



ICDC

Investment
Company
Limited

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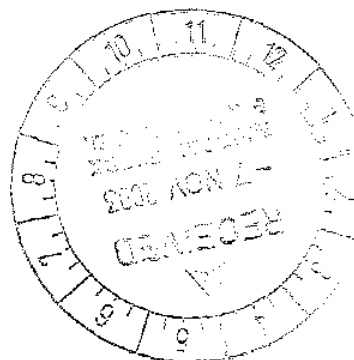
Annual Report
and Accounts
2002/2003

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CONTENTS

YALIYOMO

	Page Ukurasa
Corporate Information <i>Maelezo juu ya Kampuni</i>	2
Board of Directors <i>Halmashauri ya Wakurugenzi</i>	3
Management Team <i>Timu ya Wasimamizi</i>	4
Notice of Meeting <i>Ilani ya Mkutano</i>	5
Chairman's Statement <i>Taarifa ya Mwenyekiti</i>	7
Managing Director's Report <i>Ripoti ya Mkurugenzi Mkuu</i>	12
Statement on Corporate Governance	15
Report of the Directors <i>Ripoti ya Wakurugenzi</i>	17
Statement of Directors' Responsibilities	18
Report of the Auditors	19
Consolidated Income Statement	20
Consolidated Balance Sheet	21
Company Balance Sheet	22
Consolidated Statement of Changes in Equity	23
Company Statement of Changes in Equity	24
Consolidated Cash Flow Statement	25
Notes to the Financial Statements	26 - 44
Financial Highlights	45
Shareholding Information	46
Proxy Form <i>Fomu ya Mwakilishi</i>	47



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Annual Report 2002/2003



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CORPORATE INFORMATION

BOARD OF DIRECTORS

C J Kirubi (Chairman)
T P K Wainaina (Managing Director)
Industrial & Commercial Development Corporation (ICDC)
Eng. J M Munene (Alternate to ICDC)
M Mwangola
F M Thuo
J P N Simba
I O Awuondo
Dr. K W Getao
The Permanent Secretary, Ministry of Trade and Industry
P A Dede (Alternate to Permanent Secretary,
Ministry of Trade and Industry)

COMPANY SECRETARY

P K Mwangi
P O Box 10518
00100 - Nairobi

REGISTERED OFFICE

International House
Mama Ngina Street
P O Box 10518
00100 - Nairobi

AUDITORS

Deloitte & Touche
"Kirungii" Ring Road, Westlands
P O Box 40092
00100 - Nairobi

BANKERS

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

Standard Chartered Bank Kenya Limited
P O Box 40310
00100 - Nairobi

Citibank NA
P O Box 30711
00100 - Nairobi

LAWYERS

Simba & Simba Advocates
P O Box 10312
00100 - Nairobi

Mboya Advocates
P O Box 10818
00400 - Nairobi

2007/0439

BOARD OF DIRECTORS



Chris J. Kirubi
Chairman - Mwenyekiti



Tony K. Wainaina
Managing Director - Mkurugenzi Mkuu



Eng. Joseph M. Munene
Alt. Director - Mkurugenzi
(Representing ICDC)



Pamela A. Dede
Alt. Director - Mkurugenzi
(Representing Permanent Secretary,
Ministry of Trade & Industry)



Margaret W. Mwangola
Director - Mkurugenzi



Dr. Katherine W. Getao
Director - Mkurugenzi



Isaac O. Awuondo
Director - Mkurugenzi



Francis M. Thuo
Director - Mkurugenzi



John P. N. Simba
Director - Mkurugenzi

NOTICE OF MEETING

ANY OTHER BUSINESS

8. To transact any other business, which may be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD



Peter K. Mwangi
Company Secretary
NAIROBI.

16th October 2003

PLEASE NOTE:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the company.

SHUGHULI ZINGINE

8. Kutekeleza shughuli zigine zozote ambazo zaweza kutekelezwa kwenye Mkutano Mkuu wa kila Mwaka.

KWA AMRI YA HALMASHAURI YA WAKURUGENZI



Peter K. Mwangi
Katibu
NAIROBI.

16 Oktoba 2003

KUMBUSHO:

Mwanachama anayestahili kuhudhuria na kupiga kura kwenye Mkutano Mkuu ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi huyo si lazima awe mwanachama wa kampuni hii.



BOARD OF DIRECTORS



Chris J. Kirubi
Chairman - Mwenyekiti



Tony K. Wainaina
Managing Director - Mkurugenzi Mkuu



Eng. Joseph M. Munene
Alt. Director - Mkurugenzi
(Representing ICDC)



Pamela A. Dede
Alt. Director - Mkurugenzi
(Representing Permanent Secretary,
Ministry of Trade & Industry)



Margaret W. Mwangola
Director - Mkurugenzi



Dr. Katherine W. Getao
Director - Mkurugenzi



Isaac O. Awuondo
Director - Mkurugenzi



Francis M. Thuo
Director - Mkurugenzi



John P. N. Simba
Director - Mkurugenzi

MANAGEMENT TEAM

THEY WASHAKIZI



Tony K. Wainaina
Managing Director



Peter K. Mwangi
*Investment Manager and
Company Secretary*



Michael Sumba
Risk Manager



Anita W. King'ori
*Personal Assistant to MD and
Human Resources Administrator*



Risper D. Alaro
Financial Accountant



James M. Mworia
Management Accountant



David O. Owino
Research Analyst



NOTICE OF MEETING

ILANI YA MKUTANO



Notice of Annual General Meeting to all the Shareholders

NOTICE IS HEREBY GIVEN that the 36th Annual General Meeting of the Company will be held on Wednesday, 10th December 2003 at the Safari Park Hotel, Nairobi at 3.00 p.m. for the following purposes: -

ORDINARY BUSINESS

1. The Secretary to read the notice convening the meeting.
2. To confirm the minutes of the 35th Annual General Meeting held on Friday, 17th January 2003.
3. To receive and consider the Audited Financial Statements for the financial year ended 30th June 2003 together with the Directors' and Auditors' reports thereon.
4. To declare a First and Final Dividend of Shs 2.20 per share in respect of the year ended 30th June 2003.
5. To approve the Directors' remuneration for the year ended 30th June 2003.
6. (a) To re-elect Mr. C.J. Kirubi, a director retiring by rotation, who being eligible, offers himself for re-election.

(b) To re-elect Mr. J. P. N. Simba, a director retiring by rotation, who being eligible, offers himself for re-election.
7. To note that Deloitte & Touche, having expressed their willingness, continue in office as the company's auditors in accordance with the provisions of section 159(2) of the Companies Act (Cap 486) and to authorize the Directors to fix their remuneration.

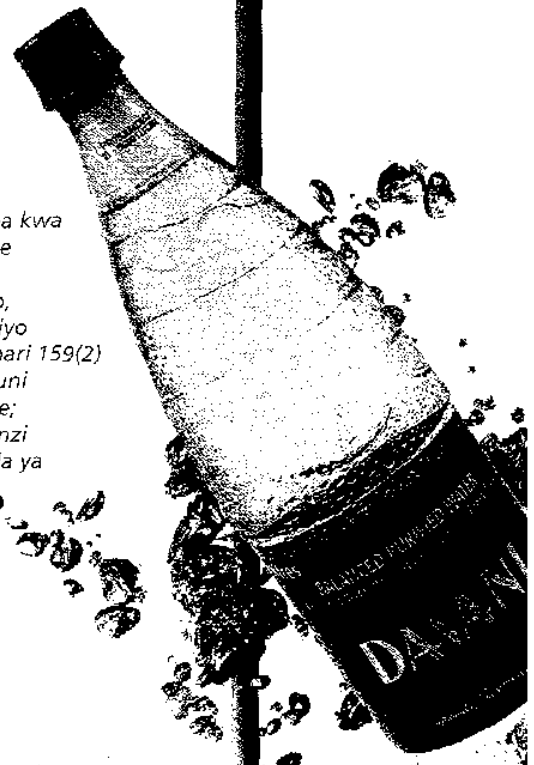
Ilani ya Mkutano Mkuu wa Mwaka kwa Wenyejisa Wote

ILANI INATOLEWA KWAMBA MKUTANO MKUU WA MWAKA wa thelathini na sita wa kampuni hii utafanywa siku ya Jumatano, tarehe 10 Desemba, 2003 katika Hoteli ya Safari Park, Nairobi saa tisa mchana kwa madhumuni ya kutekeleza shughuli zifuatazo:-

SHUGHULI ZA KAWAIDA

1. Katibu kusoma ilani ya mkutano.
2. Kuthibitisha kumbukumbu za Mkutano Mkuu wa Mwaka wa thelathini na tano uliofanywa siku ya Ijumaa tarehe 17 Januari 2003.
3. Kupokea na kufikiria Hesabu zilizokaguliwa za mwaka uliomalizika tarehe 30 Juni, 2003 na ripoti ya Wakurugenzi na Wakaguzi wa Hesabu.
4. Kuamua malipo ya Mgao wa kwanza na wa mwisho wa Shilingi 2.20 kwa kila hisa ya mwaka uliomalizika tarehe 30 Juni, 2003.
5. Kuthibitisha malipo ya Wakurugenzi kwa mwaka uliomalizika tarehe 30 Juni, 2003.
6. (a) Kumchagua tena Bw C. J. Kirubi, ambaye anastaafu kwa zamu, na kwa vile anaweza kuchaguliwa tena anajitolea kuchaguliwa

(b) Kumchagua tena Bw. J. P. N. Simba, ambaye anastaafu kwa zamu, na kwa vile anaweza kuchaguliwa tena anajitolea kuchaguliwa.
7. Kufahamishwa kwamba kwa kuwa Deloitte & Touche Wakaguzi wa Hesabu, walidhihirisha hiari yao, wataendelea na kazi hiyo kufuatia kifungu nambari 159(2) cha sheria za Makampuni (Sehemu ya 486) vilevile; kuidhinisha Wakurugenzi waweke kipimo cha ada ya Wakaguzi wa Hesabu.



NOTICE OF MEETING

ANY OTHER BUSINESS

8. To transact any other business, which may be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD



Peter K. Mwangi
Company Secretary
NAIROBI.

16th October 2003

PLEASE NOTE:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the company.

SHUGHULI ZINGINE

8. Kutekeleza shughuli zigine zozote ambazo zaweza kutekelezwa kwenye Mkutano Mkuu wa kila Mwaka.

KWA AMRI YA HALMASHAURI YA WAKURUGENZI

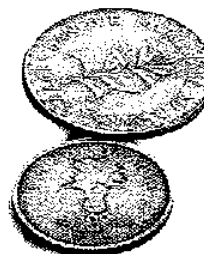


Peter K. Mwangi
Katibu
NAIROBI.

16 Oktoba 2003

KUMBUSHO:

Mwanachama anayestahili kuhudhuria na kupiga kura kwenye Mkutano Mkuu ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi huyo si lazima awe mwanachama wa kampuni hii.



CHAIRMAN'S STATEMENT

My wish is that this was last year but I will be starting with a review on a Kenyan economy that is depressed, shrinking and without promise, as a background to ICDCI's financial results. Whereas it is important to dwell on the positive issues, it is also important to acknowledge the harsh realities of Kenya's economic environment. These realities are very apparent even as I speak today. However, with a new administration managing the country's economy in place, the mood is optimistic and hopeful.

During the financial year under review Kenya's economic performance was once again unimpressive. The 1.1 % economic growth rate in 2002 was a marginal decline from 1.2% growth in 2001, and is the second lowest economic growth rate achieved in post-independent Kenya. Every year since 1998, the purchasing power of Kenyans has been on the decline, and the average reduction in GDP per capita has been -3.5%. With these facts in mind, it is not surprising to see the decline in corporate earnings, particularly among fast moving consumer goods, manufacturers and retailers.

YOUR COMPANY'S PERFORMANCE DURING THE FINANCIAL YEAR was mixed, but largely satisfying, with some companies performing very well and others returning losses. Although the earnings of your company were lower this financial year compared to last year, I take comfort in the fact that we were able to grow the company's investment income and operating profit in a difficult economic environment.

Highlights

- Investment income up 44% to Shs 221 million
- Share of associate company profits down 69% to Shs 71 million
- Operating profit up 57% to Shs 140 million
- Expenses up 25% to Shs 81 million
- Pre-tax profit down 34% to Shs 203 million
- Profit after tax down 36% to Shs 159 million

The overall performance was satisfactory, particularly with the growth in investment income of 44%. Investment income is made up dividend income from non-associate companies - which are those companies where we have less than a 20%



Chris J. Kirubi
Chairman - Mwenyekiti

Kwa maoni yangu ni efedhali kama huu ungekuwa mwaka jana, walakini niteanza kuchambua hali ya uchumi wa Kenya ambao umedhoofika na kunywa na baadaye kuushiria matokeo ya kifedha ya ICDCI. Ingawaje ni vizuri kuhimiza hoja yenye

merufaa ni muhimu pia kutambua hali mbaya ya mazingira ya biashara nchini Kenya. Hayo mambo yanachinirika hata leo ninapongea. Hata hivyo kwa kuwa kuna serikali mpya tunamatumaini ya kuwa mambo yote yatatokea vizuri.

Hali ya uchumi wa Kenya mwaka huu haukuwa wa kutumainisha. Ukuaji wa uchumi kwa asilimia 1.1 mwaka wa 2002 ulikuwa chini dhidi ya asilimia 1.2 wa mwaka wa 2001, ambapo pia ulikuwa wa pili kwa uduni kuwahi kutokea nchini tangu Kenya kujipatia uhuru. Kila mwaka tangu 1998 kiwango cha ununuzi cha Wakenya kimekuwa cha kudhoofika huku ukuaji wa mapato kwa kila jamii ukipunguka kiasi cha asilimia -3.5. Tukitilia hayo

maanani haitakuwa ajabu kuona kwamba mapato ya makampuni yamezidi kudhoofika hasa katika viwanda, kampuni za watengenezaji bidhaa na biashara reja reja.

UTENDAJI WA KAMPUNI YENU MWAKA HUU TUNAOCHAMBUA ulikuwa ni wa heri na shari, huku makampuni mengi yakiridhisha na mengine yakipata hasara. Ijapokuwa mapato ya kampuni yenu yako chini mwaka huu, nimeridhika kwa vile tuliweza kukuza kiwango cha mapato ya rasimali na pia faida ya shughuli za kawaida ilhali mazingira ya uchumi yalikuwa mabaya.

