CDSC

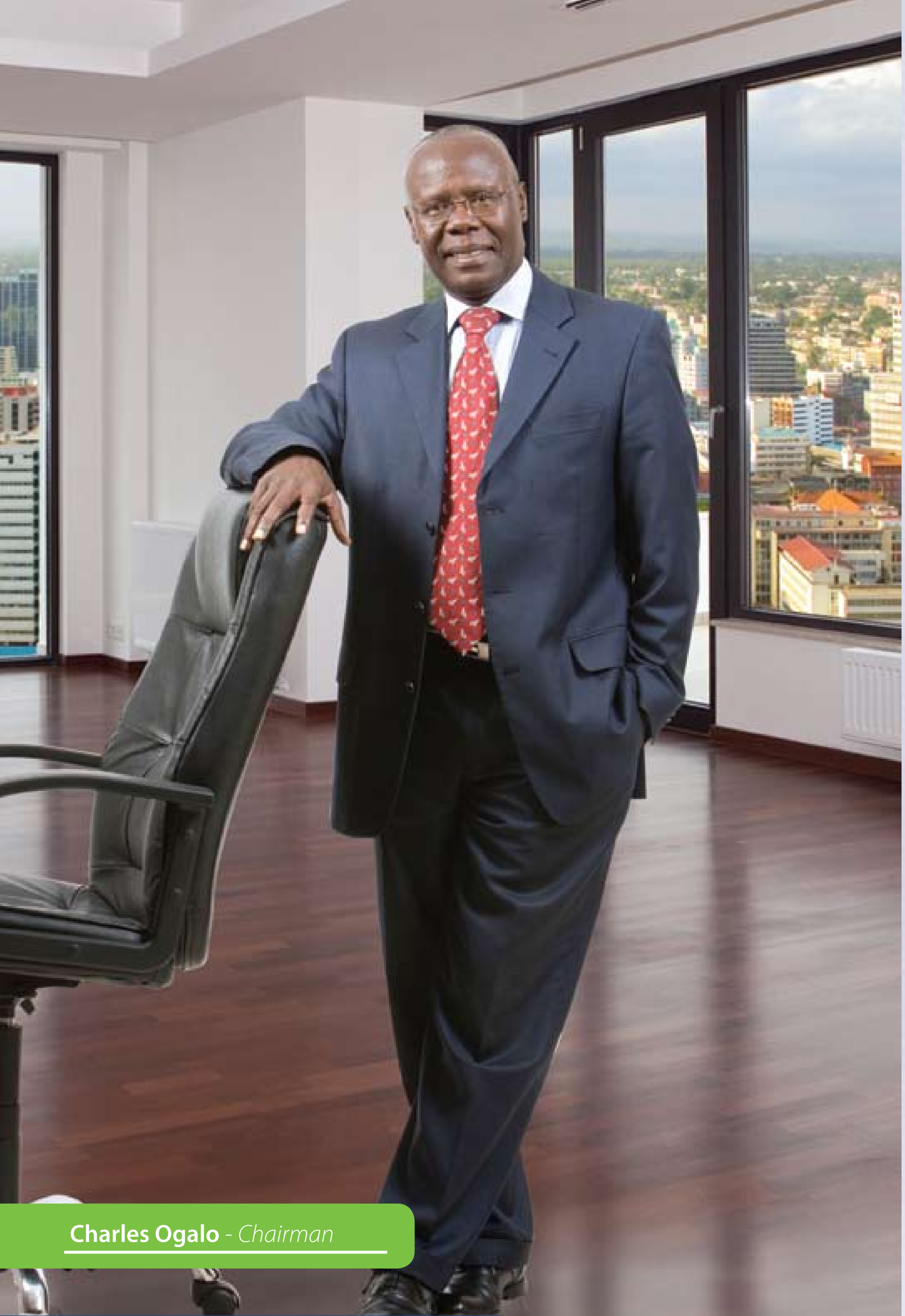
Central Depository and
Settlement Corporation Limited

Annual Report & Financial Statements 2009

SAFE GUARDING YOUR INVESTMENT

CONTENTS PAGE

CDSC
Safer, Faster, Easier ...



Charles Ogalo - *Chairman*

CHAIRMAN'S STATEMENT

I am pleased to present to you the company's financial statements for the year ended December 31, 2009. CDSC has now been in operation for five years and has achieved several important milestones in line with its objectives. These include a T+4 settlement cycle supporting extended trading hours from 9.00 a.m. to 3.00 p.m.; exponential growth in the number of investor accounts from 30,000 in our first few months of operation, to over 1.8 million accounts today; significant growth in daily market turnover from a pre-CDS average of Kshs. 90 million to peak at over Kshs. 1 billion in 2008, and averaging at Kshs. 395 million in the year to date, while the daily number of transactions has grown from about 450 in 2004 to over 10,000 transactions a day; in 2008 CDSC successfully facilitated the largest IPO in East and Central Africa, the Safaricom IPO; and last but not least, CDSC has to date immobilized 34% of the total shares in issue, and 75-99% of the free float of shares available for trading for each listed company.

Operating Environment

2009 was a difficult year for the CDSC, as was the case for many business entities in the country, as we continue to grapple with the lingering effects of the post-election violence and the global financial crisis. In addition, the severe drought experienced in most parts of the country had the effect of raising the cost of living due to increased food prices and the high cost of electricity. This therefore reduced the amount of disposable income that Kenyans had to invest at the stock market.

All these factors negatively affected the stock market as was evidenced by falling prices, reduced turnover and the declining 20 share and all share indices. The 20 Share Index closed the year 8 per cent lower (3,247.44 points) than 2008 levels (3,521.18) while the All Share Index declined by 2.3 per cent. Market turnover declined from Kshs 97.52 billion in 2008 to a mere Kshs 38 billion by the close of 2009, translating to a 61 per cent drop, while the number of shares traded declined by 46 per cent. Turnover in the bond market increased by 16 per cent, but unfortunately with most of the trading taking place outside CDSC's ambit, this had little impact on our performance.

