</u>	<u>23,412,250</u>
16. SUBSIDIARY COMPANIES CURRENT ACCOUNTS		
Current accounts	559,065,170	501,172,490
LESS: Provision for bad and doubtful debts	<u>(489,080,490)</u>	<u>(433,809,850)</u>
	<u>69,984,680</u>	<u>67,362,640</u>
17. SHORT TERM LOANS PAYABLE		
Kenya Commercial Bank Limited - Loan for on-lending to Rift Valley Textiles Limited	<u>26,187,610</u>	<u>23,412,250</u>
18. OTHER LOANS		
Borrowing for Soya Oil and Food Industries Limited	486,161,980	750,700,450
Deutsche Gessellschaft Fur Wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft) Mbh: (D.E.G)		
DEG PUT OPTION Conversion	240,293,370	0
D.E.G. - Second Loan (DM 15M) 1993/2003	80,372,600	94,985,800
Shelter-Afriqne Loan for Funguo Estate	40,546,550	0
Borrowing For Small Irrigation Development Project	<u>1,000,000</u>	<u>1,000,000</u>
	<u>848,374,500</u>	<u>846,686,250</u>
LESS: Current Portion of Loans	<u>(106,780,520)</u>	<u>(14,613,200)</u>
	<u>741,593,980</u>	<u>832,073,050</u>

Share investments in subsidiary and Other Companies at cost of
Ksh 55,584,580 are held as security for some of the above loans.

19. BANK OVERDRAFT

The Corporation has an overdraft facility of Ksh. 40,000,000 and Ksh
30,000,000 with Kenya Commercial Bank Limited and Commercial Bank of
Africa Ltd, which are secured by a legal charge on LR. No. Nairobi 209/7405,
and LR NO. MN/V/3711 Mombasa.

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

	1997/98 Ksh	1996/97 Ksh
20. GRANTS AND LOANS		
(a) From Kenya Government		
Grants:		
1ST July 1997	529,971,270	529,971,270
Addition	<u>82,665,620</u>	<u>0</u>
	<u>612,636,890</u>	<u>529,971,270</u>
Loans:		
1st July 1997	305,255,450	297,328,260
Addition	437,758,730	0
Interest for the year	<u>7,927,170</u>	<u>7,927,190</u>
	<u>750,941,350</u>	<u>305,255,450</u>
(b) From KFW of West Germany:		
Loans		
1st July 1997	36,775,820	36,255,190
Interest	<u>520,630</u>	<u>520,630</u>
	<u>37,296,450</u>	<u>36,775,820</u>
30th June 1998	<u>1,400,874,690</u>	<u>872,002,540</u>

The addition of Ksh 82,665,620 to grants from the Government of Kenya relates to a bilateral grant given to the Government of Kenya in 1994 by the Belgium Government in respect of Soya Oil & Food Industries loan.

MANAGED FUNDS

Grants and loans include funds received into the following companies being managed funds administered on behalf of the Government of Kenya, and against which no provision for losses is made in accordance with the Corporation's accounting policy stated in Note 1(e)

Kenya Taitex Mills Limited	- Equity	42,000,000	42,000,000
Rift Valley Textiles Limited	- Equity	43,400,000	43,400,000
Kenatco Transport Company Limited (in receivership)	- Equity	6,900,000	6,900,000
Kisumu Cotton Mills (1983) Limited	- Equity	19,500,000	19,500,000
Pan African Vegetable Products Limited (Liquidated)	- Equity	1,265,000	1,265,000
Pan Vegetable Processors Limited	- Equity	15,805,390	15,805,390
South Nyanza Sugar Company Limited	- Equity	<u>10,000,000</u>	<u>10,000,000</u>
		<u>138,870,390</u>	<u>138,870,390</u>

**NOTES TO THE
ACCOUNTS AS AT
30TH JUNE 1998**

	Surplus on Revaluation of Property Ksh	Profit on Sale of Investment Ksh	Profit on Sale of Fixed Assets Ksh	Total Ksh
21. CAPITAL RESERVE				
1st July	475,076,590	570,054,290	7,994,820	1,053,125,700
Transfer from Retained Profits	112,143,720	233,934,490	373,860	346,452,070
30th June	<u>587,220,310</u>	<u>803,988,780</u>	<u>8,368,680</u>	<u>1,399,577,770</u>

**1997/98
Ksh** **1996/97
Ksh**

22. CONTINGENT LIABILITIES

Guarantees in respect of Subsidiary and Other Companies	69,931,500	0
Rift Valley Textiles Limited - Share Purchase Option	0	285,437,350
	<u>69,931,500</u>	<u>285,437,350</u>

The Corporation has been sued by third parties for claims amounting to Ksh 9,262,465 together with interest thereon and costs of the suits. No provision has been made in these accounts for this amount as the directors are of the opinion that no liability will crystallise.

