CDSC

Central Depository and
Settlement Corporation Limited

CDSC 2010

SAFE GUARDING YOUR INVESTMENTS

ANNUAL REPORT & FINANCIAL STATEMENTS

SAFER • FASTER • EASIER

CONTENTS

CDSC

Safer, Faster, Easier ...

Mike Bristow - Chairman

I am pleased to present to you the company's financial statements, for the year ended December 31, 2010 together with the highlights of CDSC's performance in that year.

Operating Environment

Kenya registered a GDP growth of 5.4% in 2010 up from 2.6% in 2009 on the back of recovery in the agricultural and industrial sectors. This upturn was supported by improved weather conditions in 2010 and increased agricultural exports, especially tea which grew by over 50 per cent compared to 2009. The economy further benefited from growth in the dynamic information and communications technology sector bringing with it productivity gains in the banking and trade sectors among others. Of key significance has been the impact of the exponential growth in the mobile money transfer services. In the financial markets, 2010 was characterised by stable and declining interest rates, a reasonably stable Kenyan shilling, and a healthy performance in the stock exchange, with the NSE 20 share index closing the year at 4,432.60 points compared to 3,247.44 points at the end of 2009.

Kenya's operating environment in 2011 is likely to be impacted by the weather, with forecasts for poor rainfall expected to have a negative effect on growth in the agricultural sector. The resulting pressure on food prices will lead to higher inflation rates which shall also be negatively impacted by higher commodity prices, particularly increased oil prices. Political risk is likely to rise in the run up to the 2012 elections. However it is to be hoped that enactment of the new constitution that came into force in 2010 will have a moderating influence. On the upside for the Kenyan economy, the recovering global economy and a weakening shilling is likely to benefit the tourism and export sectors. However, the potential for imported inflation is very real and that could create challenges for financial stability, particularly for the exchange rate and interest rates. Nevertheless, an economic forecast by the World Bank in December 2010 predicted that Kenyans may experience a new wave of robust economic growth driven by several factors including the telecommunications revolution, the new constitution, East African community integration, strong macroeconomic management and investment in public infrastructure. We all hope that Kenya's traditionally good economic management enables it to realize that prediction.

Company Performance

The Company reported Kshs 21.2 million in pre-tax profit for the year, compared to Kshs. 13.1 million in 2009. Total income increased to Kshs. 154,662,808 up from Kshs. 125,447,743 in 2009, mainly driven by a significant improvement in turnover compared to 2009. Turnover in the equities market in 2010 was Kshs. 90 billion compared to Kshs. 38 billion in 2009. The value of bonds traded on the stock exchange increased by 336.66% to Kshs. 483.15 billion in 2010 from Kshs. 110.65 billion in 2009, although CDSC was only able to charge a transaction levy on Bond trading from mid December 2010. Operating expenses increased from Kshs. 119.4 million in 2009 to Kshs. 138.1 million in 2010, resulting from increased staff costs, the commissioning of a comprehensive systems audit and strategic positioning in the region

Future Outlook

CDSC's first five year planning cycle concluded at the end of 2010, and both Management and the Board of Directors have been engaged in putting together a strategic plan for the next five years. CDSC will pursue the following strategic direction:

i. Dematerialization: Moving further towards dematerialization of our market, with a focus on immobilization by strategic shareholders and government.

ii. Regional expansion: Expanding our services within the region and beyond, thereby growing our company both in size and positive impact on the development of our markets, both in Kenya and the wider region. In this regard, CDSC may pursue strategic partnerships and/or consolidation with other organizations as a strategy for growth.

iii. Diversification and strengthening of revenue streams: Reviewing our business strategy to enhance and diversify our revenue streams, while still ensuring that our core business is self sustaining.

iv. Strengthening organizational capacity and improved risk management: Enhancing our clearing and settlement arrangements to ensure that they remain robust and efficient to serve the needs of the market, while addressing areas of risk.

v. Strengthening the CDSC Brand through Customer Relationship Management, ISO certification and compliance with international standards for securities depositories.

