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CDSC

Safer, Faster, Easier ...

CHAIRMAN'S STATEMENT

Charles Ogalo - *Chairman*

I am pleased to present the company's financial report for the year 2008. Despite the challenges the country faced in the year and the global financial crisis, this has been a successful year for CDSC, as we continued to grow and register increasing numbers of immobilized securities as well as significant growth in the number of CDS accounts.

Operating Environment

The year 2008 presented a unique challenge to the country with the economy performing below its potential as a result of both internal and external shocks that impacted the economy.

The post-election violence, global economic slowdown, high food prices and volatile international fuel prices all worked to negatively impact on the country's ability to steady its growth, with tourism, agriculture and manufacturing being the most affected. The country's gross domestic product (GDP) expanded by a mere 2.1% in 2008 compared to 7.1% in 2007 and 6.4% recorded in 2006.

The slowdown effectively broke off Kenya's continuous economic growth over the past 5 years, which started to pick up in 2003 with GDP growth rate of 2.9% against a paltry 0.5% growth in 2002.

The overall month on month inflation went up to 27.7% in December 2008 compared with 12% in December 2007, and 15.6% recorded in 2006, representing a sustained increase in inflationary pressure on the cost of living.

The increase in commodity and service prices presented a challenge to resources as investors' disposable income declined by the same margin, resulting to low activity at the stock market and in other investment opportunities, which negatively impacted on our performance.

CHAIRMAN'S STATEMENT (cont'd)

"I am pleased to report that the year ended 31 December 2008 has been a success despite the challenges that faced the market. During the year, we played a vital role in the listing of the largest Initial Public Offering in the Eastern and Central Africa – Safaricom ."

The global financial crisis, which has resulted in a slowdown in economies around the world, also worked to dampen market activities in most markets, triggering capital flight that saw investors sell off stocks to hold their funds in safer investments such as bonds and deposits.

Market Performance

The local environment, as well as the global financial crisis have touched off significant price reductions and contracted turnover at the Kenyan stock market with the NSE 20 Share Index, a key market performance indicator, closing at an average of 3,521.18 points in December 2008 against 5,444.83 points in December 2007.

Market capitalization, a measure of shareholders' wealth, closed at seemly improved position of Sh853 billion in December 2008, against Sh851.13 billion recorded in 2007, but this was on the back of Safaricom which listed in the course of year, added Kshs. 400 billion in the market and pushing market capitalization above Sh1 trillion for the first time in the NSE history.

I am pleased to report that the year ended 31 December 2008 has been a success despite the challenges that faced the market. During the year, we played a vital role in the listing of the largest Initial Public Offering in the Eastern and Central Africa – Safaricom - where we had an opportunity to test with success the stress level of our system with introduction of 10 billion new shares in the system.

Appreciation

As always, I recognize and appreciate all those who continue to work with dedication for and with CDSC, including our staff, our stakeholders, and the investors who remain our key service users. The sustained growth and performance of CDSC depends on their continued service and support.

On behalf of the Board, I would like to appreciate the service of Mr. Madabushi Soundararajan who served on the Board for six years from 2002 to 2008 when he retired. His contribution as one of the founder directors of CDSC has been invaluable.

Finally, I wish to record my appreciation for the guidance and contribution of my fellow Board members and thank them for their commitment and diligence as Board members, and for their service on the committees of the Board which play an important role in ensuring that CDSC continues to effectively fulfill its mandate.

Charles Ogalo Chairman

Central Depository & Settlement Corporation Limited

CEO'S STATEMENT

"The company shall continue to look into developing new revenue streams to address performance volatility that results from a heavy reliance on IPO revenues."

Rose Mambo - *CEO*

On behalf of the Board of Directors, Management and staff of CDSC, I am pleased to present to you a report on CDSC's performance in the year 2008, during which we marked our 4th Anniversary since commencement of operations in November 2004.

The CDSC's financial statements are presented in detail in the audited accounts for the financial year ended 31 December 2008 contained in this report.

Financial Performance

The company reported a profit after tax of Sh45 million compared to Sh7 million recorded in 2007, realizing a 543% increase in profits.

The more than six-fold growth in profitability was mainly driven by a significant increase in revenue resulting from the Initial Public Offerings of Safaricom Ltd. and Co-operative Bank of Kenya Ltd. in the course of the year.

Income for the year more than doubled from Sh145.5 million in 2007 to Sh304.7 million in 2008 while operating expenses were contained to a slower growth pace. The related cost increased from Sh136 million to Sh246.9 million in the year under review.

The company shall continue to look into developing new revenue streams to address performance volatility that results from a heavy reliance on IPO revenues.

The company closed the year with a strong cash flow position of Kshs.156 million as at 31 December 2008, against Kshs.68 million in 2007. The Company had no borrowings as at 31 December 2008.