Company Performance

The subdued activity level translated to falling revenues for the CDSC, in view of which significant effort has been put into keeping a lid on expenses.

The company reported Kshs 13.2 million in pre-tax profit for the year, compared to Kshs. 64.1 million in 2008. Operating expenses declined from Kshs. 246 million in 2008 to Kshs. 119.4 million in 2009, demonstrating the considerable efforts by management to reduce expenditure especially with regard to the posting of client statements.

Outlook

The world economy is projected to grow at the rate of 3.9% in 2010, compared to -0.8% recorded in 2009. In Kenya, real GDP is projected to grow at between 4 - 5%. Sufficient rainfall has had a positive impact on the agriculture sector, while the growth in the tourism sector is expected to continue due to the improved economic performance and the rebound of the global economy. The economy is likely to benefit from a stable macro-economic environment, improved weather conditions, and an expanded market due to the implementation of the EAC common market protocol in June 2010.

The impact on the stock market has already been seen in the year to date, with the NSE 20 share index having gone up by over 30% compared to 2009, while the daily average turnover is Kshs. 395 million compared to Kshs. 151 million in 2009.

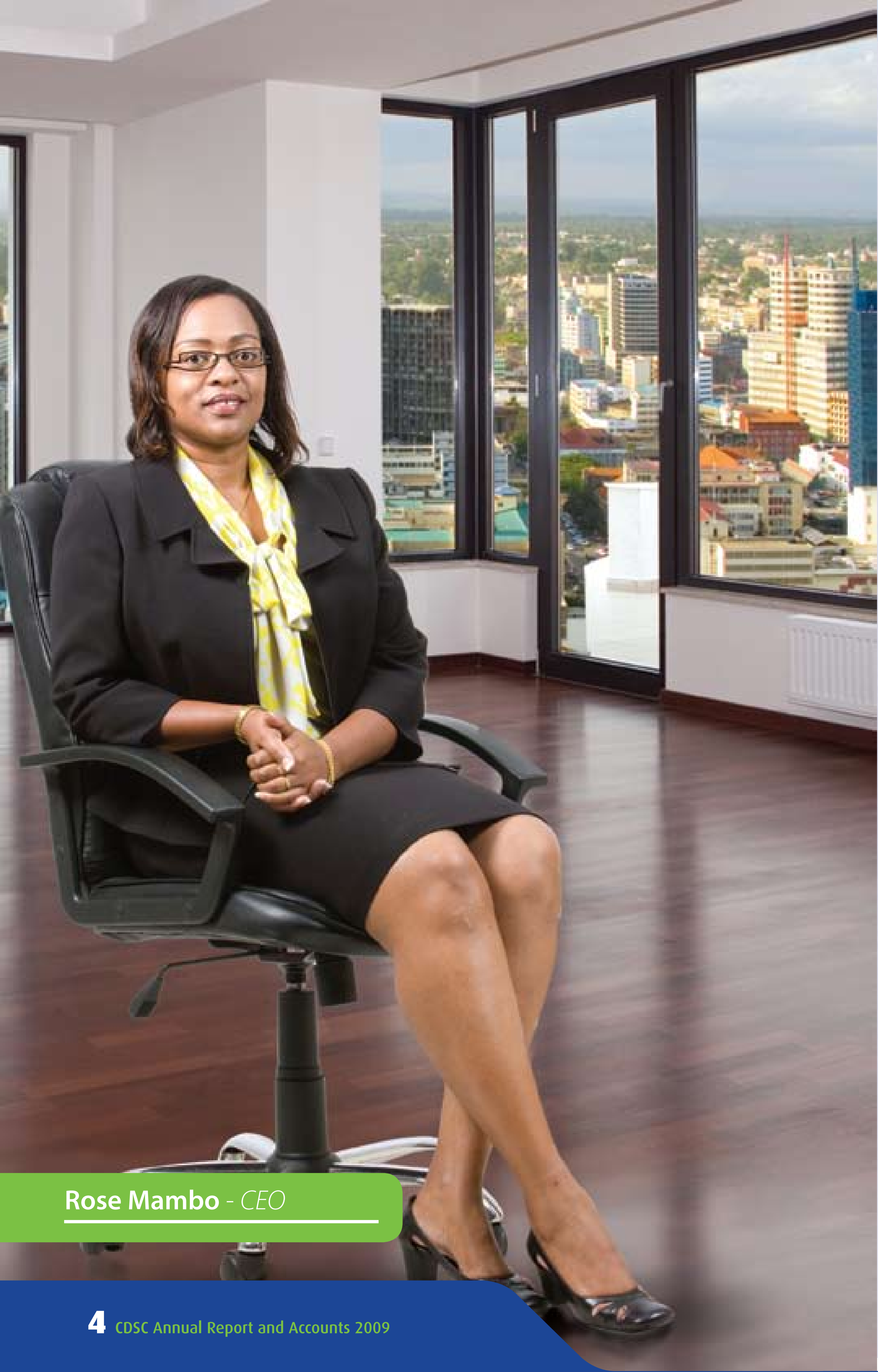
Board Changes

In 2009, the CDSC shareholders reviewed their appointments to the Board, and some changes were made in this regard. The new board is made up of Mr. Mike Bristow, Mr. Ashok Shah, Mr. Sam Kimani and Mr. Nkoregamba Mwebesa representing the Capital Markets Challenge Fund; Mr. Job Kihumba and Mr. Peter Mwangi represent the Nairobi Stock Exchange; and Mr. Bob Karina represents the AKS Nominees Ltd. The Uganda Securities Exchange and the Dar Es Salaam Stock Exchange are represented on the Board by Mr. Simon Rutega and Mr. Jonathan Njau respectively. Ms. Pauline Nyamweya and I (Charles Ogalo) are independent directors representing the public interest, nominated by AKS Nominees and the Challenge Fund respectively. The Capital Markets Authority Investor Compensation Fund has 7% shareholding, but does not have a representative on the Board.