Conclusion and Appreciation

I would like to recognize the service and contribution of Mr. Charles Ogalo who served as Chairman from the commencement of CDS operations in 2004 until June 2010 when he retired from the Chair. Charles steered CDSC through the initial difficult years when the company was establishing itself in the market; and his dedicated and focused stewardship was instrumental in the achievements that the company has made to date. We on the Board are all pleased that Charles has agreed to continue as a director of the company.

Also, I would like to state my appreciation of the service and contributions of the entire Board of CDSC. The specific areas of experience and expertise that each brings to the Board ensure that we have an efficient and effective Board, making my job as Chairman much easier.

CDSC remains susceptible to the level of activity in the equities market. However, it continues to grow stronger not only through the good work of the Board but, very significantly, through constructive relationships it continues to nurture with the Capital Markets Authority, the Nairobi Stock Exchange, and Central Depository Agents. Behind all this are the staff of CDSC and I would like to pay particular tribute to their professionalism, diligence, and commitment, which creates the strong foundation on which CDSC is built.

Mike Bristow - Chairman
Central Depository & Settlement Corporation Limited

Rose Mambo - CEO

On behalf of the management and staff of CDSC, I am pleased to comment on financial performance of CDSC for the year ended 31st December 2010 and highlight some of the operational milestones achieved in that year. As noted by the Chairman, the year 2010 saw a rebound in the macroeconomic environment with improved GDP growth, a better performing stock market and growth in the industrial sector while improved weather conditions led to some recovery in the agricultural sector.

Financial Performance

The Company reported Kshs. 21.2 million in pre-tax profit for the year, compared to Kshs. 13.2 million in 2009, mainly driven by increased activity in the market compared to 2009. Operating expenses increased from Kshs. 119.4 million in 2009 to Kshs. 138.1 million in 2010.

The key highlights in the company's performance are:-

- Increased transaction levy income from Kshs. 45.8 million in 2009 to Kshs. 108 million in 2010 as a result of higher market activity;
- Increased IPO income from Kshs. 60,000 in 2009 to Kshs. 6.1 million in 2010 resulting from several corporate actions including share splits, rights and bonus issues;
- Approval of a transaction levy on fixed income securities by the Capital Markets Authority which came into effect in December 2010;
- Increase in operating expenses from Kshs. 119.5 million in 2009 to Kshs. 138.1 million due to expanded activity in the region;

Underpinning the company's financial performance are several important operational milestones achieved in 2010.

Ongoing Immobilization of the Equities Market

Immobilization commenced in 2004, and currently we have 36% of the total market capitalization immobilized in the CDS, representing a value of about Kshs. 436 billion. Most counters have however achieved immobilization of between 60 -99% of their free float. Investors CDS accounts stood at over 1.4 million accounts at the end of 2010.

Immobilization of Corporate Bonds

With effect from April this year 2010, CDSC commenced the immobilization of corporate bonds, and by year end, had achieved the immobilization of about 70% of the market capitalization of corporate bonds. There is expected to be a modest positive impact for CDSC from bond trading in 2011.

Introduction of Settlement Limits

With a view to addressing the risk of settlement failure in the market, CDSC introduced settlement limits in the market in January 2010. The settlement limits are based on the Central Depository Agents (CDA) history of trading volume, backed by collateral in the form of a cash deposit in the Guarantee Fund, and additional collateral where required on the form of additional cash or a letter of credit. This means that a CDA cannot trade beyond the limit allowed unless they increase their collateral. With effect from January 2011, the minimum contribution to the Guarantee Fund per CDA was increased from Kshs. 1.5 million to Kshs. 5 million. This has greatly enhanced the value of the Guarantee Fund and improved the risk rating of the Kenyan capital market.

Establishment of CDSC Registrars Ltd.