Operations

In the year, CDSC processed 892,551 trades accounting for a turnover of Kshs. 97.8 billion, compared to 973,555 trades and a turnover of Kshs.88.6 billion in 2007. The listing of 10 billion shares of Safaricom in June 2008 contributed significantly to the high market turnover in the year. The market also continues to reap the benefits of the introduction of the Automated Trading System by the Nairobi Stock Exchange in September

CEO'S STATEMENT (cont'd)

2006, followed by the implementation of the Wide Area Network for trading in November 2007.

In the year, 742,618 new CDS accounts were opened bringing the number of accounts in the system to 1,467,095. This compares to 724,477 CDS accounts opened as at December 2007, showing tremendous growth and the increasing appeal of the Kenyan capital markets as an investment destination.

Immobilization continues at a good pace, with most of the counters having 70-98% of their free float immobilized. This is excellent process, as the market looks forward to the eventual dematerialization of all listed scrip.

Two custodian banks, Prime Bank Ltd and African Banking Corporation Ltd., and one stockbroker, Genghis Capital Ltd. were admitted as Central Depository Agents in the year 2008, bringing the total number of Agents to 28.

CDSC played an essential role in the processing of the Safaricom and Co-operative Bank of Kenya Initial Public Offerings and the listings at the Nairobi Stock Exchange. The upload of allotted shares into investors CDS accounts was carried out in good time for the listings on 9 June 2008 and 22 December 2008 respectively.

Human Resources

CDSC is a service based company and the human resource is therefore a critical asset in the achievement of the company's business strategy. CDSC's HR policies are geared towards raising professional standards, developing the particular skills required for effective and efficient performance at work and promoting and supporting management of staff through its professional hierarchy.

The company strives to promote internal cohesion within the company by encouraging staff to identify with the organization's visions and objectives. CDSC understands the need to balance family life with work and strives to achieve HR policies and a working environment that is at par with local and international standards. CDSC is an equal opportunity employer.

Investor Services

Keeping investors informed and educated about the market is central to the achievement of CDSC's mandate.

In 2008, CDSC partnered with Capital Markets Authority and the Nairobi Stock Exchange in joint investor education campaigns to deepen the capital markets and educate the investing public on the various opportunities available in the market, and the roles and services offered by the key institutions in the capital markets.

The SMS service kicked off in June 2008 and has received an extremely positive response from the market. Upon registration, investors now receive alerts any time there is an activity on their accounts, and can query the system for updates on their portfolio balances or download a statement.

Future Outlook

To enhance service delivery to investors both local and international, CDSC is looking to introduce multiple channels through which investors can interact with the CDS accounts and receive timely information about their investments. This will improve efficiency and provide better service to all investors and stakeholders while at the same time containing operational costs.

In January 2009, CDSC commissioned an email transmission facility through which investors can now receive their statements. This ensures timely delivery of statements to investors wherever they are, at a reduced cost to CDSC.

The company is developing an interactive website, which will create better awareness about CDSC to the public, effectively communicate to all investors and create a presence on the World Wide Web. The website is expected to be launched in June 2009.

With the website in place, CDSC will provide all investors with a facility which will enable them interact with their accounts online from anywhere at any time. This is expected to go live in August 2009.

CDSC has made great strides since commencement of operations in November 2004, and has established itself a crucial component in bringing efficiency, transparency and growth to the Kenyan capital markets. CDSC faces the year ahead with optimistic and is confident of making further progress towards our long-term operational and financial objectives.

I would like to thank the Board of Directors, the management team, staff and stakeholders for their contribution to our business performance in the year. With the support of each and every one, I am confident that we will continue to deliver success in coming years.

Rose Mambo Chief Executive

Central Depository & Settlement Corporation Limited

PROFILE OF DIRECTORS

1. Mike Bristow

Mike is the Executive Director of Commercial Bank of Africa. He holds a Masters Degree in African Politics from London University and is an Associate Member of the Chartered Institute of Bankers. He began his banking career at Barclays Bank in United Kingdom and has held senior positions with Barclays Bank in Ghana, Zambia and DRC. He also worked with Standard Chartered Bank in Ghana.

2. James Wangunyu

Mr. Wangunyu holds a Bachelor of Arts Degree in Economics from the University of Nairobi, Diploma in Banking and Certificate of Capital Markets Development from George Washington University. He is currently the chairman of Nairobi Stock Exchange. He is the Executive Chairman and Founder of Standard Investment Bank Limited. He is a Board Member and Treasurer of the Association of Kenya Stockbrokers (AKS). He is a former Director of Central Depository and Settlement Corporation Implementation Committee, Chairman Trading & Compliance Committee and a Board Member of the Business Conduct Committee of the CDSC.

3. Bob Karina

Bob Karina is the Managing Director of Faida Investment Bank Limited. He is also the First Vice-Chairman NSE. Mr. Karina is also Chairman, ASK Nominee Ltd, a member of the Institute of Directors (Centre for Corporate Governance), the Chairman of the Finance Committee of the Kenya National Chamber of Commerce and Industry and a Director of various companies. Karina is experienced in pricing and trading in fixed income securities.