Appreciation

On behalf of the Board of Directors, I take this opportunity to recognise the Management and Staff for putting in so much effort in keeping our business steady in the face of a very challenging environment. To our shareholders, I would like to say that we owe the success of this business to your unwavering support to the Board of Directors and Management of CDSC. Finally, I wish to record my appreciation for the efforts and contribution of my fellow Board members. I thank you all for your support; it has indeed been a pleasure to serve as your chairman.

Charles Ogalo - Chairman
Central Depository & Settlement Corporation Limited



Rose Mambo - *CEO*

CEO'S STATEMENT

CDSC's impact in Kenya's capital market has been central to the success that has been witnessed in the market since its establishment. In 2004, operations kicked off with a mere 30,000 client accounts and a daily average of 200 deals that settled through the CDS system. Since then, the client accounts have grown exponentially to about 1.8 million as at June 2010, with an average of 3,500 deals settling daily through the CDS system.

2009 was a difficult year for the capital markets with significant reductions in turnover and the number of shares traded. Faced with declining revenues, CDSC has taken aggressive measures to reduce its operational expenses while continuing to offer efficient services to the market.

Financial Performance

The company reported a pre-tax profit of Kshs. 13.2 million for the year ending December 31, 2009 compared to a profit after tax of Kshs. 45 million recorded over the similar period of 2008, translating to a 71% drop. This, however, should be viewed against the backdrop of reduced stock market activity in 2009, with a 46% reduction in the number of shares traded and a 61% drop in turnover as compared to 2008. Furthermore, 2009 was generally a quiet year with no equity IPO issued compared to 2008 which was fairly active.

Given the contracted business, our revenues which are pegged on stock market activity fell by 59% to Kshs. 125 million in 2009 compared to Kshs. 304 million recorded in 2008. Our expenditure on the other hand, is based on our statutory obligations to maintain and service the 1.8 million CDS accounts held at the CDSC, and remains relatively high. Nevertheless we did manage to reduce expenditure by 40% from the previous year, mainly through the introduction of electronic statements. The key highlights in the company's performance are:-

- Reduced revenues as a result of a significant reduction in turnover by about 61% as mentioned earlier;
- Reduced revenue from pledges which declined from Kshs. 130.9 million in 2008 to Kshs. 7.8 million in 2009;
- Reduced operating expenses, mainly in the areas of telephone and postage which reduced from Kshs. 64.4 million in 2008 to Kshs. 17.7 million in 2009, and staff costs which reduced by 11.2%.
- Total assets reduced from Kshs. 203.8 million to Kshs. 172.7 million.

Operations

In 2009, CDSC successfully facilitated the listing of the first automated bond in the region, KenGen's Public Infrastructure Bond Offer, which was the first immobilized corporate bond. The KenGen PIBO has traded successfully as an immobilized security at the Nairobi Stock Exchange, with all the deals settling through the CDS system. A programme for the immobilization of the other currently listed corporate bonds will be carried out in 2010.

The total number of CDS accounts opened during the year declined significantly largely due to the absence of any IPOs, which have in the past acted as catalysts for new entrants. Only 16,519 accounts were opened in 2009, compared to 964,941 accounts opened in 2008. The number of certificates deposited for immobilization also decreased from 73,576 certificates in 2008 to 30,269 certificates in 2009, representing a 59% drop.

One custodian bank, Equatorial Bank Ltd, was appointed a Central Depository Agent in 2009, bringing the total number of Agents to 29.

CDSC Registrars Ltd.

In tandem with the above, we are also looking at offering value added services to the market, by offering registrar services. This will include services directly to issuers of securities, as well as services to the existing registrars. To this end we incorporated CDSC Registrars Ltd. which is a fully-owned subsidiary to take up this initiative. Our focus for this company is both local and regional. CDSC Registrars Ltd. has already been retained to carry out registrar services for the first equity IPO in Rwanda, of their brewing company Bralirwa.

CDSC Website (www.cdsckenya.com)

Introduced in July 2009, our website allows the investors to log onto their accounts and view their balances and transaction histories directly, download/print their statements or chat online with our customer care representatives. All the necessary firewalls and safety features have been put in place to ensure the sanctity of investors' information and the immunity of the main CDS data base from unauthorized access. This service is provided free of charge and has been received with great appreciation by our investors.

2010 and beyond

We have now been carrying out immobilization of equities for five years, and we think the time has now come to start moving towards full dematerialization of the equities market. Looking at the immobilization statistics, when we consider the free float available to the market, we find that several counters have achieved 75 to 99% immobilization, while for some, the strategic investors have also immobilized, making their immobilization almost complete. In 2010 therefore, we shall work with NSE, CMA and other market participants to work out a policy and programme for the dematerialization of the equities market. The effect of this will be that an issuer of a dematerialized security will no longer issue any share certificates at all to its shareholders.

Appreciation

I would like to thank the Board of Directors, the management team and staff 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

DIRECTORS' PROFILE

1. 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.

2. 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 a Fellow of the Chartered Institute of Bankers. He began his banking career at Barclays Bank in the United Kingdom and has held senior positions with them in Ghana, Kenya, Zambia and DRC. He has been a member of the Council of the Ghana Stock Exchange.

3. Ashok Shah

Ashok Kumar Mepa Shah is the Chief Executive APA Insurance Company. He is a director on the Capital Market Challenge Fund and Reliance Insurance Company Limited, Tanzania. He holds other various positions of responsibility.

4. Bob Karina

Bob Karina is the Managing Director of Faida Investment Bank Limited. He is also the Chairman of AKS Nominees 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. He is experienced in Pricing and Trading of Fixed Income Securities.

5. 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. He sits on a number of Boards. He is the Vice President of the Institute of Corporate Governance of Uganda and a director of East African Regional Central Depository Board amongst others.

6. 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 has served in various responsibility positions in the banking industry for over 10 years, locally and internationally.