Vionyeshi:

- Mapato ya uchumishaji - Ongezeko la asilimia 44 hadi shilingi milioni 221
- Sehemu ya faida kutoka kwa kampuni shirika - Upungufu kwa asilimia 69 hadi shilingi tunazoshirikisha milioni 71
- Faida - Ongezeko la asilimia 57 hadi shilingi milioni 140
- Gharama za matumizi - Ongezeko la asilimia 25 hadi shilingi milioni 81



CHAIRMAN'S STATEMENT

shareholding - Interest income from investment in Government Securities, and gains on the disposal of shares. Gains were achieved from the previous financial year in all these areas of investment.

Your company's share of associate companies profits - companies where we have a shareholding between 20% and less than 50% - declined by 69% during the financial year 2002/03. Most of these investments are in the beverage and retail sectors of the economy. This was a very difficult year for fast moving consumer goods, manufacturers and retailers in Kenya. Kenyans generally spent less money during the year as their earnings declined, and as they became or remained unemployed. However overall, earnings from our beverage investments improved, particularly from Coca-Cola bottlers. A large reduction in earnings was as a result of our single retail investment - Uchumi Supermarkets Ltd. I will have a more detailed and frank discussion with you on the performance of specific companies and sectors a bit later on.

YOUR BOARD IS RECOMMENDING A DIVIDEND of Shs 2.20 per share. This is a first and final dividend, which is 10% higher than the dividend paid to you last year. I realize that every shareholder, myself included, would prefer to see their dividend growing every year. This increase is modest given the fact that over the past several years, corporate earnings in Kenya have followed the direction of the economy - which has been steadily downwards. I hope you share the view therefore, that your company's ability to pay you a consistent dividend over the past three years has been well above that standard for the market. It is also important to remember and understand that dividend is not the only source of your return on this investment. The other source of your return is from capital gain - the difference between the price at which you bought your shares and the current market price. During the year under review, the ICDCI share price increased by 168% to close at Shs 51. As of September 26th 2003, the share price had risen by a further 25.5% to Shs 64. For those of you who bought your shares during the public share issue in 2001, you have now gained Shs 27 per share, or 73% on your investment. By the end of the financial year under review, your company's market capitalization had increased to Shs 2.8 billion from Shs 1 billion the previous financial year - a 168% appreciation.

I would like to bring something to your attention, which I think is important for you as investors to appreciate as we look towards the future of your company. In some of the most successful public investment companies in the United States, not a single dividend has ever been paid to its shareholders. All the money made in the company is used to make new investments, year after year. The result has been a continuous and incredible growth in the size and value of the investment company, and a share price that is tens of thousands of times the value of the initial share price. My hope is that you will remember this story as we consider the future of ICDCI.

- Faida kabla ya kutozwa ushuru - Upungufu kwa asilimia 34 hadi shilingi milioni 203
- Faida baada ya kutozwa ushuru - Upungufu kwa asilimia 36 hadi shilingi milioni 159

Kwa jumla, hali ya utendaji ilikuwa ya kuridhisha hasa ukuaji wa mapato ya uchumishaji kwa asilimia 44. Mapato hayo ni ya migao ya faida kutoka kwa kampuni ambazo si mashirika yetu - ambapo umilikaji wa rasilimali yetu ni chini ya asilimia 20, faida ya riba ya hati za serikali na pia kutokana na mauzo ya hisa. Faida kutokana na mauzo ya hisa iliimarika zaidi mwaka uliopita.

Faida ya migao ya makampuni shirika - makampuni tunamomiliki rasilimali baina ya asilimia 20 na isiyoziidi asilimia 50, ilipungua kwa asilimia 69 mwaka huu wa 2002/03. Rasilimali nyingi kati ya hizo zimo katika sekta ya vinywaji vya kuburudisha na biashara rejareja humu nchini. Huu ulikuwa mwaka mgumu kwa wotengenezaji wa bidhaa aina hizo na kwa wafanyi biashara wa rejareja

nchini Kenya. Kwa jumla wananchi wa Kenya walipunguza matumizi ya fedha katika ununuzi kutokana na kupunguka kwa mapato na ukosefu wa nafasi za kazi. Walakini kwa jumla mapato yetu kutoka kwa

sekta ya vinywaji yaliimarika hasa katika makampuni ya Coca-Cola. Tulipata hasara kubwa kutoka Uchumi Supermarket. Nitajadilia hapo baadaye kwa kirefu na kwa uwazi juu ya utendaji wa makampuni kadhaa.

HALMASHAURI YENU YAPENDEKEZA MGAO wa shilingi 2.20 kwa kila hisa. Huu ni mgao wa kwanza na wa mwisho na ni asilimia 10 zaidi ya ule mgao mliolipwa mwaka jana. Ninatambua kuwa kila mwenyehisa, mimi nikiwa moja wao, angefurahia kuona ongezeko la migao kila mwaka. Ongezeko hili ni kadiri kwani kwa miaka kadha sasa mapato ya makampuni nchini Kenya yamekuwa yakielekea kudhoofika kuambatana na hali ya uchumi - ambayo imeendelea kuwa dhaifu. Kwa hivyo nadhani kuwa mtakubaliana nami kwamba kwa miaka mitatu kampuni yenu imeimarisha ulipaji migao bora zaidi. Pia inatubidi kuelewa kuwa migao siyo njia ya pekee ya kunufaika kutoka kwa rasilimali. Manufaa mengine yanatokana na pesa taslimu kupitia kuimarika kwa bei ya hisa zetu sokoni dhidi ya bei ya ununuzi. Mwaka huu bei ya hisa za ICDCI imeongezeka kwa asilimia 168 hadi shilingi 51. Kufikia tarehe 26 Septemba 2003 bei ya hisa iliimarika zaidi kwa asilimia 25.5 hadi shilingi 64. Kwa wale ambao mlinunua hisa kufuatia toleo la hisa mwaka wa 2001 faida yenu ni shilingi 27 kwa kila hisa ikiwa ni asilimia 73. Kufikia mwisho wa mwaka huu tunaachambua thamani ya hisa zote za kampuni yenu katika soko la hisa ilikuwa imeongezeka hadi shilingi bilioni 2.8 kutoka shilingi milioni 1 mwaka uliopita - ongezeko la asilimia 168.

Ningependa msikilize kwa makini juu ya jambo ambalo ni muhimu kuelewa tunapoangaza hali ya baadaye ya kampuni yenu. Kuna baadhi ya makampuni yaliyofanikiwa huko nchini Amerika ambayo hayajawahi kulipa mgao hata moja kwa wenyehisa. Faida yote hutumiwa kwa shughuli za uchumishaji kila mwaka. Hali hii imeendelea



CHAIRMAN'S STATEMENT



THE MANAGEMENT TEAM RUNNING YOUR COMPANY on a day-to-day basis has remained unchanged in number, at seven. The support staff of three has also remained unchanged. Your Board is of the firm belief that a lean, but highly motivated management structure is ideally placed to maximize returns to shareholders. The diversity of skills in the management team, from investment appraisal and financial analysis, to risk management, accounting, human resources and the law, has been instrumental in sustaining a small but highly profitable operation.



A DISCUSSION ON THE PERFORMANCE OF AND ACTIVITY WITHIN THE PORTFOLIO FOLLOWS.....

The level of activity in the portfolio was much greater this year compared to the previous financial year. Our fundamental approach to investing – seeking out undervalued opportunities with sound fundamentals continued, especially during the first half of the financial year. This was the pre-general election period in Kenya when the stock market's NSE Index bottomed out at a level below 1,050 points and there were several inexpensive investment opportunities on offer. A total of Shs 298.7 million was invested during the financial year, a 190% increase from the previous year. We took advantage of the very low interest rate regime and leveraged our retained earnings from the previous financial year with bank borrowings, which stood at Shs 128.8 million as at 30th June 2003. We are confident that the return on investment realised from the equity investments made using the borrowed funds, will exceed the cost of this inexpensive debt.

The value of the quoted portfolio during the financial year increased by 121% to Shs 1.09 billion. Whereas the appreciation in value has been large, the reasons for appreciation have not been surprising. A surge in investor confidence brought about by the new government, all time low Treasury Bill rates were largely responsible for the sharp increase in activity within and the value of quoted companies on the stock market. Our largest investments in the Kenya stock market over the past two years, Kenya Commercial Bank and East African Breweries (EABL), increased significantly in value by a combined total of Shs 322.4 million or 67%. We were also able to take some capital gains of Shs 54.4 million from the disposal of a portion of our EABL shareholding.

Your company realized marginally lower dividend earnings from quoted investments, which declined by 2% to 34.9 million. Despite the general improvement in market valuations of quoted companies, we do not expect to witness a parallel and immediate improvement in number and value of dividend declarations. The level of economic activity is still very low in Kenya and we do not expect to see any significant economic growth and the improvement in corporate earnings that this would bring, for at least another two years.

kukua na kuimarika zaidi kwa thamani ya rasilimali huku bei ya hisa ikiongezeka mara elfu kadha juu ya bei ya ununuzi. Ni matumaini yangu kuwa mtakumbuka wazo hili tunapoangaza hali ya baadaye ya ICDCI.

KUNDI LA WASIMAMIZI ambao huendesha shughuli za kampuni yenu kila siku halijabadilika, wakiwa saba. Pia wafanya kazi wasaidizi hawajabadilika bali ni wale tu watatu. Halmashauri ya Wakurugenzi wanaamini kuwa idadi ndogo ya wafanya kazi waliohitimu na kujitahidi itatosheleza kwa manufaa ya wenyehisa. Wasimamizi ni stadi katika taaluma mbalimbali kama vile shughuli ya uchumishaji wa fedha, ukadirishaji wa madhara, uhasibu, maswala ya wafanya kazi na sheria. Kuwemo kwa idadi ndogo ya wafanyakazi kunasaidia kwa kuendeleza faida kubwa.

HAYA YAFUATAYO NI MAJADILIANO JUU YA UJENDAJI WA RASILMALI YETU... Kiwango cha shughuli za uchumishaji fedha kiliongezeka sana mwaka huu kuliko mwaka uliopita. Lengo letu kuu katika uchumishaji utafutaji wa rasilimali thabiti uliendelezwa sana mwaka huu kuliko mwaka uliopita hasa kipindi cha kwanza cha miezi sita mwaka huu. Hii ilikuwa kabla ya uchaguzi mkuu wakati ambapo kiwango cha shughuli katika soko la hisa la Nairobi (yani NSE Index) kilikuwa chini ya alama 1,050 na kusababisha kupatikana kwa rasilimali nafuu. Kwa jumla uwekaji wa rasilimali ulifikia shilingi milioni 298.7 mwaka huu ikiwa ongezeko la asilimia 190 dhidi ya mwaka uliopita. Tuliitumia fursa iliyojitokeza pale kiwango cha riba kiliposhuka na kujipatia mkopo wa benki uliokuwa shilingi milioni 128.8 mnamo Juni 30, 2003. Tunahakika kuwa faida za rasilimali tulizonunua tukitumia fedha hizo itakuwa ya juu kuliko gharama ya mkopo huo.

Thamani za kampuni zilizoorodheshwa iliongezeka kwa asilimia 121 hadi shilingi bilioni 1.09 mwaka huu. Ingawaje thamani ya hisa iliimarika sana, sababu ya hali hii si ya kustajabisha. Jambo hili lilisababishwa na msukosuko wa wawekaji rasilimali na kuwepo kwa serikali mpya. Kiwango cha riba ya hati za serikali kuwa chini kililwezesha kuimarika kwa thamani ya hisa katika soko la hisa. Ongezeko la thamani ya rasilimali tulizonunua katika soko la hisa nchini Kenya kwa muda wa miaka miwili iliyopita. Kenya Commercial Bank na East Africa Breweries (EABL) kwa pamoja zilikuwa shilingi milioni 322.4 au asilimia 67. Pia tuliweza kunufaika kutokana na mauzo ya baadhi ya hisa za EABL.

Mapato ya mgao kutoka kwa makampuni yaliyoorodheshwa yalipunguka kwa asilimia 2 hadi shilingi milioni 34.9. Licha ya kuimarika kwa thamani ya hisa za makampuni zilizoorodheshwa hatutarajii kuimarika hali moja kwa mgao. Hali ya uchumi ni duni na haitarajwi kuonyesha dalili zozote za kuimarika kwa mapato ya makampuni kwa angalau miaka miwili ijayo. Licha ya kupata hasara, rasilimali yetu kubwa iliyo orodheshwa Uchumi Supermarket,



CHAIRMAN'S STATEMENT

Despite the large earnings loss of our largest quoted investment, Uchumi Supermarkets, its share price has remained relatively stable. The loss in earnings arose from the lag between investments made in the expansion of the branch network and the generation of earnings from these investments; the implementation of a store wide integrated ERP system; and the inability to achieve top-line sales targets due to depressed purchasing power. As I mentioned in my statement to you last year, our confidence in this investment remains steadfast. However, as I say this, we also recognise and appreciate that during tough economic times, distressing decisions related to maintaining a lean operation, such as aggressive cost cutting, will have to go hand-in-hand with other strategic objectives. It is noteworthy to mention that the overall impact in ICDCI's earnings of Uchumi's Shs 196 million loss, was a decline in the share of associate company earnings by Shs 48.9 million, or 22%. In other words, Uchumi Supermarkets only accounted for 22% of the 69% decline in share of associate company profits. The other 47%, in order of magnitude, was accounted for by a decline in earnings from KWA Holdings, Aon Minet Insurance Brokers, and to a smaller extent, Nairobi Bottlers Ltd.

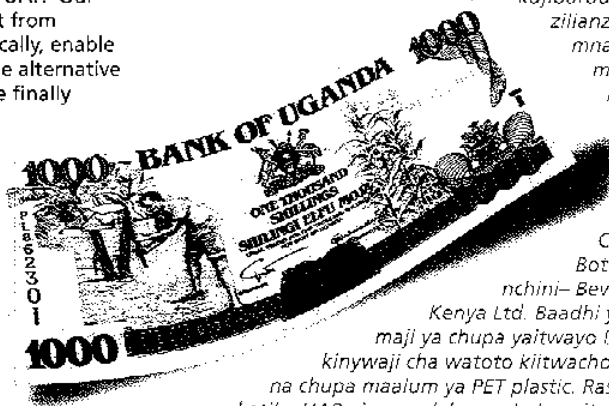
In your company's unquoted equity portfolio, significant investments were made in the Flamingo Bottlers Ltd – the Coca Cola franchise bottlers in Nakuru; and in UAP Provincial Insurance Company – one of the leading general insurance companies in Kenya. ICDCI's shareholding in Flamingo Bottlers is now 27.6% and 16.6% in UAP. Our investment in the Coca Cola bottler will, apart from diversifying our beverage interests geographically, enable us to benefit from a larger market share of the alternative beverage market. Alternative beverages were finally launched during the year-end and are being manufactured by a centralized joint Kenya Bottler-owned company – Beverage Services Kenya Ltd. Among the beverages under production are purified drinking water (Dasani), children's fruit flavoured juices (Bibo) and carbonated soft drinks in PET plastic containers. Our investment in UAP is an important development in achieving a number of our strategic objectives. It allows us to achieve some degree of diversification away from our traditional investment sectors and it allows us to eventually bring on board a strong associate company that will help to stabilize our share of earnings from associates in our portfolio. The other company that we brought on board as an associate was Mather and Platt (Kenya) Ltd where our shareholding increased from 6.7% to 35.4%. Mather and Platt is a dominant player in the fire services and fire suppression industry. There is significant scope for increasing the turnover and earnings of this company with greater participation from ICDCI and its associated companies, in addition to impending amendments to the Fire Act which is expected to introduce greater monitoring and compliance in the fire industry. The dividends earned from unquoted investments increased by 85% to Shs 236.8 million. The overall value of the unquoted portfolio increased to Shs 1.77 billion, a 18% increase from the previous financial year.