4. Peter Mwangi

Peter Mwangi holds a Bachelor of Science degree in Electrical Engineering from the University of Nairobi. He is a Certified Public Accountant of Kenya CPA (K) and a Certified Public Secretary CPS (K). In addition, he is a Chartered Financial Analyst (CFA (R)) charter holder. He is the Chief Executive Nairobi Stock Exchange. Prior to joining the Nairobi /stock Exchange, Peter, was the Chief Executive of Centum Investment. He is also a member of the Institute of Directors (IOD). Mr. Mwangi started his career as a Technical Officer in the Kenya Air Force, where he was involved in the maintenance of avionic communication systems and the development of an information and communication technologies (ICTs) strategy at the Air Force.

5. Pauline Nyamweya

Ms. Nyamweya is a lawyer by profession and holds a first class honours Bachelors law degree from the University of Nairobi, and a Master of Laws degree from Cambridge University in the United Kingdom. She is currently a senior lecturer at the School of Law, University of Nairobi, and chairs the Business Conduct Committee of CDSC. She has served as the Secretary to the Capital Markets Tribunal and a member of the Disciplinary Committee of the Nairobi Stock Exchange. She has also previously served as Deputy Secretary of the Constitution of Kenya Review Commission between 2001- 2006.

6. Ashok Shah

Ashok Kumar Mepa Shah is the Chief Executive APA Insurance Company. He is a Director of the Capital Market Challenge Fund and Reliance Insurance. He holds various position of responsibility.

7. Charles Ogalo

Mr. Ogalo holds a BSc in Economics from the State University of New York, New Paltz, and an MSc in Economics from Rutgers University, New Jersey. He is currently the Managing Director of Genesis Kenya Investment Management Ltd, a position he has held since 1st April 1996. He is also the Chairman of South Nyanza Sugar Company and Board Member of Ecobank. Mr. Ogalo served in various responsible positions in banking industry for over 15 years, locally and internationally.

8. Simon Rutega

Mr. Rutega holds a BSc degree in Business Administration with an emphasis in Accounting and an MBA degree in Finance from Brigham Young University in the United States.

He is currently the Chief Executive of the Uganda Securities Exchange and the Chairman of Uganda Financial Market Development Committee. Mr Rutega, sits on a number of Boards. He is the Vice President of the Institute of Corporate Governance of Uganda, a Director of East African Regional Central Depository Board amongst others.

9. Jonathan Njau

Mr. Njau holds an LL.B (Hons) and an MBA (Finance) from the University of Dar es Salaam. Mr. Njau is the Chief Executive Officer of the Dar es Salaam Stock Exchange. He is also a member of the Fair Competition Tribunal, Director, African Stock Exchanges Association, member Tanganyika Law Society & East Africa Law Society and an advocate of the High Court of Tanzania.

10. Jimnah Mbaru

Mr. Mbaru holds a Masters in Business Administration, IMD (Lausanne), Switzerland, a Bachelor of Commerce (B.Com, Hons) and Bachelor of Law (LLB, Hons) degree both from University of Nairobi. He is the Chairman, Dyer & Blair Investment Bank Limited, Nairobi and Kampala and the immediate former Chairman of the Nairobi Stock Exchange. Mr. Mbaru is also a member of the National Economic Social Council.

11. Madabhushi Soundararajan

Mr. Soundararajan, holds a Masters Degree (Arts) from Madras University (India) and Certificate in International Banking (New York University, USA). Mr. Soundararajan has held various key positions in the banking industry. He sits on the boards of several companies including the CFC Life, Heritage A.I.I. and Heritage Tanzania.

SENIOR MANAGERS

1. **Rose Mambo,** *Chief Executive*
2. **James Gikonyo,** *Head of Information and Communications Technology*
3. **Irene Mutiso,** *Manager, HR & Administration*
4. **Lilian Marang'a,** *Manager, Finance*
5. **Florence Kamau ,** *Chief Manager Operations*

CORPORATE INFORMATION

DIRECTORS

Charles Ogalo	Chairman
James Wangunyu	Director
Jimnah Mbaru	Director
Bob Karina	Director
Mike Bristow	Director
Ashok Shah	Director
Peter Mwangi	Director
Madabhushi Soundrarajan	Director
Pauline Nyamweya	Director
Simon Rutega	Director
Jonathan Njau	Director

CHIEF EXECUTIVE OFFICER

Rose Mambo

REGISTERED OFFICE

Nation Centre, 10th Floor, Kimathi Street

P.O. Box 3464, 00100 GPO

Nairobi

SECRETARY

Rose Mambo

P.O. Box 3464- 00100

Nairobi

BANKERS

Commercial Bank of Africa Ltd
Mama Ngina Street
P.O. Box 30437, 00100 GPO
Nairobi

CFC Stanbic Bank Kenya Limited
Kimathi Street
P.O. Box 75501, 00200 City Square
Nairobi

AUDITORS

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

ADVOCATE

Mboya & Wangong'u Advocates
Lonrho House
P.O. Box 74041, 00200
Nairobi

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2008.