7. Peter Mwangi

Peter Mwangi holds a Bsc in Electrical Engineering from the University of Nairobi. He is a Certified Public Accountant of Kenya CPA (K) and a Certified Pulbic Secretary CPS (K). Peter is a Chartered Financial Analyst CFA (R) Charter Holder. He is the Chief Executive of Nairobi Stock Exchange. Prior to joining the NSE he was the C.E.O of Centum Investment. He is also a member of Institute of Certified Public Accountants of Kenya (ICPAK), Institute of Certified Public Secretaries of Kenya (ICPSK) and also a member of the Institute of Directors (IOD).

8. Pauline Nyamweya

Ms. Nyamweya holds a Bachelor of law degree from the University of Nairobi, and a Master of Law degree from Cambridge University in the United Kingdom. She is a lawyer by profession and is currently a senior lecturer at the School of Law, University of Nairobi. She is also the Secretary to the Capital Markets Tribunal. She chairs the Business Conduct Committee of CDSC and is a member of the Disciplinary Committee of the Nairobi Stock Exchange. Pauline has held various responsibility positions eg. Deputy Secretary Constitution of Kenya Review Commission.

9. Nkoregamba Mwebesa

Nkoregamba holds MBA from the Maastricht School of Management. He is the managing Director of CfC Stanbic Financial Services, a leading securities firm with membership at the Nairobi Stock Exchange. Prior to joining CfC Stanbic Financial Services, he was the C.E.O of the NSE for 4 years. During his tenure, he oversaw the largest expansion in the history of the 55 year old bourse which culminated in a record breaking in 2006. Nkoregamba was responsible for the successful implementation of the Automated Trading System (ATS) of the NSE and also preceded over 11 new listings at the NSE. Nkoregamba has extensive experience in the financial services sector in the East African Region and has held various positions of responsibility in the banking industry. He is widely consulted on issues affecting the Financial Services Sector in the East Africa region by institutions such as the World Bank, International Finance Corporation, UNDP, Central Bank of Kenya, Monetary Policy Advisory Committee, Foreign Country Missions, Regional Securities Exchanges and Development Finance Banks just to mention a few.

10. Job Kihumba

Mr. Kihumba is a Fellow of the ICPSK, a member of various professional organizations and holds a Masters in Business Administration from the UK. He is currently Executive Director at Standard Investment Bank. He has served with the capital markets industry for over twenty (20) years having been the first CEO of the NSE for nine years (1991-1999), where he is now the second Vice Chairman. Mr. Kihumba has served in various professional and business capacities in many organizations e.g. Chairman of ICPSK, Public Procurement Appeals board, Association of Professional Societies in East Africa among others.

11. Samuel Kimani

He holds a Bachelor of Science degree in Civil Engineering and an MBA in Strategic Management both from the University of Nairobi. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is the Deputy CEO, Group Controls of Kenya Commercial Bank and is a member of its Group Board. He has over 20 years experience in Financial Management having previously worked with PriceWaterHouse and the Central Bank of Kenya.

SENIOR MANAGERS

1. Irene Mutiso (Manager, HR & Administration)

Irene Mutiso holds a Bachelor of Commerce in Marketing from University of Nairobi. She is currently pursuing an MBA, a double major in HR and Strategic Management at the University of Nairobi.

Prior to joining CDSC, Irene worked with NSE for seven years and held various positions in Deliveries and Settlement Department. She worked as a secretary to Council and Board of Kenya Association of Stockbrokers & Investment Banks (KASIB) – formerly the Association of Kenya Stockbrokers (AKS) for a period of 5 years (a special assignment from the NSE).

She is a member of Investor Education Working Committee (IEWC) which is a partnership between CMA, NSE & CDSC, established to demystify the capital markets with a view to enrich the quality and quantity of investors within the capital markets. Irene is in charge of Human Capital Development, Administration and Marketing.

2. James Gikonyo (Head of Information & Communication Technology)

James Gikonyo holds a Bachelor of Science degree in Mathematics and Computer Science and a Masters of Science degree in Information Systems from the University of Nairobi specializing in Strategic management of Information and Communication Technology as well as Information Systems Security.

He is a Certified Information Systems Auditor (CISA) and has over 18 years experience in the Information and Communication Technology field with 16 years experience in Banking IT systems having worked with Barclays Bank of Kenya and Transnational Bank Limited.

As the Head of ICT, he participates in policy and decision making at executive management level regarding the future direction and proposed information systems in CDSC.

3. Lilian Marang'a (Manager, Finance)

Lilian Marang'a holds a Bachelor of Commerce (Accounting) Degree from Catholic University of Eastern Africa. She is a CPA (K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Upon her graduation in 1997, she started her career as an auditor with a local audit firm before moving on to work in the health and insurance sector where she served in various capacities.

She joined CDSC in 2005, where she set up the Finance Department of the Company which is primarily charged with the management and control of the Company's financial resources. She is also the Secretary to the CDSC's Finance & Staff Committee and the Audit & Corporate Governance Committee.

4. Rose Mambo (Chief Executive)

Rose Mambo holds a Bachelor of Laws degree from the University of Nairobi and a Master of Laws degree from the American University in Washington DC specializing in international business law.

She is an advocate of the High Court of Kenya and a CPS (K). She is currently pursuing an MBA in Strategic Management at Strathmore University.

Rose has worked as a State Counsel at the Attorney General's Chambers in the Bankruptcy Section. She also served on the Review of Companies Law Task Force, and was the Head of the Copyright Office.

Prior to taking up her current position as Chief Executive of CDSC in September 2007, she worked for seven years at the Nairobi Stock Exchange as the Company Secretary and Head of Legal and Compliance.

5. Florence Kamau (Chief Manager Operations)

Florence Kamau holds a Bachelor of Arts Degree in Economics from Moi University and is currently pursuing an MBA at Strathmore University.

She joined CDSC in 2003 to commence functions of the Operations department. Prior to joining CDSC, Florence worked for Nairobi Stock Exchange Ltd and held various positions at the NSE's Trading, and Delivery & Settlement departments.