CDSC is now 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. These services are being carried out through CDSC's wholly owned subsidiary, CDSC Registrars Ltd. Our focus for this company is both local and regional, and CDSC Registrars Ltd. has already carried out registrar services for Bralirwa S.A. Ltd. in Rwanda, and Deacons Kenya Ltd. in Kenya.

Future Outlook

CDSC's strategic focus for the next five years is captured in our 2011-2015 Strategic Plan. As highlighted by the Chairman, we have identified five key objectives to guide our activities over the period even as we continue to deliver on our core mandate of providing safe and secure custody and efficient transfer of value through the settlement of transactions carried out on the stock exchange.

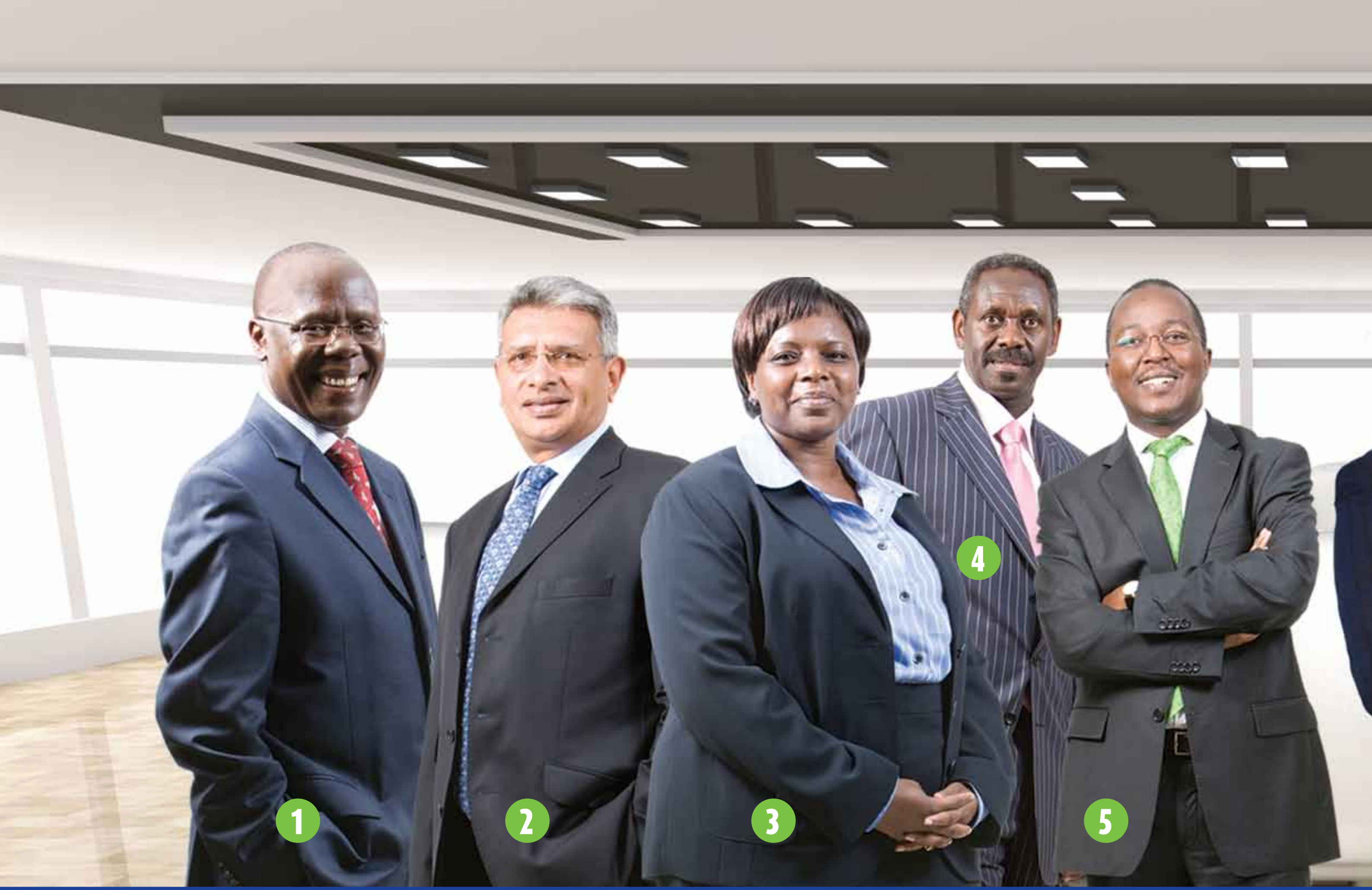
With the large and ever growing data base of investors, CDSC is keen to provide as much information as possible to investors to enable them keep track of their investments and make informed decisions on upcoming investment opportunities on the market. To this end, CDSC has launched three key services: The CDSC website through which investors can log onto their accounts and view their balances and transaction history directly, or chat online to our customer care representatives; our SMS service, through which investors receive an update each time there is a transaction on their account and also receive information on corporate actions for companies in which they hold shares; and our email service, through which we send investors monthly statements following any activity in their accounts.