ACTIVITIES

The principal activity of the group is the provision of automated clearing, delivery and settlement facilities in respect of transactions carried out at the Nairobi Stock Exchange and the holding of securities as nominees on behalf of investors.

RESULTS

	2008 Sh
Profit before taxation	64,180,405
Taxation	(18,545,652)
Profit for the year	45,634,753

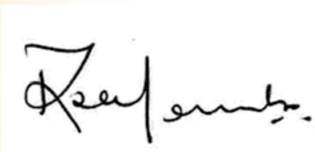
DIRECTORS

The current directors are shown on page 2.
Mr Patrick Gakiavih resigned as a director with effect from 19 June 2008 and was replaced by Mr Bob Karina on the same date.
Mr Peter Mwangi was appointed a director with effect from 28 February 2008 to replace Mr Stewart Henderson.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD



Secretary

Nairobi

2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan 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 and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the group and the company keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 Kenyan 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 the company and of the group's 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 company and its subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.

Director

Director

2009

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Central Depository and Settlement Corporation Limited and its subsidiary, set out on pages 6 to 25 which comprise the group and the parent company balance sheets as at 31 December 2008, and the group income statement, group and parent company statements of changes in equity and group cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the group as at 31 December 2008 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's balance sheet and income statement are in agreement with the books of account.

Certified Public Accountants (Kenya)

Deloitte & Touche

2009

Nairobi

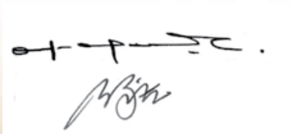
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh	2007 Sh
INCOME	5	304,672,380	145,510,827
OPERATING EXPENSES	6	(246,917,681)	(136,648,344)
OPERATING PROFIT		57,754,699	8,862,483
NET FINANCE INCOME	8	6,425,706	1,892,227
PROFIT BEFORE TAXATION		64,180,405	10,754,710
TAXATION CHARGE	9	(18,545,652)	(3,724,891)
PROFIT FOR THE YEAR		45,634,753	7,029,819

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh	2007 Sh
ASSETS			
Non-current assets			
Equipment	10	7,701,113	6,771,975
Intangible assets	11	24,228,888	25,388,534
		31,930,001	32,160,509
Current assets			
Fixed deposits	13	52,627,559	26,378,984
Receivables	14	15,668,116	14,605,713
Call deposits	15	63,275,816	20,964,887
Bank and cash balances		40,376,383	20,985,709
		171,947,874	82,935,293
Total assets		203,877,875	115,095,802
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	100,000,000	100,000,000
Revenue reserve/(deficit)		41,836,280	(3,798,473)
Shareholders' equity		141,836,280	96,201,527
Non-Current liabilities			
Deferred tax liability	17	4,962,251	1,343,646
Current liabilities			
Payables	18	41,879,647	17,196,882
Due to related parties	19(b)	272,650	353,747
Taxation payable	9(c)	14,927,047	-
		57,079,344	17,550,629
Total equity and liabilities		203,877,875	115,095,802

The financial statements on pages 6 to 25 were approved by the board of directors on 2009 and were signed on their behalf by:



)
) Directors
)

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital Sh	Revenue (deficit)/ reserve Sh	Total Sh
At 1 January 2007	100,000,000	(10,828,292)	89,171,708
Profit for the year	-	7,029,819	7,029,819
At 31 December 2007	100,000,000	(3,798,473)	96,201,527
At 1 January 2008	100,000,000	(3,798,473)	96,201,527
Profit for the year	-	45,634,753	45,634,753
At 31 December 2008	100,000,000	41,836,280	141,836,280

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh	2007 Sh
OPERATING ACTIVITIES			
Cash generated from operations	20 (a)	90,669,297	30,118,063
Interest paid	8	-	(596,959)
Interest received	8	6,425,706	2,489,186
Net cash generated from operating activities		97,095,003	32,010,290
INVESTING ACTIVITIES			
Payments for equipment	10	(4,989,008)	(2,501,707)
Payments for intangible assets	11	(4,155,817)	(170,535)
Proceeds from disposal of motor vehicle		-	450,000
Net cash used in investing activities		(9,144,825)	(2,222,242)
FINANCING ACTIVITIES			
NSE loan repayment		-	(6,000,000)
Net cash generated from/(used in) financing activities		-	(6,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		87,950,178	23,788,048
CASH AND CASH EQUIVALENTS:			
AT 1 JANUARY		68,329,580	44,541,532
AT 31 DECEMBER	20 (b)	156,279,758	68,329,580

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1 ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are set out below:

Adoption of new and revised international financial reporting standards

Standards and interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008)

Adoption of these interpretations and the revised standard has not led to any changes in the group's accounting policies.