Florence is in charge of the management of the daily electronic clearing, delivery and settlement process. She is also the Secretary of CDSC's Business Conduct Committee.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CDSC WEBSITE COCKTAIL AND WEBSITE LAUNCH

1) CDSC Chairman – Mr. Charles Ogalo giving a speech during the Launch.
2) CDSC Chief Executive – Mrs. Rose Mambo giving her speech.
3) Some of the CDSC Board members present during the website launch – Mr. Peter Mwangi (L) and Mr. Bob Karina.
4) Mrs. Rose Mambo and Mr. Charles Ogalo chat during the event.
5) Some of CDSC Senior Managers – Florence Kamau (Chief Manager Operations) and Lilian Maranga (Manager Finance) following the proceedings during the Launch.
6) Members of CDSC staff take a photo.
7) Invited guests and Board Members follow proceedings of the launch
8) Mr. Peter Mwangi (L) and Mr. Jimnah Mbaru discuss during the event.
9) CDSC's Head of ICT Mr. James Gikonyo gives a presentation on the website.
10) The Chairman launches the website.
11) Stakeholders follow the proceedings of the presentations during the Launch.
12) Mrs. Rose Mambo and Mr. Mike Bristow chat after the Launch.

DIRECTORS

Mr Charles Ogalo - Chairman
Mr Ashok Shah*
Mr Michael Bristow*
Ms Pauline Nyamweya
Mr Simon Rutega**
Mr Jonathan Njau***
Mr Peter Mwangi
Mr Bob Karina
Mr Job Kihumba
Mr Nkoregamba Mwebesa
Mr Sam Kimani

* British
** Ugandan
***Tanzanian

CHIEF EXECUTIVE OFFICER

Rose Mambo

SECRETARY

Rose Mambo
P O Box 3464, 00100 GPO
Nairobi

REGISTERED OFFICE

10TH Floor, Nation Centre
P O Box 3464, 00100 GPO
Nairobi

BANKERS

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

CFC Stanbic Bank 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

The directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2009.

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

	2009 Sh
Profit before taxation	13,200,486
Taxation	(5,008,094)
Profit for the year	8,192,392

DIRECTORS

The current directors are shown on page 2.

Mr Jimnah Mbaru and Mr Madabhushi Soundararajan resigned as directors and were replaced by Mr Job Kihumba and Mr Sam Kimani respectively on 9th June 2009.

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

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

2010

Report on the Financial Statements

We have audited the accompanying financial statements of Central Depository and Settlement Corporation Limited and its subsidiary, set out in pages 7 to 27 which comprise the consolidated and the company statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income and consolidated statement of changes in equity and consolidated statement of cash flows 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 control 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; 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 company and its subsidiary as at 31 December 2009 and of the group 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 statement of financial position and statement of comprehensive income are in agreement with the books of account.

Certified Public Accountants (Kenya)

2010 Nairobi

	Note	2009	2008
		Sh	Sh
INCOME	5	125,447,743	304,672,380
OPERATING EXPENSES	6	(119,497,292)	(246,917,681)
OPERATING PROFIT		5,950,451	57,754,699
NET FINANCE INCOME	8	7,250,035	6,425,706
PROFIT BEFORE TAXATION		13,200,486	64,180,405
TAXATION CHARGE	9	(5,008,094)	(18,545,652)
PROFIT FOR THE YEAR		8,192,392	45,634,753
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		8,192,392	45,634,753
		=========	=========

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2009

	Note	2009 Sh	2008 Sh
ASSETS			
Non-current assets			
Equipment	10	11,344,377	7,701,113
Intangible assets	11	21,300,704	24,228,888
		32,645,081	31,930,001
Current assets			
Fixed deposits	13	56,251,151	52,627,559
Receivables and prepayments	14	14,361,182	15,668,116
Call deposits	15	54,816,652	63,275,816
Bank and cash balances		13,649,462	40,376,383
Taxation receivable	9(c)	995,476	-
		140,073,923	171,947,874
Total assets		172,719,004	203,877,875
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	100,000,000	100,000,000
Revenue reserve		50,028,672	41,836,280
Shareholders' equity		150,028,672	141,836,280
Non-Current liabilities			
Deferred tax liability	17	4,391,510	4,962,251
Current liabilities			
Payables	18	18,226,722	41,879,647
Due to related parties	19(b)	72,100	272,650
Taxation payable	9(c)	-	14,927,047
		18,298,822	57,079,344
Total equity and liabilities		172,719,004	203,877,875

The financial statements on pages 7 to 27 were approved by the board of directors on 2010 and were signed on their behalf by:

)
) Directors
)

COMPANY STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2009

	Note	2009 Sh	2008 Sh
ASSETS			
Non-current assets			
Equipment	10	11,344,377	7,701,113
Intangible assets	11	21,300,704	24,228,888
Investment in subsidiary	12	20,000	20,000
		32,665,081	31,950,001
Current assets			
Fixed deposits	13	56,251,151	52,627,559
Receivables	14	14,361,182	15,668,116
Call deposits	15	54,816,652	63,275,816
Bank and cash balances		13,649,462	40,376,383
Taxation receivable	9(c)	995,476	-
		140,073,923	171,947,874
Total assets		172,739,004	203,897,875
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	100,000,000	100,000,000
Revenue reserve		50,028,672	41,836,280
Shareholders' equity		150,028,672	141,836,280
Non-Current liabilities			
Deferred tax liability	17	4,391,510	4,962,251
Current liabilities			
Payables	18	18,226,722	41,879,647
Due to related parties	19(b)	92,100	292,650
Taxation payable	9(c)	-	14,927,047
		18,318,822	57,099,344
Total equity and liabilities		172,739,004	203,897,875

The financial statements on pages 7 to 27 were approved by the board of directors on 2010 and were signed on their behalf by:

)
) Directors
)

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital Sh	Revenue (deficit)/ reserve Sh	Total Sh
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
At 1 January 2009	100,000,000	41,836,280	141,836,280
Profit for the year	-	8,192,392	8,192,392
At 31 December 2009	100,000,000	50,028,672	150,028,672