Activity in the fixed income portfolio was minimal during the financial year. The reason for inactivity was because we had bought into the Treasury Bond market earlier on in the year and in the previous year interest rates were up to 14.5% for Treasury Bonds with tenors of upto 5 years. The

thamani ya hisa zake bado ni thabiti. Hasara ilisababishwa na kule kucheleva kwa faida kutokana na ufunguzi wa matawi mapya, uvvekaji mtambo mpya wa komputa (ERP System), na kutofikiwa kwa kiwango cha juu kilicholengwa cha mauzo. Kama vile niligusia katika taarifa yangu mwaka jana tunaimani na hii rasilimali. Walakini ninaposema hivi, ni vizuri pia kufahamu kuwa katika nyakati hizi ngumu za hali ya uchumi itabidi kupunguza gharama za matumizi sambamba na mbinu zingine zitakazo tekelezwa. Ni vizuri kusisitiza ya kua ijapokuwa kampuni ya Uchumi ilipata hasara ya shilingi milioni 196 ilichangia upungufu wa mapato yetu kiasi cha shilingi milioni 48.9 pekee au asilimia 22. Hivi ni kusema kwamba Uchumi Supermarkets ilichangia upungufu huo kwa asilimia 22 ilhali upungufu wa sehemu ya faida ya kampuni kwa jumla ulikuwa asilimia 69. Upungufu mwingine wa mapato wa asilimia 47 kulingana na hali ya ukubwa, ulisababishwa na KWA Holdings, AON Minet Insurance Brokers na kwa kiwango kidogo Nairobi Bottlers Ltd.

Kwenye makampuni maalum uchumishaji zaidi uliongezwa katika Flamingo Bottlers – kampuni ya Coca-Cola iliyoko Nakuru na kampuni ya bima ya UAP Provincial Insurance Company mojawapo ya makampuni bora ya bima nchini Kenya. Kwa sasa umiliki wa hisa katika Flamingo Bottlers ni asilimia 27.6 na katika UAP ni asilimia 16.6. Uwekaji fedha katika Coca-Cola licha ya kutuwezeshwa kufikia maeneo mengine imetuwzesha kujimudu faida ya soko kuu la vinywaji vya kujiburudisha. Aina nyingine ya bidhaa za

kujiburudisha
zilianzishwa hatimaye
mnamo mwisho wa
mwaka na
hutengenezwa
na kampuni
inayomilikiwa
kwa pamoja
na
makampuni ya
Coca Cola
Bottlers humu
nchini – Beverage Services
Kenya Ltd. Baadhi ya bidhaa ni



maji ya chupa yaitwayo Dasani na
kinywaji cha watoto kiitwacho Bibo pamoja
na chupa maalum ya PET plastic. Rasilimali yetu
katika UAP ni maendeleo makubwa ilakayowezesha
kutimiza majukumu maalum. Pia hii ni tofauti na rasilimali
yetu ya kawaida na hatimaye itatuwezeshwa kwa kiasi
kusambaza rasilimali yetu na kuthibitisha kampuni yetu
ambazo ni shirika na kuimarisha mapato ya kampuni hizo.
Kampuni nyingine tuliyoongezea kuwa shirika yetu ni
Mather and Platt ambamo tuliiongeza rasilimali toka
asilimia 6.7 hadi asilimia 35.4 Mather and Platt ni kiwanda
kikuu cha kutengeneza vifaa vya kuzima na kuzula moto.
Kuna uwezekano wa kuchangia ongezeko la mapato kwa
jumla katika kampuni hiyo kutokana na ushirika wa ICDCI
na mashirika yake, pia kutokana na marekbisho
yaliyofanywa Sheria na Kanuni kunusu moto. Jambo hili
litastahilisha ufahamu wa madhara ya moto. Mapato ya
migao kutokana na kampuni maalum iliongezeka kwa
asilimia 85 hadi shilingi milioni 236.8. Jumla ya thamani ya
kampuni maalum iliongezeka kwa shilingi bilioni 1.77,
asilimia 18 ikilinganishwa na mwaka uliopita.

Mwaka shughuli katika rasilimali ya hati za fedha
ilipunguka. Hii ilisababishwa na ununaji wa Hati za Fedha
hapo awali. Katika mwaka uliopita kiwango cha riba
kilikuwa juu hadi asilimia 14.5 kila mwaka kwa Hati za
Fedha za miaka tano. Thamani ya faida halisi iliongezeka
kwa asilimia 192 hadi milioni 21.6.

CHAIRMAN'S STATEMENT

value of fixed income securities increased by 10% to Shs 147 million. Interest income increased by 192% to Shs 21.6 million.

YOUR SUBSIDIARY IN THE PORTFOLIO, KENYA NATIONAL PROPERTIES did not perform as well as the previous financial year. Turnover declined by 17% to Shs 20 million; and earnings were down 82% to Shs 6.6 million. Your Board had taken a deliberate decision as the refurbishment of the building was coming to an end, to do away with defaulting and difficult tenants and to delay the entry of new tenants until the refurbishment was completed. The internal refurbishment programme has now been completed and occupancy levels are climbing steadily.

WE ARE LOOKING TO THE FUTURE with cautious optimism. As I mentioned earlier, we do not expect the economy to improve significantly for at least another two years. The Kenya economy is still severely depressed, and a significant level of public investment in infrastructure and in job creation opportunities is required to kick start economic growth. I am not saying ICDCI does not foresee any improvement in its performance until after this period. We will continue to aggressively seek out growth opportunities, rather than wait for opportunities to present themselves. Our regional investment strategy, especially into Tanzania, is expected to generate our first transactions in the coming year. We have already visited and met with a number of prospective investment partners, and potential transactions in the financial services and beverage sectors are under discussion.

I WISH TO THANK YOU, THE SHAREHOLDER once again, on behalf of your Board. Your commitment to the company as long-term investors is recognized and greatly appreciated. Our duty as your Board and Management is to reciprocate this gesture by achieving consistently high returns on your investment in the Company. I am indebted to my Board and Management for the commitment, direction and integrity they have demonstrated throughout the year. I thank all our associate and investee companies for their contribution to our satisfactory results.

Your Board recognizes the critical importance of being guided by corporate governance principles, especially at this time when we must all play our part in putting our country onto a firm recovery path.

God Bless You All.

CHRISTOPHER J. KIRUBI, EBS
CHAIRMAN OF THE BOARD

15 October 2003

KAMPUNI TANZANIA NATIONAL PROPERTIES, naikutenda vyema kilinganishwa na mwaka uliooita. Mapato kwa jumla ya kupunguka kwa asilimia 17 hadi shilingi milioni 20 na faida kupunguka kwa asilimia 82 hadi shilingi milioni 6.6. Kazi ya ukarabati inaika kikomo. Halmashauri ya Wakurugenzi wameshauriana na kuamua kukomesha wapangaji watotezi na wasio-losa kodi vilivyo na kuchelewesha kwa muda wapangaji wapya hadi kumalizwa kamili kwa ukarabati. Ujenzi wa ndani umekamilika na kikao kinazidi kukodishwa.

TUNAELEKEA SIKU ZA USCU kwa matumaini. Kama ulivyo elezwa hapo awali, natuna matumaini kwamba uchumi utaimarika katika miaka miwili ijayo. Uchumi bado umezorota, na unahitaji kuhadilishwa kwa muundo wa uchumishaji fedha na kuanzisha nafasi mbali mbali za kazi ili kukweza hali ya uchumi kwa taratibu. Ili siyo kumaanisha ya kwamba ICDCI haitaweza kupata manufaa ya utendaji hadi baada ya wakati huo. Tutaendelea kwa bidii na dhiti kutafuta nafasi nzuri za uchumishaji fedha baada ya kungojea zijitokeze. Mbinu za uchumishaji fedha katika eneo la Afrika mashariki hii, hasa Tanzania ilakuwa shughuli yetu ya kwanza mwaka ujao. Tumekutana na kuwatembelea washiriki kadhaa wenye mwelekeo, tayari tumeanza kushauriana jinsi ya kutekeleza katika huduma za kifedha na katika Sekta za vinywaji.

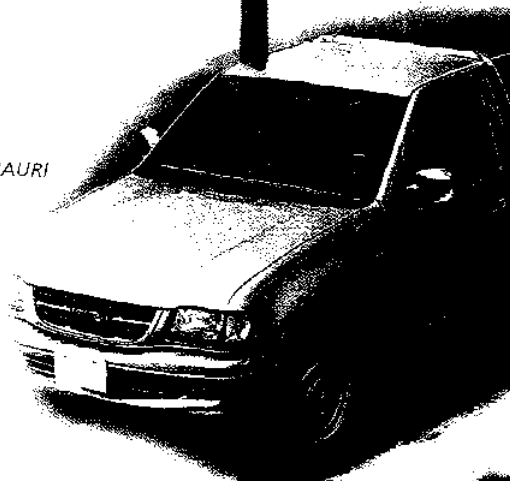
NINGEPENDA KUWASHUKURU WENYEHISA mara nyingine kwa niaba ya Halmashauri ya Wakurugenzi. Imani yenu kwa kampuni hii kama wanahisa kwa muda mrefu inafahamika na kutambulika. Ni wajibu wa Halmashauri ya Wakurugenzi na Wasimamizi kutimiliza vivyo kwa kufikiliza mapato thabiti ya kampuni yenu, uchumishaji fedha. Ninatoa shukrani nyingi zaidi kwa Halmashauri ya Wakurugenzi na Wasimamizi kwa uadilifu na uaminifu wao, vile vile kwa jinsi walivyotuelekeza kwa wakati wote mwaka huu. Hatimaye, natoa shukrani zangu kwa kampuni tunazomiliki kwa kuchangia matokeo ya kuridhisha.

Halmashauri ya Wakurugenzi wanatambua uzuri na umuhimu wa kuzingatia usimamizi bora na mashirika, hasa wakati huu tunapopaswa sote kufikia miradi ya kufufua na kukuza uchumi.

Mungu Awabariki Nyote.

CHRISTOPHER J. KIRUBI, EBS
MWENYEKITI WA HALMASHAURI

15 Oktoba 2003



MANAGING DIRECTOR'S REPORT

As we embarked on this financial year there were a lot of hopeful but mixed feelings about the future of the Kenya economy in a post-election environment. The final result was a victory for the economy, and this was manifested by the surge in investment activity at the Nairobi Stock Exchange. Kenyans were suddenly willing to abandon their fear of risk as their confidence in their country was restored. But I digress. This is not a politico-economic discussion, not entirely anyway, but a frank, more in-depth discussion on the developments in your company during the financial year in terms of performance, achievement of strategic objectives, what went right and what went wrong. Please bear with me as I spend some time on strategy. I think it is critical that you are intimately familiar with the strategic components that drive the management engine.

We had a lengthy discussion on your company's key strategic objectives last year. To recap, these were the headings of what we discussed:

- Reconfiguration of ICDCI's investments into a well diversified, risk sensitive portfolio
- Development of a dividend strategy that complements ICDCI's key investment objectives
- Development of a communication strategy
- Development of a small, high performance, highly motivated management team, and
- Outsourcing of non-core functions

Overall, I was satisfied with the developments that had been made, particularly with the development of a strong, performance-oriented management team, but felt that even more progress could be made with the reconfiguration of the company's investment portfolio. In May 2003 the board and management team went on a mid-term strategic retreat to evaluate the developments of the 5-year strategy formulated in 2000, and to deliberate and agree on a re-invigorated strategic plan to take us through the next two and a half years. There was a general consensus that the initial strategy was fundamentally sound, but a revised strategy would have to incorporate what I shall call the following "four fundamentals":

1. Alliances and partnerships
2. Raising new capital
3. Corporate governance and public image, and
4. Internal development.

The four fundamentals are self-explanatory, and I will be happy to delve into greater detail with any shareholder. An action plan was formulated by the management and approved by the board



Tony K Wainaina
Managing Director - Mkurugenzi Mkuu

Let's talk about the key developments during the year. One of our key objectives in the

Tulipoanza kukabili mwaka huu tunaochungua, tulikuwa na matumaini mema licha ya kutoeleweka kwa hali ya uchumi wa Kenya baada ya uchaguzi mkuu. Halimaye matokeo yalikuwa ushindi kwa uchumi uliodhihirishwa na kule kuimarika kwa shughuli katika soko la hisa la Nairobi.

Bila kutarajiwa Wakenya walianza kuwa na imani na nchi yao na kuondokewa na hofu. Walakini tusifuatilie sana wazo hilo. Haya si majadiliano ya kisiasa au kijamii bali ni majadiliano ya ukweli na mawazo juu ya matokeo yaliyoyiri kampuni yenu mwakani. Ni majadiliano yanayoeleza kuhusu utendaji kazi, ufikilizaji wa makusudio maalum vile vile nilipi tulilofaulu na nilipi tulikosa. Niwite radhi kwani nitasisitiza sana juu ya mbinu tunazotumia. Nadhani mnafahamu zile mbinu hasa tunazozingatia kuendesha kampuni tukiwa wasimamizi.