New and revised standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IAS 1 (AC 101) – Presentation of Financial Statements – comprehensive revision including requiring a statement of comprehensive income (effective 1 January 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 1 (AC 101) – Presentation of Financial Statements – amendments resulting from May 2008 improvements to IFRSs (effective 1 January 2009)
- IAS 19 (AC 116) – Employee Benefits - amendments resulting from May 2008 improvements to IFRSs

  (effective 1 January 2009)
- IAS 16 (AC 123) – Property, Plant and Equipment - amendments resulting from May 2008 improvements to IFRSs (effective1 January 2009)
- IAS 23 (AC 114) Borrowing Costs — Comprehensive revision to prohibit immediate expensing

  (effective 1 January 2009)
- IAS 36 (AC 128) Impairment of Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective 1 January 2009)
- IAS 39 (AC 133) Financial Instruments: Recognition and Measurement - Amendments resulting from May 2008 Annual Improvements to IFRSs (effective 1 January 2009)

The Directors anticipate that the adoption of the above standards and interpretations and amendments to other IFRSs resulting from the International Accounting Standards Board (IASB)'s annual improvements project published in May 2008, when effective, will have no material impact on the financial statements of the group in the period of initial application. The IASB's annual improvements process deals with non-urgent, minor amendments to the standards.

1 ACCOUNTING POLICIES

Basis of accounting

The group prepares its financial statements under the historical cost convention.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary, CDSC Nominees Limited, all of which are made up to 31 December each year.

Subsidiary undertaking, being a company in which the group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, has been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group and are not consolidated as from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated. Subsidiary undertakings are disclosed in Note 12.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investment in subsidiary company

Investment in the subsidiary company is stated at cost less provision for impairment where applicable.

Revenue recognition

Revenue comprises transaction, depository levies which are recognised to income once the transaction is recognised in the Central Depository System.

Pledge income comprises fees paid by shareholders when pledging their shares as security for loans. The fees are recognized when the shares are designated as pledged, preventing them from being traded.

Fees, postage income, interest and other income are recognised to income on the accruals basis.

Motor vehicles, furniture and equipment

Motor vehicles, furniture and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight line basis to write off the cost of motor vehicles, furniture and fittings, equipment and computers over their expected useful lives at the following annual rates:

Motor vehicles	25%
Computer equipment	25%
Office equipment	25%
Furniture and fittings	12.5%

Intangible assets

Intangible assets represent computer software and CDS software which are stated at cost less amortisation. Amortisation is calculated to write off the cost of the computer software on a straight line basis over its estimated useful life of four years and eight years in respect of the CDS software.

Taxation

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

Deferred 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.

Deferred tax assets in respect of taxable losses carried forward are recognised only to the extent that it is probable that future taxable income will be sufficient to utilise these losses.

Provision for liabilities and charges

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the balance sheet date.

Retirement benefit obligations

The group adheres to a defined contribution provident scheme for its staff and also makes contributions to the statutory National Social Security Fund, a defined contribution scheme registered under the National Social Security Act.

The group's obligations to all staff retirement benefits schemes are recognised to the income statement as they fall due.

Foreign currency translation

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at rates ruling on the dates of the transactions. Exchange gains and losses are dealt with in the income statement.

Financial instruments

Financial assets and liabilities are initially recognised in the group's balance sheet at cost using settlement date accounting, when the group has become a party to the contractual provisions of the instrument.

Held to maturity investments

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

Loans, advances and receivables

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

Financial assets at fair value through profit or loss

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

Available for sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available for sale.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Available for sale financial assets are carried at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity are recognised in the income statement.

Impairment

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Comparatives

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

a) Market risk

(i) Foreign exchange risk

The group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The group manages foreign exchange risk arising from future commercial transactions by making foreign currency transaction payments as soon as invoicing has been done. As a result, there were no foreign exchange gains or losses and financial assets and liabilities denominated in foreign currencies for the year ended 31 December 2008 and 31 December 2007.

(ii) Price risk

The group does not hold investments that would be subject to price risk; hence this risk is not relevant.

(iii) Interest rate risk

The group holds interest bearing assets in form of call and fixed deposits. This risk has been managed by negotiating interest rates on the deposits with the banks resulting in consistent earnings during the duration of the deposits.

As at 31 December 2008, an increase/decrease of 5 basis points would have resulted in an increase/decrease in profit before taxation of Sh 321,285 (2007- Sh 94,611).

b) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. Credit risk is managed on a group-wide basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The group only deals with listed companies in the stock exchange and authorised central depository agents who are considered credit worthy counterparties. Individual risk limits are regularly assessed by the management of the group. The utilisation of credit limits is regularly monitored. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority.