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 Sh	2008 Sh
OPERATING ACTIVITIES			
Cash generated from operations	20(a)	(6,075,568)	90,669,297
Income tax paid		(21,501,358)	-
Interest received	8	7,250,035	6,425,706
Net cash generated from operating activities		(20,326,891)	97,095,003
INVESTING ACTIVITIES			
Purchase of equipment	10	(7,171,634)	(4,989,008)
Purchase of intangible assets	11	(4,063,968)	(4,155,817)
Net cash used in investing activities		(11,235,602)	(9,144,825)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(31,562,493)	87,950,178
CASH AND CASH EQUIVALENTS:			
AT 1 JANUARY		156,279,758	68,329,580
AT 31 DECEMBER	20(b)	124,717,265	156,279,758

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. For the Kenyan Companies Act reporting purposes, the balance sheet is represented by/ equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(a) Standards, amendments and interpretations effective on or after 1 January 2009

IFRS 7 Improving disclosures about financial instruments

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the company.

IAS 1 Presentation of financial statements

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. The adoption does not have any impact on retained earnings.

The following standards and interpretations became effective in 2009, but are not relevant for the group's operations:

- IFRS 1: First-time adoption of International Financial Reporting Standards
- IFRS 2: Share-based payment – Vesting conditions and cancellations
- IFRS 8: Operating segments
- IAS 23: Borrowing costs
- IAS 27: Consolidated and separate financial statements-Amendments relating to cost of an investment on first time adoption
- IAS 31: Interest in Joint Ventures – Consequential amendments arising from amendments to IFRS 3
- IAS 32: and IAS 1 Puttable financial instruments and obligations arising on liquidation
- IFRIC 13: Customer loyalty programmes
- IFRIC 16: Hedges of a net investment in a foreign operation

Impact of the new and revised standards and interpretations in issue (Continued)

New and revised standards and interpretations in issue not yet effective

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

- IFRS 9, Financial instruments part 1: Classification and measurement (effective for accounting periods beginning 1 January 2013)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments relating treatment of loan prepayment penalties as closely related derivatives (effective for accounting periods beginning on or after 1 January 2010)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009); amendments for embedded derivatives when reclassifying financial instruments (effective for accounting periods ending on or after 30 June 2009)
- IFRS 8, Operating Segments: Amendments on disclosure of information about segment assets (effective for accounting periods beginning on or after 1 January 2010)
- IAS 1, Presentation of Financial Statements: amendment for the classification of convertible instruments (effective for accounting periods beginning on or after 1 January 2010)
- IAS 7, Statement of Cash Flows, Amendment relating to current and non-current classification of convertible instruments (effective for accounting periods beginning on or after 1 January 2010)
- IAS 17, Leases: Amendment for classification of leases of land and buildings (effective for accounting periods beginning on or after 1 January 2010)
- IAS 36: Impairment of Assets: Amendment relating the unit of accounting for goodwill impairment test (effective for accounting periods beginning on or after 1 January 2010)
- IAS 38, intangible Assets: Amendment for measuring the fair value of an intangible asset acquired in a business combination (effective for accounting periods beginning on or after 1 January 2010)

The directors anticipate that the adoption of the above standards and interpretations will have no material impact on the financial statements of the company in the period of initial application.

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.

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.

Recognition and derecognition

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 2009 and 31 December 2008.

(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 2009, an increase/decrease of 5 basis points would have resulted in an increase/decrease in profit before taxation of Sh 419,964 (2008- Sh 321,285).

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 2009	Fully performing Sh	Past due Sh	Impaired Sh	Total (gross) Sh
Central Depository Agents	3,553,972	584,720	-	4,138,692
Issuers	2,128,040	559,605	-	2,687,645
Others	7,413,665	121,180	-	7,534,845
Total	13,095,677	1,265,505	-	14,361,182

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

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 2009	124,717,265	-	-
At 31 December 2008	156,279,758	-	-

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 2009. The reserve overdraft facilities held as at 31 December 2008 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 3 months Sh	Total Sh
At 31 December 2009:				
Trade and other payables	14,339,364	2,612,284	1,347,174	18,298,822
At 31 December 2008:				
Trade and other payables	38,428,478	2,635,616	1,088,203	42,152,297

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 did not have borrowings at year end.

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

	2009 Sh	2008 Sh
Share capital	100,000,000	100,000,000
Revenue reserve	50,028,672	41,836,280
	150,028,672	141,836,280

5 INCOME

	2009 Sh	2008 Sh
Transaction levy	45,797,518	117,451,636
Pledges	7,814,490	130,947,400
Bad debts recovered	47,710,000	-
IPO Postage income	60	28,327,755
Depository levy	17,750,680	24,195,340
Security transfer fees	5,414,250	2,342,600
SMS Solution fees	323,095	500,499
Interim statement fees	419,150	328,550
Appointment fees	75,000	320,000
Miscellaneous	-	137,100
Withdrawal fees	143,500	121,500
	125,447,743	304,672,380

6 OPERATING EXPENSES

	2009 Sh	2008 Sh
Staff costs (Note 7)	55,547,892	61,841,042
Telephone and postage	17,736,081	64,418,084
Provision for doubtful debts	-	49,861,031
Software and equipment maintenance and hire	7,267,891	12,666,229
Office stationery	1,324,215	12,133,837
Rent and related expenses	10,798,690	8,473,860
Advertising & Public Education	714,164	5,418,279
Amortisation	6,992,153	5,315,463
Depreciation	3,528,370	4,059,870
Insurance	4,845,084	3,963,847
Immobilisation costs	1,155,198	3,467,560
Travelling	2,237,159	2,574,750
Professional fees	658,684	2,370,371
Licences & fees	374,713	2,352,702
Bank charges	605,884	2,098,275
Board and committee expenses	800,260	1,290,564
Office expenses	856,044	809,454
Audit fees	754,397	801,552
Publications	462,260	509,820
General expenses	539,712	518,594
Internet services	491,252	505,671
Security charges	505,807	444,378
Subscriptions and periodicals	321,502	397,306
Conference expenses	772,193	363,001
Repairs and renewals	86,654	173,739
Entertainment	121,033	88,402
Motor vehicle expenses	-	-
	119,497,292	246,917,681