Appreciation

I wish to take this opportunity to express my sincere gratitude to our Central Depository Agents, customers, shareholders and business partners for their support and the excellent working relationships that we have developed. I would like to thank the Board for their judicious leadership and guidance, and the staff for their dedication and passion which has seen CDSC deliver positive results in 2010.

Rose Mambo - Chief Executive

Central Depository & Settlement Corporation Limited



DIRECTOR'S PROFILES

1. **Mr. Charles 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, both locally and internationally.

2. **Mr. Ashok Kumar Mepa Shah's** education is in Applied Chemistry. Professionally he is a Chartered Insurer with ACII. He is a member of the Chartered Institute of Arbitrators (MCIArb) and an Associate of the Insurance Institute of Kenya (AIIK).

   He is currently the Chief Executive of APA Insurance Limited. He is a Director of CDSC representing the Capital Market Challenge Fund. Other directorships include the CMC Group and Reliance Insurance Company Ltd in Tanzania.

3. **Ms. Pauline Nyamweya** holds a first class Bachelor of Laws degree from the University of Nairobi and a Master of Laws degree from the University of Cambridge in the United Kingdom. She has over twenty years experience in teaching law and legal practice and in participating in legal and constitutional reforms and in governance and human rights advocacy in Kenya. She currently lectures in the School of Law, University of Nairobi and is a member of the Devolved Government Task Force. She has served as Secretary of the Kenya Capital Markets Tribunal, Deputy Secretary of the Constitution of Kenya Review Commission and as Director of Programmes at the Public Law Institute in Kenya. She has in addition undertaken professional consultancy assignments in the areas of governance, gender and human rights for the Kenyan government and various development partners.

4. **Mr. Bob Karina** is the managing director of Faida Investment Bank Limited and Faida Securities Rwanda. He is the Chairman of AKS Nominees Ltd, Governor & Board member – KEPSA (Kenya Private Sector Alliance), Director – RSE (Rwanda Stock Exchange), 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, Founder Member, Institute of Investment Professionals East Africa (IIP-E A) and a director of various companies. He is experienced in Pricing and Trading of Fixed Income Securities.

5. **Mr. Peter Mwangi** is the Chief Executive of the Nairobi Stock Exchange. He is also a Director of the Central Depository and Settlement Corporation in Kenya, a Member of the Executive Committees of the African Securities Exchanges Association (ASEA) and the East African Securities Exchanges Association (EASEA).

   Before joining the Exchange, Peter was the Managing Director of Centum Investment. Centum is the largest publicly quoted investment company in the East African region.

   Peter holds a Bachelor of Science degree in Electrical Engineering from the University of Nairobi. He is a Certified Public Accountant of Kenya and a CFA Charterholder.

6 **Mr. Nkoregamba Mwebesa** holds an 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

DIRECTOR'S PROFILES

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.