23. COMMITMENTS

Commitments for further loans and investments:

Small Loans	42,165,000	299,875,500
Large and Medium Loans	214,350,000	0
Equity Investments	160,212,900	0
Investment Properties - Funguo Estate	<u>259,155,300</u>	<u>0</u>
	<u>675,883,200</u>	<u>299,875,500</u>

24. NOTES TO THE CASH FLOW STATEMENT

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

Profit before taxation	123,524,270	150,933,760
Depreciation	8,442,400	14,839,930
Profit on sale of fixed assets and equity investments	(234,308,350)	(49,817,830)
Increase in Government Interest payable	8,447,820	8,447,820
Amounts provided for losses on equity investments and loans	564,039,880	371,590,000
Increase in creditors	(120,756,610)	18,399,540
Increase in debtors	(70,660,550)	(175,254,680)
Decrease in subsidiary companies current accounts	<u>(2,622,040)</u>	<u>5,730,420</u>
Net cash inflow from operating activities	<u>276,106,820</u>	<u>344,868,960</u>

(b) Analysis of changes in cash and cash equivalents during the year

At 30th June	21,140,100	(22,289,950)
At 1st July	<u>(22,289,950)</u>	<u>179,822,300</u>
	<u>43,430,050</u>	<u>(202,112,250)</u>

(c) Analysis of balances of cash and cash equivalents as shown in the balance sheet and notes:

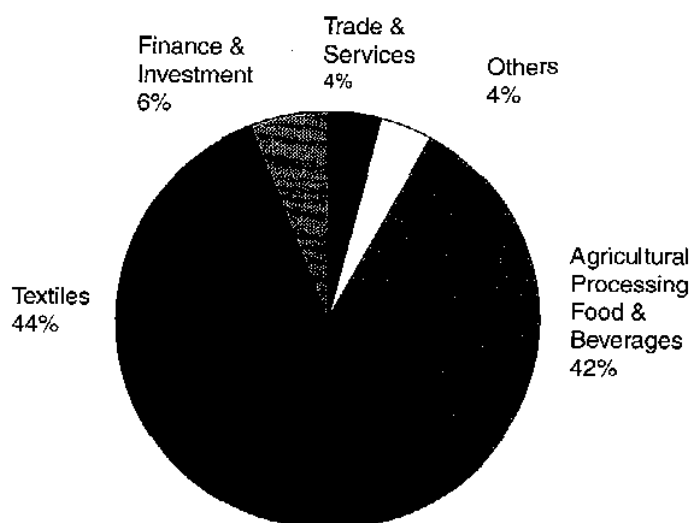
Cash and Bank balances	21,140,100	5,795,170
Bank Overdraft	0	(28,085,120)
Short term loans receivable	26,187,610	23,412,250
Short term loans payable	<u>(26,187,610)</u>	<u>(23,412,250)</u>
	<u>21,140,100</u>	<u>(22,289,950)</u>