The amount that best represents the group's maximum exposure to credit risk is made up as follows:

Receivables At 31 December 2008	**Fully performing Sh**	**Past due Sh**	**Impaired Sh**	**Total (gross) Sh**
Central Depository Agents	5,372,867	1,158,489	49,580,841	56,112,197
Issuers	3,172,280	18,630	1,263,030	4,453,940
Others	5,945,850	-	-	5,945,850
Total	14,490,997	1,177,119	50,843,871	66,511,987

Receivables At 31 December 2007	**Fully performing Sh**	**Past due Sh**	**Impaired Sh**	**Total (gross) Sh**
Central Depository Agents	6,561,063	2,556,330	-	9,117,393
Issuers	3,229,840	105,190	982,840	4,317,870
Others	2,153,290	-	-	2,153,290
Total	11,944,193	2,661,520	982,840	15,588,553

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

Past due amounts are those beyond the maximum established credit period of 30 days and represents slow but paying customers. These receivables continue to be serviced even though this is not done on the contractual dates. The finance department is actively following this debt.

The impaired amounts are fully provided for and the amount of the loss incurred dealt with in the income statement for the year of impairment. However, the group is following up on the impaired debt.

Cash and cash equivalents	**Fully performing Shs**	**Past due Shs**	**Impaired Shs**
At 31 December 2008	156,279,758	-	-
At 31 December 2007	68,329,580	-	-

Cash and cash equivalents are fully performing.

c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet group obligations. The group manages this risk by maintaining adequate cash balances in the bank, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cashflows. Of the reserve borrowing facilities are overdraft facilities of Sh 9.5million with CFC Stanbic Bank Limited as at 31 December 2008. The reserve overdraft facilities held as at 31 December 2007 consisted of Sh 9.5million each with both CFC Stanbic Bank Limited and Commercial Bank of Africa Limited.

The table below analyses the group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh	Between 1 – 3 months Sh	Over 3months Sh	Total Sh
At 31 December 2008:				
Trade and other payables	38,428,478	2,635,616	1,088,203	42,152,297
	=========	=========	========	=========
At 31 December 2007:				
Trade and other payables	1,516,723	15,638,401	395,505	17,550,629
	========	=========	========	=========

4 CAPITAL MANAGEMENT

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The group's overall strategy remains unchanged from the previous period.

The constitution of capital managed by the group is as shown below:

	2008 Sh	2007 Sh
Share capital	100,000,000	100,000,000
Revenue reserve/(deficit)	41,836,280	(3,798,473)
	141,836,280	96,201,527
	=========	=========

5 INCOME

	2008 Sh	2007 Sh
Transaction levy	117,451,636	106,345,103
Pledges	130,947,400	10,786,150
IPO Postage income	28,327,755	-
Depository levy	24,195,340	26,723,800
Security transfer fees	2,342,600	210,600
SMS Solution fees	500,499	-
Interim statement fees	328,550	309,150
Appointment fees	320,000	252,500
Miscellaneous	137,100	-
Withdrawal fees	121,500	71,000
Profit on disposal of motor vehicle	-	450,000
Creditors written off	-	362,524
	304,672,380	145,510,827
	=========	=========

6 OPERATING EXPENSES

	2008 Sh	2007 Sh
Staff costs (Note 7)	61,841,042	44,733,720
Telephone and postage	64,418,084	37,013,990
Provision for doubtful debts	49,861,031	982,840
Software and equipment maintenance and hire	12,666,229	6,203,361
Office stationery	12,133,837	10,004,493
Rent and related expenses	8,473,860	5,324,961
Advertising & Public Education	5,418,279	733,712
Amortisation	5,315,463	5,034,722
Depreciation	4,059,870	7,436,591
Insurance	3,963,847	3,732,806

Immobilisation costs	3,467,560	4,488,272
Travelling	2,574,750	1,776,216
Professional fees	2,370,371	3,004,925
Licences & fees	2,352,702	265,200
Bank charges	2,098,275	476,623
Board and committee expenses	1,290,564	1,075,392
Office expenses	809,454	603,285
Audit fees	801,552	793,070
Publications	509,820	-
General expenses	518,594	505,137
Internet services	505,671	498,959
Security charges	444,378	367,725
Subscriptions and periodicals	397,306	55,485
Conference expenses	363,001	584,375
Repairs and renewals	173,739	325,570
Entertainment	88,402	426,094
Motor vehicle expenses	-	200,820
	246,917,681	136,648,344
	=========	=========

7 STAFF COSTS

Salaries and wages	53,706,444	38,979,896
Employer provident fund contributions	3,254,738	2,281,950
Medical costs	2,516,363	2,207,935
Training costs	2,239,953	321,445
Staff welfare	491,142	-
NSSF employer contribution	95,000	90,000
Staff uniforms	54,500	61,530
Leave pay provision write back	(517,098)	(251,560)
Recruitment costs	-	1,034,834
Gifts	-	7,690
	61,841,042	44,733,720
	=========	=========