7. **Mr. Job 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 a director at Standard Investment Bank, Nairobi Stock Exchange, Centre for Corporate Governance, East Africa School of Management, among others. 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, Development Learning Resources Centre, Africa Capital Markets Forum, International Corporate Governance Forum, among others.

8. **Mr. Gabriel D. Y. Kitua** holds a BCom(Hons) and MBA (Finance) degree from the University of Dar es Salaam. He joined DSE as a CEO on 1st February 2010 from the Capital Markets & Securities Authority (CMSA) where he was Director of Research, policy, planning and Information Technology for the last 7 years. In this role he focused on products development initiatives, strategic planning, ICT development and Capital Market capacity building programmes. He is a member of several high level committees including chairing the Financial Markets team of the Tanzania Government's Second Generation Financial Sector Reform Programmes.

9. **Mr. Sam Kimani** holds a Bachelor of Science degree in Civil Engineering and an MBA in Strategic Management both from the University of Nairobi. He is an alumnus of Harvard Business School Advanced Management Program. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is also the Chairman of CDSC Finance and Staff Committee. 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.

10. **Mr. Joseph S. Kitamirike** holds an MBA in Finance from the University of Connecticut Business School USA, and a Bachelor's Degree in Mechanical Engineering from Makerere University. He also holds international awards in Financial Analysis and Portfolio Management. He joined USE as CEO on 9th of August 2010 after having previously served as the Chief Executive Officer of National Housing and Construction Company Limited from 2005 to 2010. Before this, he held senior positions in the Ministry of Tourism, Trade & Industry, Uganda Investment Authority and Uganda Development Bank. He has experience in equity finance and portfolio management in addition to his extensive consulting, business and engineering background. He has served on the boards of several public and private companies like Uganda Revenue Authority, Housing Finance Bank, Uganda Clays Limited, Nile Bank and Kinyara Sugar Works some of which have recently undergone corporate actions that have materially affected their debt and equity composition.

11. **Mr. Mike Bristow** holds a Masters degree from London University and is a Fellow of the Chartered Institute of Bankers. He is the Executive Director of Commercial Bank of Africa Limited, a seasoned banker with considerable experience in retail and corporate banking. Prior to joining CBA, he served in various senior executive positions for Barclays Bank in the UK and a number of countries in Africa. He has also served in the Council of the Ghana Stock Exchange.

SENIOR MANAGEMENT PROFILES

1. Rose Mambo (Chief Executive)

Rose Mambo holds a Master of Laws degree from the American University in Washington DC specializing in international business law and a Bachelor of Laws degree from the University of Nairobi and is currently pursuing an MBA from Strathmore University. She is an advocate of the High Court of Kenya and a FCPS (K). 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 at the Nairobi Stock Exchange as the Company Secretary and Head of Legal and Compliance.

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. Irene Mutiso (Manager, HR & Administration)

Irene Mutiso holds a Masters of Business Administration Degree specializing in Human Resources and a Bachelors Degree in Commerce (Marketing option) both from the University of Nairobi. Prior to joining CDSC, Irene worked with NSE for seven years and held various positions in NSE's Information Centre and Deliveries & Settlement Department. She worked as a secretary to Council and Board of Kenya Association of Stockbrokers & Investment Banks (KASIB) for a period of 5 years (a special assignment from NSE). She is a member of Investor Education Working Committee (IEWC) a partnership between CMA, NSE & CDSC, established to demystify the capital markets with a view to educate the investing public. Irene is part of the Task Force of the ICPSK Champions of Corporate Governance Award (COG Award). She is a country manager for Securities Industry Training Institute East Africa (SITI), representing CDSC. Irene is a Full Member of Kenya Institute of Management (KIM).

4. 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.

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.