**SUMMARY OF
ICDC
SHAREHOLDING
IN SUBSIDIARY
AND ASSOCIATE
COMPANIES AS
AT JUNE 1998**

NAME OF COMPANY	NO. OF SHARES HELD BY ICDC	PAR VALUE KSH	SHARE HOLDING (%)
1. Agro-chemical & Food Co. Ltd.	845,000	20	28.00
2. Brollo Kenya Limited	333,333	20	10.00
3. Dawa Pharmaceuticals Limited	683,334	20	34.80
4. Development Bank of Kenya Ltd.	5,307,500	20	30.50
5. East Africa Industries Limited	6,417,769	20	29.43
6. Eslon Plastics of Kenya Limited	332,063	5	16.60
7. Eveready Batteries Limited	52,227	1,000	24.87
8. Farm Fresh Commodities Ltd.	163,400	100	31.20
9. Funguo Investment Company Ltd.	500,000	20	40.00
10. General Motors Kenya Ltd.	520,125	20	33.20
11. ICDC Investment Company Ltd.	6,571,234	5	23.40
12. Industrial Development Bank Ltd.	1,560,000	20	12.10
13. Infusion Kenya Limited	21,000	100	16.40
14. Kenatco Taxis Limited	250,000	20	100.00
15. Kenya Film Corporation	200,000	20	100.00
16. Kenya National Trading Corporation	1,600,00	20	100.00
17. Kenya Wine Agencies Limited	69,748,132	5	72.66
18. Kenya Taitex Mills Limited	910,000	20	92.3
19. Kisii Bottlers Limited	584,939	20	30.00
20. Minet ICDC Insurance Brokers Ltd.	123,656	20	20.00
21. Mount Kenya Bottlers Ltd.	332,500	20	20.87
22. Njoka Tanners Limited	1,250,000	20	33.20
23. Pan African Paper Mills Limited	3,293,925	20	5.60
24. Polysynthetics E.A. Limited	38,580	100	30.00
25. Raymond Woollen Mills (K) Limited	44,999	200	5.95
26. Rift Valley Bottlers Limited	1,109,348	20	43.70
27. Rift Valley Textiles Limited	9,871,386	20	81.88
28. Rehabilitation Advisory Service Ltd.	120,000	20	20.00
29. Synthetic Fibres Kenya Limited	2,538,000	20	100.00
30. Small Enterprises Finance Co. Ltd.	83,600	20	5.00
31. South Nyanza Sugar Co. Ltd.	125,000	20	0.7
32. Uchumi Supermarkets Ltd.	4,669,369	5	7.5
33. Wananchi Sawmills (1974) Limited	111,113	20	45.30
34. Westlands Dairy Limited	201,850	100	38.00

SECTORAL DISTRIBUTION OF INVESTMENTS

Sector	Equity	Large &	Totals
	Investments	Medium Loans	
	Ksh	Ksh	Ksh
Agricultural Processing			
Food & Beverages	154,466,713.00	974,585,060.00	1,129,051,773.00
Textiles	302,026,072.00	863,359,808.00	1,165,385,880.00
Finance & Investments	122,906,651.00	29,179,137.00	152,085,788.00
Trade & Services	19,620,730.00	84,493,217.00	104,113,947.00
Others	85,203,664.00	18,345,459.00	103,549,123.00
	<u>684,223,830.00</u>	<u>1,969,962,681.00</u>	<u>2,654,186,511.00</u>



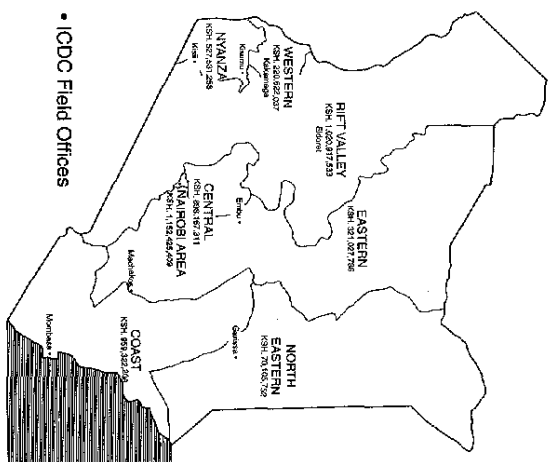
The Graph is based on the total figures column

NB:

Others

- Leather & Leather Products
- Electrical and Electronic Products
- Plastics and Oil Recycling
- Motor Vehicles & Accessories
- Metallic & Ceramic Products
- Wood & Wood Products

DISTRIBUTION OF TOTAL INVESTMENT BY PROVINCE AS AT 30TH JUNE 1998



• ICDG Field Offices

Province	Commercial		Property		Industrial		Machinery		Large & Medium		Equity		Total
	Loans	Ksh	Loans	Ksh	Loans	Ksh	Loans	Ksh	Loans	Ksh	Investment	Ksh	
Ksh													Ki
Central	122,824,532	42,305,807	72,436,090	-	480,904,661	169,597,221	898,167,3						
Coast	39,164,907	13,139,333	7,113,731	-	883,007,575	16,895,660	959,322,2						
Eastern	237,001,713	12,385,785	38,427,288	-	8,213,000	25,000,000	321,027,7						
Nairobi	403,770,072	234,419,706	98,744,250	59,474,142	123,804,813	232,212,426	1,152,425,4						
N. Eastern	70,105,752	-	-	-	-	-	-	-					70,105,7
Nyanza	340,372,769	7,909,625	118,965,392	-	5,883,272	54,400,000	527,531,2						
Rift Valley	198,873,084	18,965,807	151,378,802	16,780,764	458,148,362	178,775,714	1,020,917,5						
Western	143,005,010	17,939,641	52,339,576	-	-	-	-						
Total	1,558,217,839	347,055,994	539,404,129	78,254,906	1,969,962,693	684,223,831	5,170,119,2						

All loans include principal and interest due
Equity investments figures are based on cost