Mnamo mwaka uliopita tuliwahi kujadiliana kuhusu mbinu na lengo maalum za kampuni yenu. Kwa kuguzia tu, tulijadiliana juu ya:

- Kubadilisha muundo wa rasilimali ya ICDCI ili kudhihirisha na kupunguza hasara dhidi ya faida zake
- Kuendeleza mbinu za ulipaji migao

inayotimiza lengo maalum la ICDCI ambayo ni uchumishaji wa fedha

- Kuendeleza mbinu za mawasiliano
- Kukusanya idadi ndogo ya wasimamizi wenye kujitolea na walioridhika
- Huduma ambazo haziambatani na kiini cha shughuli za kampuni kutekelezwa na kampuni zingine

Kwa jumla niliridhika na maendeleo tuliyoyapata hasa kwa kufanikisha kundi thabiti la wasimamizi wenye kuelekea ustadi wa hali ya juu. Walakini nilionelea kuwa, mengi yangeafikiwa kwa kubadilisha muundo wa usambazaji wa rasilimali. Mnamo mwezi wa Mei 2003, Halmashauri ya Wakurugenzi pamoja na Wasimamizi waliandaa kikao ili kushauriana na kuangazia mipango ya miaka tano iliyowekwa mwaka wa 2000. Tuliweza kujadiliana na pia kuafikiana juu ya mbinu mwafaka zitakazoelekezwa miaka miwili na nusu ijayo. Tulikubaliana kwa jumla kuwa mbinu tulizotaja hapo awali zilikuwa sawa, walakini itabidi mbinu mpya kujumuishwa ambazo nitaeleza kama "mbinu nne muhimu" zifuatazo;

1. Kuungana na washiriki wa kimaarifa
2. Uchangishaji upya wa fedha
3. Kuzingatia maadili bora ya usimamizi na kudumisha uhusiano mwenye na umma.
4. Wakurugenzi na wasimamizi kuimarisha mbinu na uwezo wao.

Mbinu hizi zinajibainisha wazi na itakuwa fahari kwangu kuelezea zaidi kwa mwenyehisa yeyote. Wasimamizi walibuni mipango na hatua maalum iliyodhihirishwa na Halmashauri ya Wakurugenzi.



MANAGING DIRECTOR'S REPORT

quest to diversify the portfolio and strengthen the earnings capacity of the company has been the need to broaden the associate companies base. Because the performance of these companies has a direct impact on ICDCI's earnings, it is critical that the right mix of these key companies is retained in our portfolio. During the financial year two companies were added to the family of associate companies – Flamingo Bottlers Ltd and Mather and Platt (K) Ltd.

Flamingo Bottlers is one of the three Coca-Cola bottlers in Kenya that is majority held by the SABCO bottling group of South Africa. Our intention was to create a uniform shareholding structure for ICDCI across the three SABCO bottlers in Kenya – the other two bottlers are Nairobi Bottlers and East Kenya Bottlers. All three plants command a market share of about 50% in Kenya. Combined with our three traditional ICDCI plants in Nyeri, Eldoret and Kisii, ICDCI is now a significant shareholder in bottling operations that command over three-quarters of the Kenya market share of carbonated soft drinks. Flamingo Bottlers is managed by a strong centralised management team sitting at Nairobi Bottlers, and is currently the plant with the highest return to shareholders in Kenya. Although the soft drinks market has become very competitive, Coca-Cola is well positioned to continue increasing its return to shareholders. During the year a number of alternative beverage Coca-Cola owned brands were launched into Kenya through Beverage Services Kenya Ltd. – a centralized bottling facility owned by all eight Coca-Cola bottlers in Kenya, and The Coca-Cola Company (TCCC). The new beverages have been received well in the market, particularly the Bibo brand that is aimed at the Children market.

Mather and Platt, we believe, has great potential in the fire systems and suppression industry. The company has been in existence since the 1970s as a key industry player with a strong brand name. ICDCI has held a small shareholding of 6.8% with an inactive participation. During the financial year we increased our shareholding to 35.4%. With an improvement in the awareness of fire risks and the amendment of fire legislation in Kenya this is an industry that has attractive growth potential. Our shareholding in UAP Provincial Insurance Company now stands at 16.8%. This company has been a key addition to our portfolio as a strategic investment. The fundamentals in the company are very sound. Its management is strong, loyal and focused; it has a strong and clean reputation in the industry, and is one of the best performing general insurance industry performers in the country.

Something must also be said about our intention to extend our investment portfolio into the region. Although a lot of work went into exploring and appraising investment opportunities, particularly in Tanzania, no investments were made during the financial year. The capital account in Tanzania was finally opened in June 2003 and foreign investors are now free to invest in the country directly. We are optimistic that in the coming financial year we will bring closure to some of the investment prospects in our Tanzania pipeline.

Hebu tuguzie juu ya maendeleo muhimu yaliyotokea mwakani. Mojawapo ya shebaha yetu muhimu kuhusu usambazaji wa rasilimali na kuimarisha kadiri ya mapato ya kampuni ni kuongeza rasilimali katika kampuni mashirika. Kwa kuwa matokeo ya kampuni hizi ni muhimu sana kwa mapato ya ICDCI, ni sharti tuwe na rasilimali mwafaka katika kampuni hizi maalum. Mnamo mwaka huu tunaochungua kampuni mbili zaidi ziliongezewa kuwa mashirika yetu – Flamingo Bottlers na Mather and Platt.



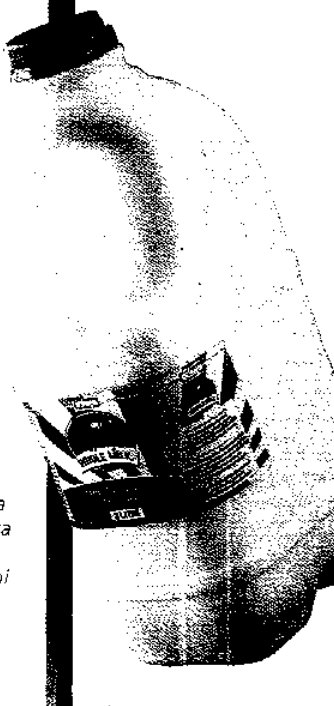
Flamingo Bottlers ni mojawapo ya kampuni tatu za Coca Cola Bottlers nchini Kenya zinazomilikiwa na makampuni ya SABCO ya Afrika Kusini.

Nia yetu ilikuwa kuimiliki rasilimali sawa miongoni mwa makampuni tatu ya SABCO nchini Kenya – zingine mbili zikiwa Nairobi Bottlers na East Kenya Bottlers. Viwanda hivi vitatu vimemiliki kadiri ya asilimia 50 ya soko nchini Kenya. Ikiungeza viwanda vitatu tulivyomiliki tangu hapo kale vya ICDCI vilivyoko Nyeri, Eldoret, na Kisii, ICDCI sasa ni mshiriki wa muhimu inayomiliki zaidi ya robo tatu ya soko la vinywaji vya kujiburudisha nchini Kenya. Flamingo Bottlers inasimamiwa na wasimamizi stadi waliomo kwenye kampuni ya Nairobi Bottlers ambayo kwa sasa ni kiwanda cha Coca Cola kinachopatia wenye hisa faida ya juu zaidi nchini Kenya. Licha ya kuwa na mashindano makali katika soko hili la vinywaji vya matunda, Coca Cola ina manufaa ya kuendelea kuongeza faida kwa wenye hisa. Mwakani vinywaji vingine vya kujiburudisha vinavyomilikiwa na Coca-Cola vililingizwa nchini Kenya kupitia Beverage Services Kenya Ltd. – Kiwanda kinachomilikiwa na viwanda vyote vinane vya Coca Cola nchini Kenya na pia kampuni ya Coca-Cola. Vinywaji hivi vipya vimepokewa vyema sokoni, hasa Bibo ambacho ni kinywaji cha watoto.

Tunatumaini kampuni ya Mather and Platt ina nafasi bora baina ya viwanda vya kutengeneza bidhaa za kuzima na kuzuia moto. Kampuni hii imekuwa mashuhuri na mshirika mkuu tangu miaka ya 1970. ICDCI ilikuwa na kiwango kidogo cha asilimia 6.8 ya rasilimali kama mshirika mlegevu. Mwakani, tuliongeza rasilimali hadi asilimia 35.4. Kufuatia kustahilisha ufahamu juu madhara ya moto na marekebisho yaliyofanyiwa sheria na kanuni kuhusu moto nchini Kenya, kampuni zilizomo zina nafasi ya kuimarika. Umiliki wetu kwenye kampuni ya bima ya UAP sasa umefikia asilimia 16.8. Hili ndilo ongezeko maalum ya rasilimali katika mbinu za uchumishaji wa mali. Msingi wa kampuni hiyo ni thabiti. Usimamizi wake ni stadi, muaminifu, wenye mwelekeo bora, wenye sifa nzuri na ni mojawapo ya makampuni bora ya bima na yaliokomaa humu nchini.

Inabidi pia kuguzia juu ya nia yetu ya kuongeza rasilimali katika eneo la Afrika mashariki. Licha ya juhudi kubwa kufanywa kutambua rasilimali bora hasa huko Tanzania, hatukuweza kuchumisha fedha mwaka huu. Mnamo mwezi Juni 2003, nchi

UCHUMI



MANAGING DIRECTOR'S REPORT

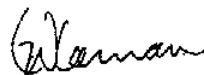
The one key investment, Uchumi Supermarkets Ltd, has not performed as well as expected. We were aware that there would be severe pressure on earnings from the costs associated with the expansion programme, computerization and operating costs, and that it was unlikely for the company to be profitable this past year. However, the failure to achieve top-line growth in sales, brought about primarily by severely depressed purchasing power among Kenyans, resulted in a larger than expected loss. Nevertheless, we are still confident that the company's strategy is still on track. If the implementation of this strategy continues as planned, but hand-in-hand with an aggressive cost rationalization programme, and the achievement of projected sales, the medium to long-term future (which is our general investment horizon) of Uchumi Supermarkets is bright.

The performance of our other large, but non-associate investments – General Motors, Eveready Batteries and NAS Airport Services was excellent during the financial year. They registered a growth in earnings of between 28% and 34%. These companies were strong contributors to the company's 18% dividend income growth.

The support of the shareholders is very important to management, and we appreciate the confidence you have had in the company, particularly during the second half of the financial year. We thank you for this. I thank the Board of Directors for the guidance, direction and wise counsel they have imparted to management. I thank you, my team – Peter, Sumba, Risper, Anita, Jaclyn, David, James, Mburu and Njoroge for your commitment, devotion and faith in the company. Without your individual and combined efforts, none of what we were able to achieve would have been possible. I am fortunate to have such a fantastic team working with me.

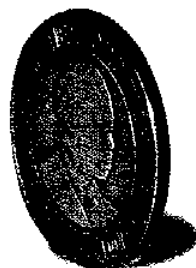
The short-term future will be challenging. The economy is not expected to show any signs of real growth for at least another two years. This notwithstanding, I am confident that your company is still well positioned to deliver a stable and competitive return on your investment.

God Bless You All.



TONY K. WAINAINA
MANAGING DIRECTOR

14 October 2003



ya Tanzania iliruhusu wachumishaji fedha wa nchi za kigeni kuweka rasilmali humo bila pingamizi. Tunatarajia kukamilisha baadhi ya mbinu za kuchumisha fedha huko Tanzania kama tulivyotarajia.

Rasilmali ya kipekee Uchumi Supermarket Ltd., haikufaulu jinsi ilivyotarajiwa. Tulifahamu kuwa kungekuwa na hasara ya kifedha kutokana na gharama za upanuzi, uwekaji wa mitambo ya komputa na gharama za utendaji kwa jumla. Walakini mauzo hayakufikia kiwango kilichotarajiwa hasa kwa sababu ya ukosefu wa pesa za kununua bidhaa miongoni mwa Wakenya. Jambo hili lilisababisha hasara kubwa. Hata hivyo bado tunaimani kuwa mbinu za kampuni ni imara. Mwelekeo huo ukiendelezwa jinsi ilivyopangwa, sambamba na kupunguzwa kwa gharama na matumizi na kuafikiwa kwa kiwango kilichokadiriwa cha mauzo, nyakati za hivi punde na za siku zijazo (muda tunaoangazia) za Uchumi Supermarkets ni bora.

Mwakani, utendaji wa kampuni zinginezo, ambazo si mashirika yetu – General Motors, Eveready Batteries, na NAS Airport Services ulikuwa mzuri. Zilikuwa na

ongezeko la faida baina ya asilimia 28 na asilimia 34. Hizi kampuni zilichangia zaidi kwa ongezeko la mapato ya migao kwa asilimia 18.

Ustahimilivu wa wanahisa ni muhimu sana, tunawapongeza kwa ujasiri wenu wa kuunga mkono

wasimamizi hasa wakati wa kipindi cha pili cha mwaka huu. Natoa shukrani kwa Halmashauri ya Wakurugenzi kwa jinsi walivyo tuelekeza kwa mashauri na mawaidha ya busara ambayo ni ya manufaa kwa usimamizi. Shukrani pia kwa kundi langu – Peter, Sumba, Risper, Anita, Jaclyn, David, James, Mburu na Njoroge kwa uadilifu na kujitolea kwenu na imani kwa kampuni. Jitihada zenu kibinafsi na kwa pamoja, kwa kweli zimechangia kufikiliza yale tuliyoukata. Nina bahati sana kufanya kazi na timu ya kutamanisha.

Nyakati za hivi punde zitakuwa ngumu. Uchumi hautarajiwi kuonyesha dalili zozote za kuimarika kwa angalau miaka miwili. Hata hivyo, ninaimani kuwa kampuni yenu iko katika hali nzuri ya kuwezesha mwenyehisa kupata faida thabiti na ya ushindani kwa uchumishaji wa fedha zake.

Mungu Awabariki Nyote.



TONY K. WAINAINA
MKURUGENZI MKUU

14 Oktoba 2003

STATEMENT ON CORPORATE GOVERNANCE

The directors remain committed to upholding good corporate governance practices. They continue to incorporate, as part of their corporate strategic planning, actions that would ensure full compliance with the *"Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya"* issued by the Capital Markets Authority.

Regulatory Requirements

Key recommendations contained in the guidelines include board responsibility for:

- Keeping the core strategy under review;
- Monitoring progress towards agreed objectives;
- Overseeing corporate management and operations;
- Meeting responsibilities to shareholders; and
- Reviewing the adequacy of the internal control and management information system.

Review of Strategy

In May 2003, the board and management team undertook a 2-day mid-term strategy review to evaluate progress made on the 5-year strategy formulated in 2000. There was general consensus that the re-invigorated strategic plan for the next two years should focus on corporate governance as one of four key strategic thrusts. This is the first time ICDCI is embracing corporate governance as a primary objective in its strategic plans.

Championing Corporate Governance in Associate Companies

The directors are of the view that the company must promote adherence to the very highest standards of corporate governance in all companies in the portfolio where ICDCI either has control or exerts significant influence. To this end ICDCI must strive to act as a model and lead by example, by practicing good corporate governance.