PICTORIAL

1. Board members and staff do a “jig” during end of year staff party
2. The Chairman, a board member and the C.E.O cut end year Christmas cake.
3. Staff enjoy delicacies at a Nairobi hotel during end year staff party
4. Staff, Chairman, and a board of director dance to a “Mugithi Wa CDSC tune”
5. C.E.O shares a cake with staff at the end year party

CDSC WEBSITE

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

www.cdsckenya.com

CDSC

- View/print/download your cds statement
- Change/amend your cds account details
- Chat online with our customer care representatives

CENTRAL DEPOSITORY & SETTLEMENT CORPORATION LTD

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CORPORATE INFORMATION

DIRECTORS

Mr. Michael Bristow* - Chairman
Mr. Ashok Shah*
Mr. Charles Ogalo
Ms. Pauline Nyamweya
Mr. Joseph Kitamirike**
Mr. Gabriel Kitua***
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
Deloitte Place
Waiyaki Way, Muthangari
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 the pleasure of presenting their report and audited financial statements for the year ended 31 December 2010.

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

	2010 Sh
Profit before taxation	21,198,738
Taxation	(6,101,079)
Profit for the year	15,097,659

DIRECTORS

The current directors are shown on page 6-7.

Simon Rutega was replaced by Joseph Kitamirike on 9th August 2010.

Jonathan Njau was replaced by Gabriel Kitua on 27th February 2010.

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

29th March 2011

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 in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

29th March 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION LIMITED

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 7 to 27 which comprise the consolidated and the company statement of financial position as at 31 December 2010, 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 information.

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 in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2010 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 statement of financial position and statement of comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
INCOME	5	154,662,808	125,447,743
OPERATING EXPENSES	6	(138,128,487)	(119,497,292)
OPERATING PROFIT		16,534,321	5,950,451
NET FINANCE INCOME	8	4,664,417	7,250,035
PROFIT BEFORE TAXATION		21,198,738	13,200,486
TAXATION CHARGE	9	(6,101,079)	(5,008,094)
PROFIT FOR THE YEAR		15,097,659	8,192,392
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		15,097,659 =========	8,192,392 =========

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
ASSETS			
Non-current assets			
Equipment	10	10,873,896	11,344,377
Intangible assets	11	15,105,876	21,300,704
		25,979,772	32,645,081
Current assets			
Receivables and prepayments	14	24,133,694	14,361,182
Due from related parties	19(b)	2,130,107	-
Taxation receivable	9(c)	-	995,476
Fixed deposits	13	78,588,679	56,251,151
Call deposits	15	22,573,105	54,816,652
Bank and cash balances		37,813,963	13,649,462
		165,239,548	140,073,923
Total assets		191,219,320	172,719,004
		=========	==========
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	100,000,000	100,000,000
Revenue reserve		65,126,331	50,028,672
Shareholders' equity		165,126,331	150,028,672
Non-Current liabilities			
Deferred tax liability	17	2,419,972	4,391,510
Current liabilities			
Payables	18	23,091,196	18,226,722
Due to related parties	19(a)	181,373	72,100
Taxation payable	9(c)	400,448	-
		23,673,017	18,298,822
Total equity and liabilities		191,219,320	172,719,004
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The financial statements on pages 15 to 34 were approved by the board of directors on 29th March 2011 and were signed on their behalf by:

)
) Directors
)

COMPANY STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
ASSETS			
Non-current assets			
Equipment	10	10,873,896	11,344,377
Intangible assets	11	15,105,876	21,300,704
Investment in subsidiary	12	20,000	20,000
		25,999,772	32,665,081
Current assets			
Receivables	14	24,133,694	14,361,182
Due from related parties	19(b)	2,130,107	-
Taxation receivable	9(c)	-	995,476
Fixed deposits	13	78,588,679	56,251,151
Call deposits	15	22,573,105	54,816,652
Bank and cash balances		37,813,963	13,649,462
		165,239,548	140,073,923
Total assets		191,239,320	172,739,004
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	100,000,000	100,000,000
Revenue reserve		65,126,331	50,028,672
Shareholders' equity		165,126,331	150,028,672
Non-Current liabilities			
Deferred tax liability	17	2,419,972	4,391,510
Current liabilities			
Payables	18	23,091,196	18,226,722
Due to related parties	19(b)	201,373	92,100
Taxation payable	9(c)	400,448	-
		23,693,017	18,318,822
Total equity and liabilities		191,239,320	172,739,004