	2008	2007
	Sh	Sh

8 NET FINANCE INCOME/(COSTS)

Loan interest	-	(596,959)
Interest income	6,425,706	2,489,186
	6,425,706	1,892,227
	========	========

9 TAXATION

a) Taxation charge

Current taxation based on chargeable Profit for the year at 30%	16,039,112	-
Prior year current tax overprovision	(1,112,065)	-
Current tax charge	14,927,047	-
Deferred taxation charge (note 17)	3,599,175	3,724,891
Prior year deferred tax under provision	19,430	-

Deferred tax charge	3,618,605	3,724,891
Taxation expense	18,545,652	3,724,891
	========	========

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

Accounting profit before taxation	64,180,405	10,754,710
	========	========
Tax at the applicable rate of 30%	19,254,122	3,226,413
Tax effect of expenses not deductible for tax	384,165	498,478
Prior year current tax overprovision	(1,112,065)	-
Prior year deferred tax under provision	19,430	-
	18,545,652	3,724,891
	========	========

c) Taxation payable

At 1 January	-	-
Charge for the year	16,039,112	-
Prior year current tax overprovision	(1,112,065)	-
	14,927,047	-
	========	========

10 EQUIPMENT

GROUP AND COMPANY

	Furniture fittings and office equipment	Motor vehicle	Computer equipment	Total
	Sh	Sh	Sh	Sh
COST				
At 1 January 2007	8,229,216	2,805,850	22,008,432	33,043,498
Additions	2,066,707	-	435,000	2,501,707
Disposal	-	(2,805,850)	-	(2,805,850)
At 31 December 2007	10,295,923	-	22,443,432	32,739,355
At 1 January 2008	10,295,923	-	22,443,432	32,739,355
Additions	1,004,146	-	3,984,862	4,989,008
At 31 December 2008	11,300,069	-	26,428,294	37,728,363
DEPRECIATION				
At 1 January 2007	3,041,265	2,630,485	15,664,889	21,336,639
Charge for the year	1,737,368	175,365	5,523,858	7,436,591
Eliminated on disposal	-	(2,805,850)	-	(2,805,850)
At 31 December 2007	4,778,633	-	21,188,747	25,967,380
At 1 January 2008	4,778,633	-	21,188,747	25,967,380
Charge for the year	2,033,430	-	2,026,440	4,059,870
At 31 December 2008	6,812,063	-	23,215,187	30,027,250
NET BOOK VALUE				
At 31 December 2008	4,488,006	-	3,213,107	7,701,113
	========	========	========	========
At 31 December 2007	5,517,290	-	1,254,685	6,771,975
	========	========	========	========

Included in equipment are assets with a cost of Sh 22,443,433 (2007 – nil) that are fully depreciated. The normal annual depreciation charge on these assets would have been Sh 1,254,675 (2007 – nil).

11 INTANGIBLE ASSETS

GROUP AND COMPANY

	Computer and CDS Software Sh
COST	
At 1 January 2007	39,939,422
Additions	170,535
At 31 December 2007	40,109,957
At 1 January 2008	40,109,957
Additions	4,155,817
At 31 December 2008	44,265,774
AMORTISATION	
At 1 January 2007	9,686,701
Charge for the year	5,034,722
At 31 December 2007	14,721,423
At 1 January 2008	14,721,423
Charge for the year	5,315,463
At 31 December 2008	20,036,886
NET BOOK VALUE	
At 31 December 2008	24,228,888
At 31 December 2007	25,388,534

12 INVESTMENT IN SUBSIDIARY

COMPANY

CDSC Nominees Limited – at cost	20,000	-
	=======	========

Company	*Share capital Sh*	*% Holding*	*Country of Incorporation*	*Principal activity*
CDSC Nominees Limited	20,000	100%	Kenya	Holding securities as a nominee on behalf of Central Depository and Settlement Corporation Limited

The investment in subsidiary is stated at cost. As at 31 December 2008 the subsidiary company was dormant.

13 FIXED DEPOSITS

GROUP AND COMPANY

	2008	2007
	Sh	Sh
Maturing within 120 days:		
Diamond Trust Bank Kenya Limited – interest rate at 9.0%	-	15,871,040
CFC Stanbic Bank Limited – interest rate at 7.75 % (2007 – 7.75%)	31,927,532	10,507,944
Commercial Bank of Africa Limited– interest rate at 9.0 %	20,700,027	-
	52,627,559	26,378,984
	========	=========

14 RECEIVABLES

Transaction levy fees receivable	6,531,356	9,117,393
Net Depository levy receivable	3,190,910	3,335,030
Prepayments	1,684,090	2,144,110
Postage income receivable	2,880,060	-
Other receivables	305,324	9,180
Withholding tax	1,076,376	-
	15,668,116	14,605,713
	=========	=========