Kenya Shareholders Association

The directors fully support the aims and objectives of the recently launched Kenya Shareholders Association which seeks to empower shareholders in listed companies and to raise the standards of corporate governance in these companies. The company has joined the membership of this Association and expects to benefit, in addition to making a significant contribution, as an investor in listed companies.

As a listed company, ICDCI will work with the Association to further strengthen corporate governance within the group.

Training of Directors

The directors have continued to upgrade their skills and knowledge by taking part in formal training programmes on corporate governance as well as general training for directors. To date, four of the nine directors, in addition to the Company Secretary have been trained and certified by the Centre for Corporate Governance (CCG).

The Managing Director of the company has also been instrumental in the establishment and development of the Institute of Directors as a member of the Steering Committee. The Institute aims to build capacity, particularly in corporate governance, among directors of local companies.

Composition of the Board

The directors have given careful consideration to the mix of skills, competencies and gender represented on the board and believe that the current composition of the board has a good balance of capable and reputable persons from a diversity of backgrounds. The directors are of the view that the board is well placed to take the business forward.

The board of directors meets regularly to direct and manage the company's business according to essential standards of good corporate governance.

The full Board meets at least four times a year, and has a formal schedule of matters reserved for it. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

Except for direction and guidance on general policy, the Board has delegated authority for the conduct of day-to-day business to the Chief Executive Officer. It however retains responsibility for establishing and maintaining the company's overall internal control of financial, operational and compliance issues and monitoring the performance of the executive management.

There are two Board Committees, an Audit and an Investment Committee. Both committees are guided by clear Terms of Reference, and are instrumental in monitoring company operations, systems and internal controls.

Non-executive Directors

All non-executive directors are subject to periodic reappointment in accordance with the company's Articles of Association. On appointment, each director receives information about the company and is advised of the legal, regulatory and other obligations of a director of a listed company. They have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

Directors' Remuneration

The remuneration for non-executive directors consists of fees for their services in connection with Board and



STATEMENT ON CORPORATE GOVERNANCE cont'

Board Committee meetings. They are not eligible for pension scheme membership and do not participate in any of the company's bonus or other incentive schemes. All non-executive directors have specific fixed terms of appointment not exceeding three years.

Information on the compensation received is include in this annual report on page 30.

Accountability and Audit

An Audit Committee has been in operation since September 1999 and it is playing a key role in ensuring internal control, risk management and corporate governance issues are given the attention they deserve.

The Audit Committee chaired by Mr. John P. N. Simba, a non-executive director receives input and reports from external auditors. In addition, the Committee regularly reviews and considers changes to improve the Company's security, internal control and risk management processes.

Going Concern

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason it continues to adopt the going concern basis when preparing the financial statements.

Communication

The company places a great deal of importance on communication with its shareholders. The company publishes a full annual report and accounts. The full report and accounts are distributed to all shareholders and on request to other parties who have an interest in the group's performance. Shareholders also have direct access to the company and we respond to numerous letters from shareholders and interested parties on a wide range of issues. Regular communication with shareholders also takes place via the group website.

Policy on Remuneration

The board endeavours to offer competitive remuneration packages, which are designed to attract, retain and motivate executive directors and senior executives of the highest caliber. Packages are reviewed

each year to ensure that they are in line with the group's business objectives.

Internal Controls and Risk Management

The board has a collective responsibility for the establishment and maintenance of a system of internal controls that provides reasonable assurance of effective and efficient operations. However, it recognizes that any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The board attaches great importance to maintaining a strong control environment and the Company's system of internal control includes the assessment of non-financial risks and control. The Board has reviewed the Company's internal control policies and procedures and is satisfied that appropriate procedures are in place.

The Company ensures that there are written policies and procedures to identify and manage risk including operational risk, balance sheet management, market and credit risk on an ongoing basis.

Business Conduct

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

Performance Reporting

The business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Ethical Standards

Matters relating to the conduct and core values are currently incorporated in the Company's Personnel Policies and Procedures Manual. However, the board is in the process of reviewing and adopting a more comprehensive code of conduct.



REPORT OF THE DIRECTOR'S

The directors present their report together with the audited financial statements for the year ended 30 June 2003.

ACTIVITIES

The group's principal activity remains engagement in investment activities.

RESULTS

	Shs'000
Profit before taxation	202,826
Taxation	(43,527)
Net profit after taxation	<u>159,299</u>

DIVIDEND

The directors recommend the payment of a first and final dividend of Shs 2.20 per share (2002 – Shs 2.00 per share).

DIRECTORS

The current members of the board are as shown on page 2.

Eng. J. M. Munene was appointed an alternate director by ICDC in place of Dr N K Ng'eno on 20 June 2003.

P. A. Dede was appointed alternate director to the Permanent Secretary, Ministry of Trade and Industry in place of Eng. J. N. Masila on 24 June 2003.

In accordance with article 86 of the Articles of Association, C. J. Kirubi and J. P. N. Simba retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of section 159 (2) of the Companies Act (Cap 486).

BY ORDER OF THE BOARD



Secretary
Nairobi
16 October 2003

Wakurugenzi wanatoa ripoti yao na maelezo ya hesabu zilizokaguliwa ya mwaka ulioisha tarehe 30 Juni 2003.

SHUGHULI

Shughuli muhimu za kampuni zimeendelea kuwa ili shughuli za uwekeji rasitimali na uzalishaji wa pesa.

MATOKEC

	Shs'000
Faida kabla ya ushuru	202,826
Kodi iliotezwa	(43,527)
Faida baada ya kutoa fungu la ushuru	<u>159,299</u>

MGAO

Wakurugenzi wamependekeza malipo ya mgao wa kwanza na wa mwisho wa mwaka kuwa Shilingi 2.20 kwa kila hisa (mwaka wa 2002 – ulilipwa Shilingi 2.00 kila hisa).

WAKURUGENZI

Halmashauri ya Wakurugenzi wameonyeshwa kwenye ukurasa wa 2.

Mhandisi J. M. Munene aliteuliwa kuwa mkurugenzi anayewakilisha ICDC kuchukuwa mahali pa Dkt. N K Ng'eno mnamo tarehe 20 Juni 2003.

P. A. Dede aliteuliwa kuwa mkurugenzi anayewakilisha Katibu katika Wizara ya Biashara na Viwanda, kuchukuwa mahali pa Mhandisi J.N. Masila mnano tarehe 24 Juni 2003.

Kufuatia sharti 86 la kanuni za kampuni, C. J. Kirubi na J. P. N. Simba wanastaafu kwa zamu, na kwa viile wanaweza kuchaguliwa tena, wamejitolea wachaguliwe.

WAKAGUZI

Deloitte & Touche, baada ya kudhihirisha hiari yao, watendelea na kazi ya uhasibu kufuatia kifungu nambari 159 (2) cha Sheria za Kampuni (sehemu 486).

KWA AMRI YA HALMASHAURI



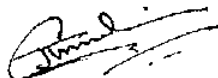
Katibu
Nairobi
16 Oktoba, 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group as at the end of the financial year and of the profit or loss of the group for that period. It also requires the directors to ensure that the group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



C J Kirubi
Chairman

7 October 2003



T K Wainaina
Managing Director

7 October 2003



REPORT OF THE AUDITORS

Certified Public Accountant (Kenya)

"Kirungii"

Ring Road, Westlands

P O Box 40092,

Nairobi - 00100 GPO

Kenya

Telephone: + (254-020) 444 1344/05-12

Facsimile : + (254-020) 444 8966

E-mail : admin@deloitte.co.ke

Deloitte & Touche

We have audited the financial statements on pages 20 to 44 for the year ended 30 June 2003 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 18, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

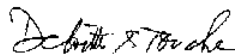
Basis of opinion

We conducted our audit in accordance with International Financial Reporting Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion:

- (a) proper books of account have been kept by the company and the company's balance sheet is in agreement therewith;
- (b) the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2003 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act.



7 October 2003

**Deloitte
Touche
Tohmatsu**

Partners: D.M. Ndonge H. Gadhoke* D. C. Hodges* J.M. Kiarie S.O. Onyango J.W. Wangai

*British

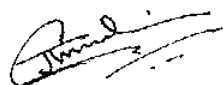
CONSOLIDATED INCOME STATEMENT

	Note	2003 Shs'000	2002 (Restated) Shs'000
INCOME	3	221,028	153,975
EXPENSES			
Administrative expenses		(44,840)	(31,978)
Provision for appreciation/(diminution) in value of investments		16	(135)
Other operating expenses		(35,732)	(32,365)
		(80,556)	(64,478)
OPERATING PROFIT	4	140,472	89,497
FINANCE COSTS	5	(8,172)	(10,263)
SHARE OF PROFITS/(LOSSES) OF ASSOCIATED COMPANIES	16	70,526	228,291
PROFIT BEFORE TAXATION		202,826	307,525
TAXATION	7	(43,527)	(60,089)
NET PROFIT FOR THE YEAR	8	159,299	247,436
EARNINGS PER SHARE - Basic	9	Shs 2.90	Shs 4.85
- Diluted	9	Shs 2.90	Shs 4.85

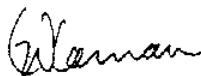
CONSOLIDATED BALANCE SHEET

	Note	2003 Shs'000	2002 (Restated) Shs'000
ASSETS			
Non current assets			
Investment properties	11	162,156	159,975
Motor vehicle and equipment	12	6,116	7,298
Prepaid operating lease rentals	13	48,706	49,442
Intangible assets	14	1,054	1,756
Investment in associates	16	1,205,133	1,170,007
Unquoted investments	17	606,636	551,969
Quoted investments	18	617,704	246,670
		<u>2,647,505</u>	<u>2,187,117</u>
Current assets			
Due from related parties	19	6,507	12,075
Receivables and prepayments	20	45,046	63,650
Taxation recoverable		1,188	4,678
Treasury and other bonds	21	151,713	131,688
Short term deposits	22	-	4,502
Bank balances		906	11,070
		<u>205,360</u>	<u>227,663</u>
Total assets		<u>2,852,865</u>	<u>2,414,780</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	274,976	274,976
Share premium		589,753	589,753
Investment revaluation reserve		532,302	231,088
Revenue reserves		1,135,664	1,097,354
Proposed dividend		120,989	109,960
		<u>2,653,684</u>	<u>2,303,131</u>
Non current liabilities			
Deferred tax liability	24	37,181	37,791
Current liabilities			
Payables and accruals	25	13,242	52,432
Due to related parties	19	1,570	2,657
Borrowings	26	128,794	-
Unclaimed dividends		18,394	18,769
		<u>162,000</u>	<u>73,858</u>
Total equity and liabilities		<u>2,852,865</u>	<u>2,414,780</u>

The financial statements on pages 20 to 44 were approved by the board of directors on 7 October 2003 and were signed on its behalf by:



C J Kirubi
Chairman

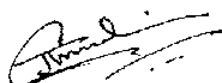


T K Wainaina
Managing Director

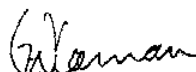
COMPANY BALANCE SHEET

	Note		2002 (Restated) Shs'000
ASSETS			
Non current assets			
Investment properties	11	17,800	17,800
Motor vehicle and equipment	12	6,116	7,298
Prepaid operating lease rentals	13	40,282	40,905
Intangible assets	14	1,054	1,756
Investment in subsidiary	15	129,295	158,426
Investment in associates	16	1,205,133	1,170,007
Unquoted investments	17	606,636	551,969
Quoted investments	18	617,704	246,670
		<u>2,624,020</u>	<u>2,194,831</u>
Current assets			
Due from subsidiary company		681	5,226
Due from related parties	19	6,665	561
Receivables and prepayments	20	30,448	26,255
Taxation recoverable		373	2,984
Treasury and other bonds	21	151,713	131,688
Short term deposits	22	-	892
Bank balances		608	11,064
		<u>190,488</u>	<u>178,670</u>
Total assets		<u>2,814,508</u>	<u>2,373,501</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	274,976	274,976
Share premium		589,753	589,753
Investment revaluation reserve		509,018	207,804
Revenue reserves		1,158,948	1,120,638
Proposed dividend		120,989	109,960
		<u>2,653,684</u>	<u>2,303,131</u>
Non current liabilities			
Deferred tax liability	24	4,417	5,027
Current liabilities			
Payables and accruals	25	9,219	45,645
Due to a related party	19	-	929
Borrowings	26	128,794	-
Unclaimed dividends		18,394	18,769
		<u>156,407</u>	<u>65,343</u>
Total equity and liabilities		<u>2,814,508</u>	<u>2,373,501</u>

The financial statements on pages 20 to 44 were approved by the board of directors on 7 October 2003 and were signed on its behalf by:



CJ Kirubi
Chairman



T K Wainaina
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital Shs'000	Share premium Shs'000	Property revaluation reserve Shs'000	Investment Revenue reserves Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 July 2001						
- as previously reported	230,156	334,101	438,381	1,055,103	92,063	2,149,804
Prior year adjustments:						
Reversal of revaluation surplus on leasehold land	-	-	(3,670)	(106,312)	-	(109,982)
Deferred tax released on reversal of revaluation surplus	-	-	-	31,894	-	31,894
Amortisation of leasehold land	-	-	-	(20,721)	-	(20,721)
Deferred tax on excess depreciation	-	-	-	(86)	-	(86)
Deferred tax on revaluation	-	-	(4,108)	-	-	(4,108)
As restated	230,156	334,101	430,603	959,878	92,063	2,046,801
Revaluation deficit for the year	-	-	(84,456)	-	-	(84,456)
Share of movement in equity reserves of associates	-	-	(115,059)	-	-	(115,059)
Dividends - 2001 declared	-	-	-	-	(92,063)	(92,063)
Issue of share capital	44,820	-	-	-	-	44,820
Share premium arising from share issue (net)	-	255,652	-	-	-	255,652
Net profit for the year	-	-	-	247,436	-	247,436
Proposed dividend-2002	-	-	-	(109,960)	109,960	-
At 30 June 2002 - restated	274,976	589,753	231,088	1,097,354	109,960	2,303,131
At 1 July 2002						
- as previously stated	274,900	589,268	238,241	1,193,318	109,960	2,405,687
Prior year adjustments:						
- associated companies	-	-	(7,153)	(100)	-	(7,253)
Issue of share capital	76	-	-	-	-	76
Share premium arising from share issue (net)	-	485	-	-	-	485
Reversal of revaluation surplus on leasehold land	-	-	-	(106,312)	-	(106,312)
Deferred tax released on reversal of revaluation surplus	-	-	-	31,894	-	31,894
Amortisation of leasehold land	-	-	-	(21,446)	-	(21,446)
As restated	274,976	589,753	231,088	1,097,354	109,960	2,303,131
Revaluation surplus for the year	-	-	272,121	-	-	272,121
Share of movement in equity reserves of associates	-	-	45,738	-	-	45,738
Surplus realised on disposal	-	-	(16,645)	-	-	(16,645)
Dividends - 2002 declared	-	-	-	-	(109,960)	(109,960)
Net profit for the year	-	-	-	159,299	-	159,299
Proposed dividend - 2003	-	-	-	(120,989)	120,989	-
At 30 June 2003	274,976	589,753	532,302	1,135,664	120,989	2,653,684

The prior year adjustments relate to:

Prior year adjustments made in the financial statements of the associated companies to comply with provisions of International Accounting Standards on Leases (IAS 17) and Income Taxes (IAS 12)

Reversal of revaluation surplus on long leasehold land and the related deferred taxation in line with International Accounting Standard No. 17 on Leases.