7 STAFF COSTS

	2009 Sh	2008 Sh
Salaries and wages	47,977,286	53,706,444
Employer provident fund contributions	3,233,984	3,254,738
Medical costs	2,957,431	2,516,363
Training costs	1,186,778	2,239,953
Staff welfare	367,533	491,142
NSSF employer contribution	95,400	95,000
Staff uniforms	6,730	54,500
Leave pay provision write back	(277,250)	(517,098)
Recruitment costs		-
Gifts		-
	55,547,892	61,841,042

8 NET FINANCE INCOME

	2009 Sh	2008 Sh
Interest income	7,250,035	6,425,706

9 TAXATION

a) Taxation charge

	2009 Sh	2008 Sh
Current taxation based on chargeable Profit for the year at 30%	5,578,835	16,039,112
Prior year current tax overprovision	-	(1,112,065)
Current tax charge	5,578,835	14,927,047
Deferred taxation charge (note 17)	(570,741)	3,599,175
Prior year deferred tax under provision	-	19,430
Deferred tax charge	(570,741)	3,618,605
Taxation expense	5,008,094	18,545,652

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

	2009 Sh	2008 Sh
Accounting profit before taxation	13,200,486	64,180,405

	2009	2008
Tax at the applicable rate of 30%	3,960,146	19,254,122
Tax effect of expenses not deductible for tax	227,796	384,165
Prior year current tax under/(over)provision	820,152	(1,112,065)
Prior year deferred tax under provision	-	19,430
	5,008,094	18,545,652

c) Taxation payable – group and company

At 1 January	14,927,047	-
Charge for the year	5,578,835	16,039,112
Tax paid in the year	(21,501,358)	-
Prior year current tax overprovision	-	(1,112,065)
	(995,476)	14,927,047

10 EQUIPMENT

GROUP AND COMPANY

	Furniture fittings and office equipment Sh	Motor vehicle Sh	Computer equipment Sh	Total Sh
COST				
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
At 1 January 2009	11,300,069	-	26,428,294	37,728,363
Additions	6,879,224		292,410	7,171,634
Disposals	-		(22,443,433)	(22,443,433)
At 31 December 2009	18,179,293	-	4,277,271	22,456,564
DEPRECIATION				
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
At 1 January 2009	6,812,063	-	23,215,187	30,027,250
Charge for the year	2,459,052		1,069,318	3,528,370
Fully depreciated assets	-	(22,443,433)	(22,443,433)	
At 31 December 2009	9,271,115	-	1,841,072	11,112,187
NET BOOK VALUE				
At 31 December 2009	8,908,178	-	2,436,199	11,344,377
At 31 December 2008	4,488,006	-	3,213,107	7,701,113

Included in equipment are assets with a cost of Sh 1,231,233 (2008 – 22,443,433) that are fully depreciated. The normal annual depreciation charge on these assets would have been Sh 180,176 (2008 – 1,254,675).

11 INTANGIBLE ASSETS

GROUP AND COMPANY

	Computer and CDS Software Sh
COST	
At 1 January 2008	40,109,957
Additions	4,155,817
At 31 December 2008	44,265,774
At 1 January 2009	44,265,774
Additions	4,063,968
At 31 December 2009	48,329,742
AMORTISATION	
At 1 January 2008	14,721,423
Charge for the year	5,315,463
At 31 December 2008	20,036,886
At 1 January 2009	20,036,886
Charge for the year	6,992,152
At 31 December 2009	27,029,038

NET BOOK VALUE	
At 31 December 2009	21,300,704
	=========
At 31 December 2008	24,228,888
	=========

12 INVESTMENT IN SUBSIDIARY

COMPANY

CDSC Nominees Limited – at cost20,000	20,000	
	========	========

Company	*Share capital*	*% Holding*	*Country of Incorporation*	*Principal activity*
	Sh			
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 2009 the subsidiary company was dormant.

13 FIXED DEPOSITS

GROUP AND COMPANY

	2009 Sh	2008 Sh
Maturing within 120 days:		
CFC Stanbic Bank Limited – interest rate at 7.75 % (2008 – 7.75%)	34,045,114	31,927,532
Commercial Bank of Africa Limited– interest rate at 9.0 %	22,206,037	20,700,027
	56,251,151	52,627,559
	=========	=========

14 RECEIVABLES

Transaction levy fees receivable	4,138,692	6,531,356
Net Depository levy receivable	2,687,645	3,190,910
Prepayments	6,993,105	1,684,090
Postage income receivable	-	2,880,060
Other receivables	541,740	305,324
Withholding tax	-	1,076,376
	14,361,182	15,668,116
	==========	==========

15 CALL DEPOSITS

Maturing on demand:		
CFC Stanbic Bank Limited – interest rate at 7.1% (2008-6.25%)	32,870,255	31,743,851
Commercial Bank of Africa Limited–interest rate at 7% (2008-6%)	21,946,397	31,531,965
	54,816,652	63,275,816
	===========	=========

16 SHARE CAPITAL

Authorised, issued and fully paid		
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:

	2009 Sh	2008 Sh
Tax losses available for offset against future profits	-	-
Accelerated capital allowance	(4,474,685)	(5,156,015)
Leave pay provision	83,175	193,764
	(4,391,510)	(4,962,251)
	==========	=========

Movement in net deferred tax liability is as follows:

At 1 January	(4,962,251)	(1,343,646)
Deferred tax charge to the income statement (note 9(a))	570,741	(3,599,175)
Prior year deferred tax under provision	-	(19,430)
At 31 December	(4,391,510)	(4,962,251)
	==========	==========

18 PAYABLES

GROUP AND COMPANY

Accrued expenses	14,033,145	31,587,962
Trade and other payables	3,824,947	9,645,806
Leave pay provision	368,630	645,879
	18,226,722	41,879,647
	==========	==========

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:

	GROUP		COMPANY	
	2009 Sh	2008 Sh	2009 Sh	2008 Sh
(a) Due to related parties				
Due to CDSC Nominees Limited	-	-	20,000	20,000
CDSC Guarantee Fund	72,100	272,650	72,100	272,650
	72,100	272,650	92,100	292,650

(b) Compensation of Key Management Personnel

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

GROUP AND COMPANY

	2009 Sh	2008 Sh
Salaries and other benefits	27,481,171	28,890,786
Directors' remuneration		
Fees for services as directors	710,714	661,714

20 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash used in operations		
Profit before taxation	13,200,486	64,180,405
Adjustments:		
Finance costs recognised in profit or loss	-	-
Investment revenue recognised in profit or loss	(7,250,035)	(6,425,706)
Depreciation and amortisation of non-current assets	10,520,522	9,375,333
Gain on disposal of motor vehicle	-	-
Operating cash flows before movements in working capital	16,470,973	67,130,032
Decrease/(increase) in receivables	1,306,934	(1,062,403)
(Decrease)/increase in payables	(23,652,925)	24,682,765
Movement in related party balances	(200,550)	(81,097)
(Decrease) in other liabilities	-	-
Net cash used in generated from operations	(6,075,568)	90,669,297

	2009 Sh	2008 Sh
(b) Analysis of cash and cash equivalents		
Bank and Cash balances	13,649,462	40,376,383
Call deposit	54,816,652	63,275,816
Fixed deposits	56,251,151	52,627,559
	124,717,265	156,279,758

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits maturing within 90 days, held with banks.

21 OPERATING LEASE COMMITMENTS

GROUP AND COMPANY

	2009 Sh	2008 Sh
Amounts payable under operating leases in respect of property rental (group offices)		
Within one year	5,252,445	2,122,110
Between one and two years	5,515,068	-
	10,767,513	2,122,110

22 CONTINGENT LIABILITIES - GROUP AND COMPANY

Reserve overdraft facilities	-	9,500,000

23 CAPITAL COMMITMENTS - GROUP AND COMPANY

Authorised and contracted for	-	2,984,680
Authorised but not contracted for	-	-

24 INCORPORATION

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

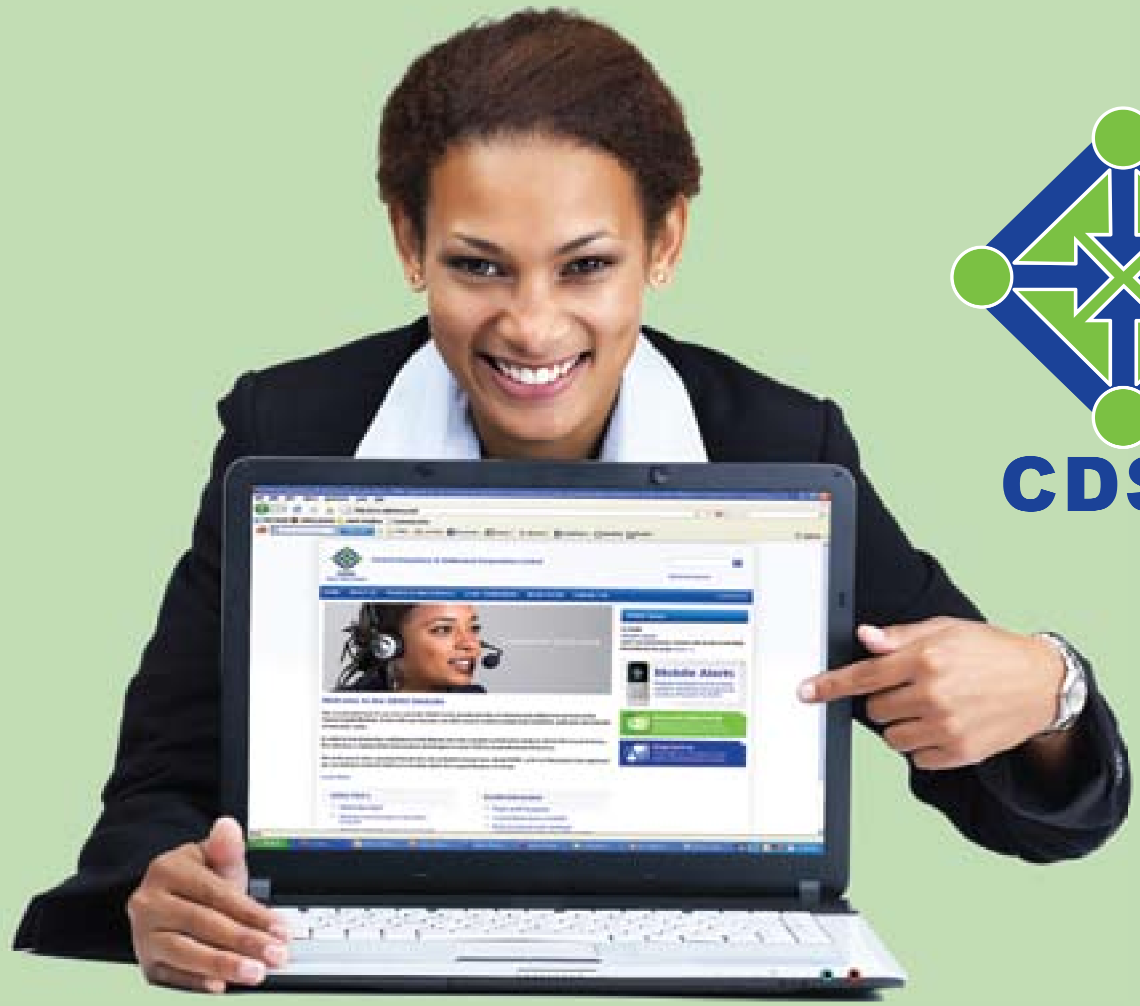
25 CURRENCY

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

CDSC WEBSITE

You can now view your investments at the Nairobi Stock Exchange (NSE) by logging onto

www.cdsckenya.com



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