15 CALL DEPOSITS

Maturing on demand:		
CFC Stanbic Bank Limited – interest rate at 7.1% (2007-6.25%)	31,743,851	10,537,490
Commercial Bank of Africa Limited–interest rate at 7% (2007-6%)	31,531,965	10,427,397
	63,275,816	20,964,887
	=========	=========

16 SHARE CAPITAL

Authorised and issued		
1,000,000 shares of Sh 100 each	100,000,000	100,000,000
Issued and fully paid		
1,000,000 (2007 – 1,000,000) shares of Sh 100 each	100,000,000	100,000,000

17 DEFERRED INCOME TAXES

GROUP AND COMPANY

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted rate of 30%. The net deferred tax liability is attributable to the following items:

	2008 Sh	2007 Sh
Tax losses available for offset against future profits	-	4,869,727
Accelerated capital allowance	(5,156,015)	(6,562,266)
Leave pay provision	193,764	348,893
	(4,962,251)	(1,343,646)

Movement in net deferred tax liability is as follows:

At 1 January	(1,343,646)	2,381,245
Deferred tax charge to the income statement (note 9(a))	(3,599,175)	(3,724,891)
Prior year deferred tax under provision	(19,430)	-
At 31 December	(4,962,251)	(1,343,646)

At 31 December 2008, the group had accumulated nil tax losses (2007 - Sh 16,232,423) available for offset against future taxable profits.

18 PAYABLES

GROUP AND COMPANY

	2008 Sh	2007 Sh
Accrued expenses	31,587,962	15,638,401
Trade and other payables	9,645,806	395,505
Leave pay provision	645,879	1,162,976
	41,879,647	17,196,882

19 RELATED PARTIES

The group transacts with other companies related to it by virtue of shareholding.

During the year, the following transactions were entered into with related parties:

		2008 Sh	2007 Sh
(a)	Consultancy fees payable to Nairobi Stock Exchange Limited (NSE)	-	200,000
	Interest on loan from Nairobi Stock Exchange Limited	-	596,959
	Repayment of loan from Nairobi Stock Exchange Limited	-	6,000,000
		-	6,796,959

		GROUP		COMPANY	
		2008 Sh	2007 Sh	2008 Sh	2007 Sh
(b)	Due to related parties				
	Due to CDSC Nominees Limited	-	-	20,000	-
	CDSC Guarantee Fund	272,650	353,747	272,650	353,747
		272,650	353,747	292,650	353,747

(c) Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the year were as follows:

GROUP AND COMPANY

	2008 Sh	2007 Sh
Salaries and other benefits	28,890,786	17,513,045
Directors' remuneration		
Fees for services as directors	661,714	628,572

20 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash used in operations

Profit before taxation	64,180,405	10,754,710
Adjustments:		
Finance costs recognised in profit or loss	-	596,959
Investment revenue recognised in profit or loss	(6,425,706)	(2,489,186)
Depreciation and amortisation of non-current assets	9,375,333	12,471,313
Gain on disposal of motor vehicle	-	(450,000)
Operating cash flows before movements in working capital	67,130,032	20,883,796
(Decrease)/increase in receivables	(1,062,403)	5,962,259
Increase in payables	24,682,765	3,272,008
Movement in related party balances	(81,097)	-
Net cash generated from operations	90,669,297	30,118,063
	==========	=========

	2008 Sh	2007 Sh
(b) Analysis of cash and cash equivalents		
Bank and Cash balances	40,376,383	20,985,709
Call deposit	63,275,816	20,964,887
Fixed deposits	52,627,559	26,378,984
	156,279,758	68,329,580
	========	=========

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held with banks.

	2008 Sh	2007 Sh

21 OPERATING LEASE COMMITMENTS

GROUP AND COMPANY

Amounts payable under operating leases in respect of property rental (group offices)

Within one year	2,122,110	2,680,560
Between one and two years	-	1,563,660
	2,122,110	4,244,220
	========	========

22 CONTINGENT LIABILITIES - GROUP AND COMPANY

Reserve overdraft facilities	9,500,000	19,000,000
	========	=======

(i) A lawsuit has been filed against the company jointly with other parties by a third party who is claiming restitution for shares worth Sh 6,243,120 as at 31 December 2008 and general damages. Having regard to the legal advice received, the directors are of the opinion that this claim will not give rise to liabilities which will have a material effect on the financial statements, and hence no provision has been made for the potential losses in these financial statements.

(ii) A lawsuit has been filed against the company jointly with other parties by a third party who is claiming shares worth Sh 265,420. Having regard to the legal advice received, the directors are of the opinion that this claim will not give rise to liabilities which will have a material effect on the financial statements, and hence no provision has been made for the potential losses in these financial statements.

23 CAPITAL COMMITMENTS - GROUP AND COMPANY

Authorised and contracted for	2,984,680	-
	========	========
Authorised but not contracted for	-	22,945,000
	========	========

24 INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

25 CURRENCY

The financial statements are presented in Kenya Shillings (Sh).

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