Adjustment to correct the number of shares issued during the Public Share Issue in October 2001

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COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital Shs'000	Share premium Shs'000	Property revaluation reserve Shs'000	Investment Revenue reserves Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 July 2001						
- as previously reported	230,156	334,101	465,308	1,078,387	92,063	2,200,015
Prior year adjustments:						
Reversal of revaluation surplus on leasehold land	-	-	(3,670)	(106,312)	-	(109,982)
Deferred tax released on reversal of revaluation surplus	-	-	-	31,894	-	31,894
Amortisation of leasehold land	-	-	-	(20,721)	-	(20,721)
Deferred tax on excess depreciation	-	-	-	(86)	-	(86)
Deferred tax on revaluation	-	-	(4,108)	-	-	(4,108)
As restated	230,156	334,101	457,530	983,162	92,063	2,097,012
Revaluation deficit for the year	-	-	(134,667)	-	-	(134,667)
Share of movement in equity reserves of associates	-	-	(115,059)	-	-	(115,059)
Dividends - 2001 declared	-	-	-	-	(92,063)	(92,063)
Issue of share capital	44,820	-	-	-	-	44,820
Share premium arising from share issue (net)	-	255,652	-	-	-	255,652
Net profit for the year	-	-	-	247,436	-	247,436
Proposed dividend - 2002	-	-	-	(109,960)	109,960	-
At 30 June 2002 - restated	274,976	589,753	207,804	1,120,638	109,960	2,303,131
At 1 July 2002						
- as previously stated	274,900	589,268	214,957	1,216,602	109,960	2,405,687
Prior year adjustment						
Issue of share capital	76	-	-	-	-	76
Share premium arising from share issue (net)	-	485	-	-	-	485
- associated companies	-	-	(7,153)	(100)	-	(7,253)
- subsidiary company	-	-	-	(43,821)	-	(43,821)
Reversal of revaluation surplus on leasehold land	-	-	-	(47,506)	-	(47,506)
Deferred tax released on reversal of revaluation surplus	-	-	-	14,252	-	14,252
Amortisation of leasehold land	-	-	-	(18,789)	-	(18,789)
As restated	274,976	589,753	207,804	1,120,638	109,960	2,303,131
Revaluation deficit for the year	-	-	272,121	-	-	272,121
Share of movement in equity reserves of associates	-	-	45,738	-	-	45,738
Capital gains realised on disposal	-	-	(16,645)	-	-	(16,645)
Dividends - 2002 declared	-	-	-	-	(109,960)	(109,960)
Net profit for the year	-	-	-	159,299	-	159,299
Proposed dividend - 2003	-	-	-	(120,989)	120,989	-
At 30 June 2003	274,976	589,753	509,018	1,158,948	120,989	2,653,684

The prior year adjustments relate to:

Prior year adjustments made in the financial statements of the associated companies to comply with provisions of International Accounting Standards on Leases (IAS 17) and Income Taxes (IAS 12)

Reversal of revaluation surplus on long leasehold land and the related deferred taxation in line with International Accounting Standard No. 17 on Leases.

Adjustment to correct the number of shares issued during the Public Share Issue in October 2001.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2003 Shs'000	2002 (Restated) Shs'000
OPERATING ACTIVITIES			
Cash generated from operations	27(a)	60,710	70,541
Interest paid		(8,172)	(10,263)
Taxation paid		(4,923)	(1,014)
Dividends received from associated companies		125,059	64,923
Net cash generated from operating activities		<u>172,674</u>	<u>124,187</u>
INVESTING ACTIVITIES			
Purchase of shares in associates		(206,103)	(2,996)
Purchase of other equity investments		(92,637)	(102,468)
Proceeds of disposal of associates		-	31,366
Proceeds on disposal of investments		110,869	-
Purchase of treasury bonds		(30,000)	(127,000)
Proceeds on redemption of bond		12,250	2,250
Additions to investment property		(2,181)	(12,175)
Purchase of equipment		(1,527)	(1,198)
Proceeds on disposal of equipment		220	55
Purchase of intangible assets		(91)	(2,132)
Net cash used in investing activities		<u>(209,200)</u>	<u>(214,298)</u>
FINANCING ACTIVITIES			
Dividends paid		(106,934)	(89,161)
Proceeds from share issue (net)		-	300,472
Net cash (used in)/generated from financing activities		<u>(106,934)</u>	<u>211,311</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(143,460)	121,200
CASH AND CASH EQUIVALENTS AT 1 JULY		<u>15,572</u>	<u>(105,628)</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	27(b)	<u>(127,888)</u>	<u>15,572</u>

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies, which are set out below, remain unchanged from the previous years except for the implementation of the provisions of International Accounting Standards No. 17 with regard to accounting for leasehold land.

Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of equity investments and investment properties.

Revenue recognition

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

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

Consolidation

The group financial statements reflect the result of the consolidation of the financial statements of the company and its wholly owned subsidiary made up to 30 June and include the group's share of the results of the associated companies.

Investment properties

Investment properties are treated as long term investments and are carried at market value determined, on a periodic basis, by external independent valuers. Changes in their carrying amounts are dealt with in the income statement.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

Motor vehicle and equipment

Motor vehicle and equipment are stated at cost less depreciation.

Depreciation is calculated to write off the cost of the motor vehicle and equipment in equal annual instalments over their estimated useful lives.

The annual rates in use are:

Motor vehicle and motor cycle	20%
Furniture, fittings and office equipment	10%
Computers	33.3%

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and are amortised over the period of the lease.

Investment in subsidiary

Investment in the subsidiary is accounted for in the books of the company using the equity method of accounting

NOTES TO THE FINANCIAL STATEMENTS cont²

Investments in associates

Investments in associated undertakings are accounted for using the equity method of accounting based on the latest draft audited financial statements. These are undertakings over which the group has between 20% and 50% of the voting rights and over which the group exercises significant influence but which it does not control. Provisions are recorded for long-term impairment in value.

A listing of the group's principal associated undertakings is shown in note 16.

Investments

Quoted investments are stated at the middle market value as at 30 June. The unquoted investments are stated at the directors' estimate of their fair value using, in most cases, the share of the net assets of the companies, based on the latest available financial statements. The difference between valuation and cost is transferred to the investment revaluation reserve. Where valuation is below cost, the difference between valuation and cost is charged to the income statement if, in the opinion of the directors, the reduction in value is not considered temporary.

Treasury and other bonds

Treasury and other bonds are stated at cost plus accrued interest.

Bad and doubtful debts

Specific provision is made for all known bad and doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation and gazetted tax concessions given to the group.

Deferred income 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. Currently enacted tax rates are used to determine deferred income tax.

Retirement benefit obligations

The group operates a defined contribution pension scheme. The scheme is administered by independent fund managers and is funded from contributions from both the employer and the employees. The group's contributions to the defined contribution pension scheme are charged to the income statement in the year to which they relate.

The group also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The group's obligations under the scheme are limited to specific obligations legislated from time to time and are currently limited to a maximum of Shs 200 per month per employee. The group contributions are charged to the income statement in the year to which they relate.

Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the company and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

NOTES TO THE FINANCIAL STATEMENTS cont'

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognized as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 3 years.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument.

Receivables

Receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded as the proceeds received, net of direct costs. Finance charges are accounted for on an accrual basis.

Trade payables

Trade payables are stated at their nominal value.

Foreign currencies

Assets and liabilities denominated in foreign currency are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling on the transaction dates. Differences on exchange are dealt with in the income statement.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted for change in presentation to ensure compliance with International Accounting Standard No.17, Leases, and the prior year adjustment relating to associated companies as shown in the statement of changes in equity.

2 SEGMENT INFORMATION

Primary reporting format- Business segments

	Automotive	Beverage	Financial	Agricultural	Industrial & Allied	Services	Retail	Government securities	Property	2003 Total	2002 (restated) Total
	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs ' 000	Shs'000
INCOME											
Dividend income											
- unquoted investments	22,864	2,667	3,922	-	25,362	21,973	-	-	-	76,788	69,085
- quoted investments	-	18,007	1,002	92	7,742	560	-	-	-	27,403	20,757
Rent receivable	-	-	-	-	-	-	-	-	23,913	23,913	28,162
Interest receivable	-	-	-	-	-	-	-	21,648	-	21,648	7,391
Gain on disposal of investment	-	54,481	5,025	-	2,088	-	-	389	-	61,983	25,550
Other investment income	-	256	160	-	396	39	160	248	4,633	5,892	1,377
Share of results of associated companies (net of tax)	-	73,208	10,804	-	-	(264)	(48,946)	-	-	34,802	172,679
INVESTMENTS											
Associates											
Share of net assets	-	954,092	66,960	-	-	9,323	174,758	-	-	1,205,133	1,170,007
Unquoted investments											
Directors valuation (net assets)	357,581	24,797	97,757	-	23,654	102,847	-	-	-	606,636	551,969
Quoted investments											
Market value	-	271,328	263,602	7,152	48,442	27,180	-	-	-	617,704	246,670

Secondary reporting format- Geographical segments

The major part of the revenues of the company are derived from Kenya with income from other markets representing less than 5% of total income. Secondary segmental reporting is therefore not considered to be of any useful value.

NOTES TO THE FINANCIAL STATEMENTS cont'

	2003 Shs'000	2002 Shs'000
3 INCOME		
Dividends receivable	104,191	89,842
Interest receivable	21,648	7,391
Rent receivable	23,913	28,162
Gain on disposal of investments	61,983	25,550
Right back of unclaimed dividends	3,401	1,653
Other income	5,892	1,377
	<u>221,028</u>	<u>153,975</u>
4 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Directors' emoluments:		
Non-executive - fees	1,380	1,355
- other	2,160	2,145
Executive remuneration	11,606	7,045
Auditors' remuneration(including VAT)	1,441	1,497
Depreciation	2,012	2,032
Amortisation of leasehold land	736	736
Amortisation of intangible assets	793	559
Provision for bad and doubtful debts	8,143	5,800
Staff costs (Note 6)	16,099	11,605
and after crediting:		
Dividend income (gross) - quoted investments	27,403	20,757
- unquoted investments	76,788	69,085
Rent receivable	<u>23,913</u>	<u>28,162</u>
5 FINANCE COSTS		
Interest on borrowings	<u>8,172</u>	<u>10,263</u>
6 STAFF COSTS		
Salaries	14,474	9,865
National Social Security Fund Contributions (NSSF)	24	16
Retirement benefit scheme contributions	1,809	970
Leave pay provision	(208)	754
	<u>16,099</u>	<u>11,605</u>

The average number of staff employed by the group was 10 (2002 -8).

NOTES TO THE FINANCIAL STATEMENTS cont'

	2003 Shs'000	2002 (restated) Shs'000
7 TAX EXPENSE		
(a) Current taxation based on adjusted profit for the year	8,413	4,690
Deferred tax credit (note 24)	(610)	(216)
	<u>7,803</u>	<u>4,474</u>
Share of associated companies' taxation:		
Current taxation based on adjusted profit for the year	61,024	49,487
Prior year (over)/under provision	(359)	3,661
	<u>60,665</u>	<u>53,148</u>
Deferred tax (credit)/charge	(22,394)	2,467
Prior year over provision	(2,547)	-
	<u>(24,941)</u>	<u>2,467</u>
	<u>35,724</u>	<u>55,615</u>
	<u>43,527</u>	<u>60,089</u>
(b) Reconciliation of taxation expense to expected tax based on accounting profit:		
Accounting profit before taxation	202,826	307,525
Tax at the applicable rate of 30%	60,848	92,258
Tax effect of dividend income not taxable	(31,685)	(49,021)
Tax effect of income not taxable	(5,064)	(31,549)
Tax effect of expenses not deductible for tax purposes	22,334	44,740
Adjustment in respect of prior year	(2,906)	3,661
	<u>43,527</u>	<u>60,089</u>

NOTES TO THE FINANCIAL STATEMENTS cont'

8 NET PROFIT FOR THE YEAR

A profit after taxation of Shs 159,299,000 (2002-Shs 247,436,000) has been dealt with in the books of ICDC Investment Company Limited.

9 EARNINGS PER SHARE

The earnings per share has been calculated on the profit after taxation of Shs 159,299,000 (2002-Shs 247,436,000) and on the average number of ordinary shares in issue during the year of 54,995,183. The 2002 figure was based on the weighted average number of shares in issue during that year of 51,018,364.

Diluted earnings per share is the same as the basic earnings per share.

10 PROPOSED DIVIDEND

At the annual general meeting to be held on 10 December 2003, a dividend in respect of 2003 of Shs 2.20 per share (2002- Shs 2 per share) amounting to a total of Shs 120,989,000 (2002-Shs 109,960,000) will be proposed. The proposed amount has been provided for in accordance with International Accounting Standard 10.

	GROUP		COMPANY	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
11 INVESTMENT PROPERTIES				
At 1 July				
- as previously stated	337,175	325,000	125,000	125,000
- transferred to prepaid operating lease rentals (note 13)	(177,200)	(177,200)	(107,200)	(107,200)
As restated	159,975	147,800	17,800	17,800
Additions	2,181	12,175	-	-
At 30 June	162,156	159,975	17,800	17,800
Comprising:				
At valuation – 2001	147,800	147,800	17,800	17,800
Additions	14,356	12,175	-	-
	162,156	159,975	17,800	17,800
Original cost	35,656	33,475	512	512

The group's investment properties were revalued on an open market valuation basis as at 30 June 2001 by Lloyd Masika Limited, Registered Valuers and Estate Agents, and the valuation department of Industrial and Commercial Development Corporation (ICDC).

In the opinion of the directors, the fair value of the investment properties has not changed significantly from the valuation in 2001.

Investment property with a carrying value of Shs 144,356,000 has been charged to secure banking facilities granted to the group (see note 26).

NOTES TO THE FINANCIAL STATEMENTS cont'

12 MOTOR VEHICLE AND EQUIPMENT

GROUP AND COMPANY

	Motor vehicle and motor cycle Shs'000	Furniture and fittings Shs'000	Computers Shs'000	Office equipment Shs'000	Total Shs'000
COST					
At 1 July 2002	4,119	4,535	2,317	1,237	12,208
Additions	-	675	206	646	1,527
Disposals	(176)	(467)	-	(278)	(921)
At 30 June 2003	3,943	4,743	2,523	1,605	12,814
DEPRECIATION					
At 1 July 2002	2,330	972	1,315	293	4,910
Charge for the year	803	431	625	153	2,012
Eliminated on disposal	(44)	(104)	-	(76)	(224)
At 30 June 2003	3,089	1,299	1,940	370	6,698
NET BOOK VALUE					
At 30 June 2003	854	3,444	583	1,235	6,116
At 30 June 2002	1,789	3,563	1,002	944	7,298

13 PREPAID OPERATING LEASE RENTALS

	GROUP Shs'000	COMPANY Shs'000
COST		
At 1 July 2002 – as previously reported	-	-
Transfer from investment properties (note 11)	177,200	107,200
Reversal of revaluation surplus	(106,312)	(47,506)
At 30 June 2003 and 30 June 2002 (restated)	70,888	59,694
AMORTISATION		
At 1 July 2002 – as previously reported	-	-
Prior year adjustment for amortisation	21,446	18,789
At 1 July 2002 – restated	21,446	18,789
Charge for the year	736	623
At 30 June 2003	22,182	19,412
CARRYING VALUE		
At 30 June 2003	48,706	40,282
At 30 June 2002 (restated)	49,442	40,905

NOTES TO THE FINANCIAL STATEMENTS cont'

14 INTANGIBLE ASSETS

Computer
software
Shs'000

GROUP AND COMPANY

COST

At 1 July 2002	2,365
Additions	91

At 30 June 2003	2,456
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AMORTISATION

At 1 July 2002	609
Charge for the year	793

At 30 June 2003	1,402
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NET BOOK VALUE

At 30 June 2003	1,054
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At 30 June 2002	1,756
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COMPANY

2003	2002
Shs'000	(Restated) Shs'000

15 INVESTMENT IN SUBSIDIARY

Unquoted: At directors' valuation

Kenya National Properties Limited 100% owned (Cost Shs 114,735,000)	129,295	158,426
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Shs'000

The 2002 restated balance is arrived at as follows:

At 1 July 2002	
As previously reported	202,247
Reversal of revaluation surplus on prepaid operating lease rental	(58,806)
Deferred tax released on reversal of revaluation surplus	17,642
Cumulative amortisation of prepaid operating lease rentals	(2,657)

As restated	158,426
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NOTES TO THE FINANCIAL STATEMENTS cont'

16 INVESTMENT IN ASSOCIATES

	GROUP		COMPANY	
	2003 Shs'000	2002 Restated Shs'000	2003 Shs'000	2002 Restated Shs'000
At 1 July				
As previously reported	1,170,007	1,226,302	1,170,007	1,184,809
Prior year adjustments*:				
Reversal of revaluation surplus on leasehold land	-	(3,670)	-	(3,670)
Deferred tax on revaluation	-	(4,108)	-	(4,108)
Amortisation of prepaid operating lease rentals	-	(10)	-	(10)
Excess depreciation transfer	-	(86)	-	(86)
	-	(7,874)	-	(7,874)
As restated	1,170,007	1,218,428	1,170,007	1,176,935
Share of results before tax	70,526	228,291	70,526	228,291
Share of tax (note 7)	(35,724)	(55,615)	(35,724)	(55,615)
	34,802	172,676	34,802	172,676
Share of movements in equity reserves	45,738	(115,059)	45,738	(115,059)
Dividends receivable	(130,103)	(64,545)	(130,103)	(64,545)
Acquisitions during the year	84,689	-	84,689	-
Disposal during the year	-	(41,493)	-	-
	1,205,133	1,170,007	1,205,133	1,170,007

* Relate to adjustments made in the financial statements of the associated companies to comply with provisions of International Accounting Standards on Leases (IAS 17) and Income Taxes (IAS 12).

16 INVESTMENT IN ASSOCIATES (continued)

Details of investment in associates	Number of shares at				Cost at 30.6.03 Shs'000	Cost at 30.6.02 Shs'000	Share of net assets	
	30.6.03	30.6.02	% owned 30.6.03	% owned 30.6.02			30.6.03 Shs'000	30.6.02 Restated Shs'000
UNQUOTED								
Aon Minet Insurance Brokers Ltd	132,932	132,932	21.5	21.5	12,298	12,298	66,960	64,971
KWA Holdings Ltd	25,373,936	25,373,936	26.4	26.4	17,235	17,235	321,672	370,627
Mt Kenya Bottlers Ltd	1,250,695	1,250,695	28.5	28.6	10,006	10,005	144,824	137,674
Nairobi Bottlers Ltd	878,286	878,286	27.6	27.6	56,895	56,895	337,709	313,483
Rift Valley Bottlers Ltd	2,656,412	2,656,412	46.1	46.1	61,965	61,965	82,174	52,287
Flamingo Bottlers Ltd	20,737	-	27.6	-	201,110	-	67,712	-
Mather & Platt (Kenya) Ltd	220,278	10,139*	35.4	6.8*	7,118	-	9,324	-
					<u>366,627</u>	<u>158,398</u>	<u>1,030,375</u>	<u>939,042</u>
QUOTED								
Uchumi Supermarkets Ltd	14,993,317	14,933,317	24.99	24.99	<u>322,987</u>	<u>322,987</u>	<u>174,758</u>	<u>230,965</u>
							<u>1,205,133</u>	<u>1,170,007</u>

The market value of Uchumi Supermarkets Limited as quoted on the Nairobi Stock Exchange as at 30 June 2003 was Shs 476,038,000 (2002 - Shs 248,889,000).

Shares in Uchumi Supermarkets Limited with a market value of Shs 366,194,000 (2002 - Shs 140,663,000) are held as security for banking facilities granted to the group (see note 26).

* Transferred from unquoted shares (- note 17). Mather & Platt (Kenya) Limited became an associate when the company acquired an additional 210,139 shares (at a cost of Shs 5,000,000) increasing its shareholding to 35.4% (2002-6.8%) of the issued share capital of the company.

17 UNQUOTED INVESTMENTS

GROUP AND COMPANY

	Number of shares at 01.7.02	(Disposal)/ additions in the year	Transfers in the year Shs'000	Number of shares at 30.6.03	Cost at 1.7.02 Shs'000	(Disposal)/ additions in the year Shs'000	Cost at 30.6.03 Shs'000	Directors' valuation 30.6.03 Shs'000	Directors' valuation 30.6.02 Shs'000
Dawa Pharmaceuticals Ltd	250,000	-	-	250,000	5,000	-	5,000	-	-
Eveready Batteries (Kenya) Ltd	21,259	-	-	21,259	4,030	-	4,030	23,654	71,409
Eslon Plastics of Kenya Ltd	146,561	(146,561)	-	-	427	(427)	-	-	9,319
General Motors Kenya Ltd	279,300	-	-	279,300	184,536	-	184,536	357,581	319,076
Heritage Woollen Mills (K) Ltd	72,249	-	-	72,249	6,387	-	6,387	-	-
Kisii Bottlers Ltd	666,664	111,110	-	777,774	5,333	3,889	9,222	24,798	21,929
Mather & Platt (Kenya) Ltd	10,139	-	(10,139)*	-	2,119	(2,119)*	-	-	1,730
NAS Airport Services Ltd	73,056	-	-	73,056	7,397	-	7,397	79,304	55,086
UAP Provincial Insurance Co. Ltd	3,901,241	2,726,260	-	6,627,501	36,512	54,964	91,476	97,757	53,707
Capital Market Challenge Fund	-	50,000	-	50,000	-	5,000	5,000	5,000	-
Total					251,741	61,307	313,048	588,094	532,256

OFFSHORE INVESTMENTS

Wildlife Works Inc (USA) – preferred stock	-	52,632	-	52,632	19,713	-	19,713	18,542	19,713
Total								606,636	551,969

* Transferred to Investment in Associates – note 16.

NOTES TO THE FINANCIAL
STATEMENTS 2003

18 QUOTED INVESTMENTS

GROUP AND COMPANY	Number of shares at 1.7.02	Additions/ (disposals) in the year	Number of Shares at 30.6.03	Cost at 1.7.02 Shs'000	Additions/ (disposals) in the year Shs'000	Cost at 30.6.03 Shs'000	Market value at 30.6.03 Shs'000	Market Value at 30.6.02 Shs'000
Barclays Bank of Kenya Ltd	70,134	7,013**	77,147	1,477	-	1,477	10,106	5,961
Bamburi Cement Company Limited	-	100,000	100,000	-	4,553	4,553	8,000	-
Brooke Bond Kenya Ltd	28,827	-	28,827	5,428	-	5,428	2,220	1,629
British American Tobacco Kenya Ltd	6,419	-	6,419	170	-	170	629	305
BOC Kenya Ltd	18,000	-	18,000	272	-	272	1,359	486
Carbacid Investment Company Limited	248,859	55,000	303,859	8,998	1,808	10,806	18,991	8,959
CFC Bank Ltd	36,000	(36,000)	-	4	(4)	-	-	324
Crown Berger Kenya Ltd	83,600	-	83,600	1,370	-	1,370	1,542	418
East African Cables Ltd	45,000	-	45,000	155	-	155	540	322
East African Breweries Ltd.	1,850,568	(650,000)	1,200,568	132,221	(46,442)	85,779	271,328	152,672
Firestone East Africa (1969) Ltd	420,000	-	420,000	5,446	-	5,446	5,439	3,423
Housing Finance Co. of Kenya Ltd	122,291	-	122,291	1,625	-	1,625	1,339	452
The Kenya Power and Lighting Co. Ltd	137,126	-	137,126	11,367	-	11,367	4,388	1,186
Kenya National Mills Ltd	79,180	(79,180)*	-	899	(899)*	-	-	194
Kenya Commercial Bank Ltd	4,618,608	685,694	5,304,302	92,584	17,364	109,948	250,628	46,879
Kenya Airways Ltd	734,218	-	734,218	6,277	-	6,277	4,772	5,323
Kenya Oil Ltd	18,453	(18,453)	-	1,098	(1,098)	-	-	1,347
National Bank of Kenya Ltd	352,710	(352,710)	-	7,395	(7,395)	-	-	917
Nation Media Group Ltd	99,075	125,000	224,075	4,534	5,059	9,593	22,408	3,963
Rea Vipingo Plantations Ltd	9,600	-	9,600	94	-	94	45	29
Sasini Tea & Coffee Ltd	224,684	-	224,684	912	-	912	4,494	3,370
Standard Chartered Bank Kenya Ltd	16,437	-	16,437	1,030	-	1,030	1,529	855
Total Kenya Ltd	19,500	-	19,500	303	-	303	697	202
Williamson Tea Kenya Ltd	4,675	-	4,675	1,308	-	1,308	393	193
Unga Group Ltd	-	52,787*	52,787	-	899*	899	636	-
				284,967	(26,155)	258,812	611,483	239,409
REGIONAL								
British American Tobacco Uganda Ltd	140,000	-	140,000	7,000	-	7,000	6,221	7,261
Total				291,967	(26,155)	265,812	617,704	246,670

* Kenya National Mills was wound up during the year and shareholders given 2 shares of Unga Group Ltd for every 3 shares of Kenya National Mills held.

** Bonus issue

Shares in East African Breweries Ltd with a market value of Shs 113,000,000 are held as security for banking facilities granted to the group (see note 26).

NOTES TO THE FINANCIAL STATEMENTS cont'

	GROUP		COMPANY	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
19 RELATED PARTY BALANCES				
a) Due from related parties				
Funguo Registrars Ltd	561	12,075	561	561
ICDC	-	-	158	-
Francis Thuo & Partners Ltd	5,946	-	5,946	-
	<u>6,507</u>	<u>12,075</u>	<u>6,665</u>	<u>561</u>
b) Due to a related party				
ICDC	1,570	2,657	-	929
	<u>1,570</u>	<u>2,657</u>	<u>-</u>	<u>929</u>
20 RECEIVABLES AND PREPAYMENTS				
Dividends receivable	22,819	6,901	22,819	17,032
Sundry receivables and prepayments	6,883	41,241	6,303	843
Rent debtors	14,365	14,758	347	754
Recoverable expenses (service charges)	979	750	979	7,626
	<u>45,046</u>	<u>63,650</u>	<u>30,448</u>	<u>26,255</u>
21 TREASURY AND OTHER BONDS				
Treasury bonds				
At cost maturing within one year	31,000	10,000	31,000	10,000
At cost maturing after one year but within five years	116,000	117,000	116,000	117,000
Interest receivable	4,713	2,317	4,713	2,317
	<u>151,713</u>	<u>129,317</u>	<u>151,713</u>	<u>129,317</u>
East African Development Bank bonds				
At cost maturing within one year	-	2,250	-	2,250
Interest receivable	-	121	-	121
	<u>-</u>	<u>2,371</u>	<u>-</u>	<u>2,371</u>
	<u>151,713</u>	<u>131,688</u>	<u>151,713</u>	<u>131,688</u>

The weighted average effective interest rate during the year on bonds at 30 June 2003 was 13.7% (2002 – 13.6%).

NOTES TO THE FINANCIAL STATEMENTS cont'

	GROUP		COMPANY	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
22 SHORT TERM DEPOSITS				
Commercial Bank of Africa Limited	-	892	-	892
Barclays Bank of Kenya Limited	-	3,610	-	-
	-	4,502	-	892

The average effective interest rate on short term deposits at 30 June 2002 was 7.5%.

	2003 Shs'000	2002 Restated Shs'000
23 SHARE CAPITAL		
GROUP AND COMPANY		
Authorised:		
60,000,000 Ordinary shares of Shs 5 each	300,000	300,000
Issued and fully paid:		
54,995,183 (2002 – 54,995,183) ordinary shares of Shs 5 each	274,976	274,976

24 DEFERRED TAX LIABILITY

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

The net deferred tax liability is attributable to the following items:

	GROUP		COMPANY	
	2003 Shs'000	2002 (Restated) Shs'000	2003 Shs'000	2002 (Restated) Shs'000
Deferred tax liabilities:				
Accelerated capital allowances	-	208	-	208
Revaluation surplus	37,950	37,950	5,186	5,186
	37,950	38,158	5,186	5,394
Deferred tax assets:				
Accelerated capital allowances	(80)	-	(80)	-
Leave pay provision	(305)	(367)	(305)	(367)
Tax losses	(384)	-	(384)	-
	(769)	(367)	(769)	(367)
Net deferred tax liability	37,181	37,791	4,417	5,027
The movement on the deferred tax account is as follows:				
At 1 July – as previously reported	37,791	69,901	5,027	19,495
Reversal of deferred tax relating to revaluation surplus on leasehold land	-	(31,894)	-	(14,252)
As restated	37,791	38,007	5,027	5,243
Income statement credit – note 7(a)	(610)	(216)	(610)	(216)
At 30 June	37,181	37,791	4,417	5,027

NOTES TO THE FINANCIAL STATEMENTS cont'

	GROUP		COMPANY	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
25 PAYABLES AND ACCRUALS				
Rent deposits	3,528	4,775	551	551
Rent paid in advance	-	1,157	-	935
Sundry payables and accruals	9,714	46,500	8,668	44,159
	<u>13,242</u>	<u>52,432</u>	<u>9,219</u>	<u>45,645</u>
26 BORROWINGS				
GROUP AND COMPANY				
Bank overdraft	48,794	-	48,794	-
Short term loans	80,000	-	80,000	-
	<u>128,794</u>	<u>-</u>	<u>128,794</u>	<u>-</u>

The maturity period of the short term loans was 30 days. The bank overdraft and short term loans are secured by 11,533,680 (2002 – 8,473,680) shares in Uchumi Supermarkets Limited, 500,000 shares (2002 – nil) shares in East African Breweries Limited and a legal charge over Kimathi House, one of the group's properties. The market value of the shares held as security at 30 June 2003 was Shs 479,194,000 (2002 – Shs 140,663,000).

The effective interest rates on borrowings at 30 June 2003 were:

Bank overdrafts	5.5%
Short term loans	5%

The group has undrawn committed borrowing facilities amounting to Shs 81,206,000 (2002 – Shs 170,000,000).

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NOTES TO THE FINANCIAL STATEMENTS cont'

2003
Shs'000

2002
Shs'000

27 NOTES TO THE CASHFLOW STATEMENT

(a) Reconciliation of operating profit to net cash generated from operations

Operating profit	140,472	89,497
Adjustments for:		
Depreciation	2,012	2,032
Amortisation of intangible assets	793	559
Amortisation of leasehold land	736	736
Loss/(profit) on disposal of equipment	477	(8)
Provision for (appreciation)/diminution in value of investments	(16)	135
Gain on disposal of investments	(61,983)	(25,550)
Written back of unclaimed dividend	(3,401)	(1,653)
Operating profit before working capital changes:	79,090	65,748
Increase in interest receivables on bonds	(2,275)	(2,327)
Decrease/(increase) in receivables and prepayments	18,604	(17,729)
Movement in related party balances	4,481	(11,772)
(Decrease)/increase in payables and accruals	(39,190)	36,621
Net cash generated from operations	60,710	70,541

(b) Analysis of balances of cash and cash equivalents

Short term deposits	-	4,502
Bank balances	906	11,070
Borrowings	(128,794)	-
	(127,888)	15,572

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity at the balance sheet date and borrowings.

NOTES TO THE FINANCIAL STATEMENTS cont'

	GROUP		COMPANY	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
28 CAPITAL COMMITMENTS				
Authorised but not contracted for	31,728	11,239	-	889
Authorised and contracted for	3,670	11,500	1,729	-
Share of associated companies' capital commitments				
Authorised and contracted for	41,368	-	41,368	-
Authorised but not contracted for	-	87,620	-	87,620
29 CONTINGENT LIABILITY				
Share of associated companies' contingent liabilities	3,696	35,813	3,696	35,813

30 RELATED PARTIES

The group transacts with companies related to it by virtue of common shareholding and also by virtue of common directors. These transactions are at arm's length and in the normal course of business. Amounts not settled as at balance sheet date are disclosed in note 19.

During the year the following transactions were entered into with the related parties.

	2003 Shs'000	2002 Shs'000
Purchase of goods/services		
Rent and service charge	2,194	2,316
Legal fees	118	142
Management fees	-	202
Share registration services	4,202	1,886

31 RETIREMENT BENEFIT OBLIGATIONS

The group makes contributions to a defined contribution scheme and to a statutory defined pension scheme, the National Social Security Fund. Contributions to the plan are determined by the rules of the plan and totalled Sh 1,809,000 (2002 - Sh 970,000) in the year. Contributions to the statutory scheme are determined by local statute. The group contributed Sh 24,000 (2002 - Sh 16,000) to the statutory scheme.

NOTES TO THE FINANCIAL STATEMENTS cont'

32 OPERATING LEASE ARRANGEMENTS

The group as a lessor

Property rental income earned during the year was Shs 24,040,000 (2002 – Shs 28,162,000). At the balance sheet date, the group had contracted with tenants for the following future lease receivables:

	2003 Shs'000	2002 Shs'000
Within one year	18,553	26,577
In the second to fifth years inclusive	45,189	69,286
After five years	8,680	13,209
	<u>72,422</u>	<u>109,072</u>

Leases are negotiated for an average term of six years and rentals are reviewed annually. The leases are cancellable with no penalty when the tenants give three months notice to vacate the premises.

The group as a lessee

At the balance sheet date, the company had outstanding commitments under operating leases, which fall due as follows:

	2003 Shs'000	2002 Shs'000
Within one year	999	2,074
In the second to fifth year inclusive	1,925	5,512
	<u>2,924</u>	<u>7,586</u>

Operating lease payments represent rentals payable by the group for its office premises. Leases are negotiated for an average term of 5 years.

33 COUNTRY OF INCORPORATION

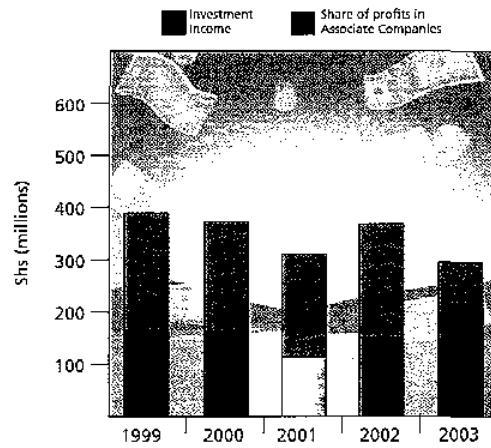
The group is incorporated in Kenya under the Companies Act.

34 CURRENCY

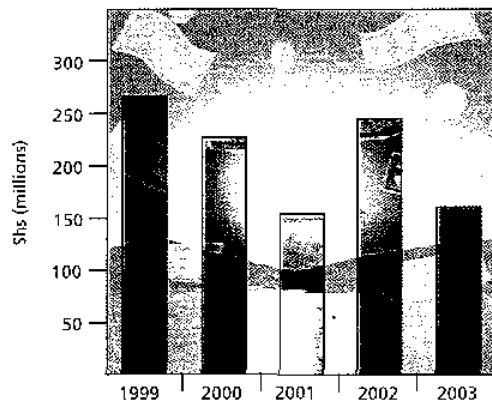
The financial statements are presented in Kenya Shillings thousands (Shs'000).

FINANCIAL HIGHLIGHTS

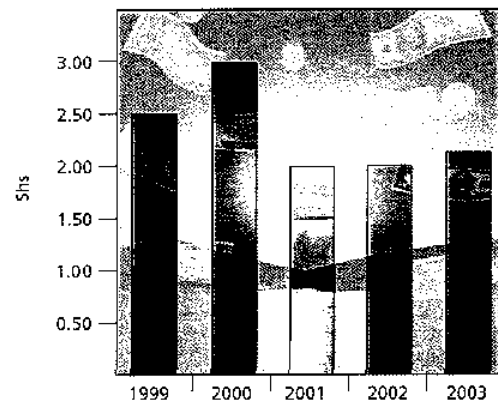
GROUP'S INCOME



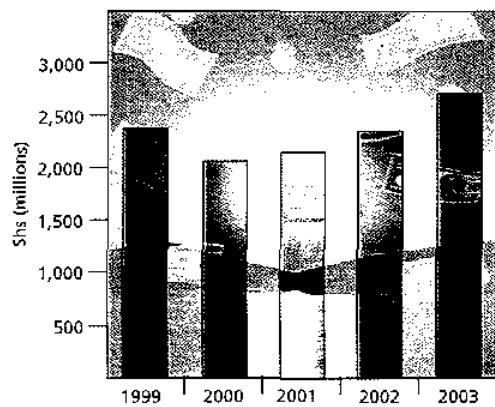
PROFIT AFTER TAX



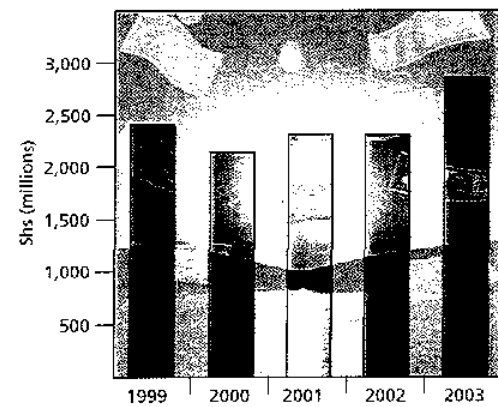
DIVIDEND PER SHARE



SHAREHOLDERS' FUNDS



TOTAL ASSETS EMPLOYED



SHAREHOLDING INFORMATION

TOP TEN SHAREHOLDERS

The top ten shareholders on the company's share register as at 30 June 2003 were as follows:

	Name	Number of Shares	Percentage Holding
1	INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (ICDC)	12,930,413	23.51%
2	CHRISTOPHER J KIRUBI	8,609,858	15.66%
3	UAP PROVINCIAL INSURANCE CO. LTD	5,858,305	10.65%
4	KIRUMA INTERNATIONAL CO. LTD	3,303,903	6.02%
5	INTERNATIONAL HOUSE LTD	3,007,560	5.47%
6	OLD MUTUAL LIFE ASSURANCE CO. LTD	717,513	1.30%
7	BARCLAYS (KENYA) NOMINEES LTD - Acc 1256	557,110	1.01%
8	BARCLAYS (KENYA) NOMINEES LTD - Acc 1853	420,355	0.76%
9	M/S EKCO INVESTMENTS LTD	196,526	0.36%
10	HERI LTD	158,490	0.29%

DIRECTOR'S SHAREHOLDING

The director's direct and indirect interests in the ordinary share capital of the company as at 30 June 2003 were as follows:

	Name	Number of Shares	Percentage Holding
1	INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (ICDC)	12,930,413	23.51%
2	CHRISTOPHER J KIRUBI	11,913,761	21.66%
3	JOHN P N SIMBA	33,572	0.06%
4	TONY K WAINAINA	16,828	0.03%
5	FRANCIS M THUO	10,534	0.02%
6	MARGARET MWANGOLA	6,348	0.01%
7	ISAAC O AWUONDO	6,068	0.01%
8	KATHERINE W GETAO	3,600	0.007%
9	PS, MINISTRY OF TRADE & INDUSTRY	0	0.00%

CATEGORIZATION OF SHAREHOLDERS BY NUMBER OF SHARES HELD

The distribution of shareholders by number of shares held as at 30 June 2003 was as follows:

	Shareholding	Number of Shareholders	Number of Shares held	Percentage Holding
1	Less than 1,000	15,053	5,026,933	9.14%
2	1,001-5,000	2,729	5,534,161	10.06%
3	5,001-10,000	322	2,254,405	4.10%
4	10,001-50,000	191	3,660,947	6.66%
5	50,001-100,000	24	1,712,103	3.11%
6	More than 100,000	23	36,806,634	66.93%
	TOTAL	18,342	54,995,183	100.00%

PROXY FORM

I/We

of

being member(s) of ICDC Investment Company Limited, hereby appoint

of

or failing him/her the duly appointed Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the 36th Annual General Meeting of the Company, to be held on Wednesday, 10 December 2003 at 3.00 p.m. or at any adjournment thereof.

As witness I/We lay my/our hand(s) this..... day of..... 2003

Signature.....

- Notes:**
1. This proxy form is to be delivered to the Secretary's office not later than 3.00 p.m. on Monday, 8 December 2003.
 2. In the case of a Corporation the proxy must be under the Common Seal or under the hand of an Officer or Attorney duly authorized.

FOMU YA MWAKILISHI

Mimi/Sisi

wa

kwa kuwa mwanachama/wanachama wa ICDC Investment Company Limited nimemteua/tumemteua

wa

na kama hayuko, Mwenyekiti wa mkutano huu aliyeteuliwa kama ipasavyo awe mwakilishi wangu/wetu, anipigie kura kwa niaba yanguliyetu katika Mkutano Mkuu wa Thelathini na Sita wa kampuni hii utakaofanywa mnamo Jumatano tarehe 10 Desemba 2003 saa tisa kamili mchana au tarehe yoyote nyingine itakayoahiriwa.

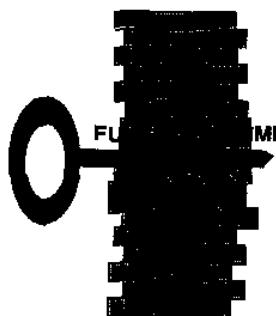
Kama ilivyoshuhudiwa kwa sahihi yanguliyetu siku hii ya.....mwezi..... 2003

Sahihi.....

- Maelezo:**
1. Uwakilishi huu upelekwe kwenye afisi ya Katibu kabla ya saa tisa kamili mchana, Jumatatu tarehe 8 Desemba 2003. Ukikosa kufika hautakuwa na haki yoyote.
 2. Kwa Shirika, lazima uwakilishi uwe na Muhuri wa Kawaida wa shirika hilo au uwe na sahihi ya Afisa au Mwakilishi aliyeidhinishwa.

FOLD 2
PILI KUNJA HAPA

AFFIX
STAMP
HERE



THE COMPANY SECRETARY,
ICDC INVESTMENT COMPANY LIMITED,

INTERNATIONAL HOUSE, 5TH FLOOR, MAMA NGINA STREET,
P.O Box 10518,
00100 - NAIROBI,
KENYA.

FOLD 1
KWANZA KUNJA HAPA

FOLD 3
HALAFU KUNJA HAPA

INSERT FLAP INSIDE
SASA INGIZA KARATASI HII NDANI YA MKUNJO KAMA BAHASHA