The financial statements on pages 15 to 34 were approved by the board of directors on 29th March 2011 and were signed on their behalf by:

)
) Directors

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Revenue (deficit)/ reserve	Total
	Sh	Sh	Sh
At 1 January 2009	100,000,000	41,836,280	141,836,280
Profit for the year	-	8,192,392	8,192,392
Total comprehensive income for the year	-	8,192,392	8,192,392
At 31 December 2009	100,000,000	50,028,672	150,028,672
At 1 January 2010	100,000,000	50,028,672	150,028,672
Profit for the year	-	15,097,659	15,097,659
Total comprehensive income for the year	-	15,097,659	15,097,659
At 31 December 2010	100,000,000	65,126,331	165,126,331

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Sh	2009 Sh
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	20(a)	20,746,893	(6,075,568)
Income tax paid		(6,676,693)	(21,501,358)
Interest received	8	4,664,417	7,250,035
Net cash generated from/(used in) operating activities		18,734,617	(20,326,891)
INVESTING ACTIVITIES			
Purchase of equipment	10	(3,442,981)	(7,171,634)
Purchase of intangible assets	11	(1,033,154)	(4,063,968)
Net cash used in investing activities		(4,476,135)	(11,235,602)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14,258,482	(31,562,493)
CASH AND CASH EQUIVALENTS:			
AT 1 JANUARY		124,717,265	156,279,758
AT 31 DECEMBER	20(b)	138,975,747	124,717,265

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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) Relevant new and revised IFRS affecting amounts reported in the current year (and /or prior years)

The following new and revised IFRSs have been applied in the current period and have affected the amounts reported in these financial statements.

- Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)
- Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)

Impact of the relevant new and revised standards and interpretations in issue

Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The company will apply this amendment prospectively. The directors, however, anticipate no material impact to the group's financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

This amendment has had no effect on the amounts reported because the group has not previously issued instruments of this nature.

(b) Relevant new and revised IFRSs and interpretations in issue but not yet effective

IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets
Effective for annual periods beginning on or after 1 January 2011

IFRS 9, Financial Instruments – Classification and Measurement
Effective for annual periods beginning on or after 1 January 2013

IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)
Effective for annual periods beginning on or after 1 January 2012

IAS 24, Related Party Disclosures – revised definition of related parties
Effective for annual periods beginning on or after 1 January 2011

New and Amendments to standards
Various improvements resulting from May 2010 Annual Improvements to IFRSs
Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011

IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues
Effective for annual periods beginning on or after 1 February 2010

New interpretation
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
Effective for annual periods beginning on or after 1 JULY 2010

Impact of the relevant new and revised IFRSs in issue but not yet effective

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The group will apply this amendment prospectively. The directors, however, anticipate no material impact to the group's financial statements.

IFRS 9, Financial Instruments

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the group's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities.

1 ACCOUNTING POLICIES

Early adoption of standards

The group did not early-adopt any new or amended standards in 2010.

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) Price risk

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

(ii) 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 2010, an increase/decrease of 5 basis points would have resulted in an increase/decrease in profit before taxation of Sh 419,964 (2009- 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 company's maximum exposure to credit risk at 31 December is as follows:

	2010 Kshs	2009 Kshs
Fixed deposits	78,588,679	56,251,151
Receivables	24,133,694	14,361,182
Call deposits	22,573,105	54,816,652
Bank and cash balances	37,813,963	13,649,462
Due from related companies	2,130,107	-
	165,239,548	139,078,447

Classification of trade receivables

The group classifies the credit quality of its trade receivables into three categories; performing, past due and impaired. The performing debts are those which are within the set credit period of 30 days, 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 analysis of trade receivables is as detailed below:

Receivables At 31 December 2010	Fully performing Sh	Past due Sh	Impaired Sh	Total (gross) Sh
Central Depository Agents	6,362,433	569,293	-	6,931,726
Issuers	3,735,791	3,307,670	-	7,043,461
Others	8,711,359	1,447,148	-	10,158,507
Total	18,809,583	5,324,111	-	24,133,694

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

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 2010. The reserve overdraft facilities held as at 31 December 2009 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 2010:				
Trade and other payables	17,329,150	2,152,661	3,609,385	23,091,196
Due to related parties	-	-	181,373	181,373
	=========	=========	========	=========
At 31 December 2009:				
Trade and other payables	14,339,364	2,612,284	1,275,074	18,226,722
Due to related parties	-	-	72,100	72,100
	========	=========	========	=========

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:

	2010 Sh	**2009 Sh**
Share capital	100,000,000	100,000,000
Revenue reserve	65,126,331	50,028,672
	165,126,331	150,028,672
	=============	=============

5 INCOME

	2010 Sh	2009 Sh
Transaction levy	107,979,514	45,797,518
Pledges	8,687,000	7,814,490
Bad debts recovered	987,998	47,710,000
IPO Postage income	6,130,650	60
Depository levy	23,747,890	17,750,680
Security transfer fees	5,052,550	5,414,250
Bond levy Income	771,286	
SMS Solution fees	460,220	323,095
Interim statement fees	528,200	419,150
Appointment fees	227,500	75,000
Miscellaneous	28,000	-
Withdrawal fees	62,000	143,500
	154,662,808	125,447,743

6 OPERATING EXPENSES

	2010 Sh	2009 Sh
Staff costs (Note 7)	61,944,205	55,547,892
Telephone and postage	18,519,841	17,736,081
Software and equipment maintenance and hire	9,081,378	7,267,892
Office stationery	2,373,139	1,324,215
Rent and related expenses	13,749,923	10,798,690
Advertising & Public Education	1,490,478	714,164
Amortisation	7,227,982	6,992,152
Depreciation	3,913,462	3,528,370
Insurance	4,604,325	4,845,084
Immobilisation costs	655,516	1,155,198
Travelling	2,051,382	2,237,159
Professional fees	621,033	658,684
Licences & fees	610,216	374,713
Bank charges	780,165	605,884
Board and committee expenses	1,519,097	800,260
Office expenses	849,264	856,044
Audit fees	4,030,268	754,397
Publications	602,620	462,260
General expenses	579,938	539,712
Internet services	487,200	491,252
Security charges	515,976	505,807
Subscriptions and periodicals	384,105	321,502
Conference expenses	108,655	772,193
Repairs and renewals	260,224	86,654
Entertainment	16,845	121,033
Donations	1,151,250	-
	138,128,487	119,497,292

7 STAFF COSTS

Salaries and wages	52,913,708	47,977,286
Employer provident fund contributions	3,210,838	3,233,984
Medical costs	3,427,305	2,957,431
Training costs	1,291,628	1,186,778
Staff welfare	593,016	367,533
NSSF employer contribution	93,000	95,400
Staff uniforms		6,730
Leave pay provision write back	414,710	(277,250)
	61,944,205	55,547,892

	2010 Sh	2009 Sh

8 NET FINANCE INCOME

Interest income	4,664,417	7,250,035

9 TAXATION

a) Taxation charge

Current taxation based on chargeable Profit for the year at 30%	8,072,617	5,578,835
Current tax charge	8,072,617	5,578,835
Deferred taxation charge (note 17)	(1,286,872)	(570,741)
Prior year deferred tax over provision	(684,666)	-
Deferred tax charge	(1,971,538)	(570,741)
Taxation expense	6,101,079	5,008,094

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

Accounting profit before taxation	21,198,738	13,200,486
Tax at the applicable rate of 30%	6,359,622	3,960,146
Tax effect of expenses not deductible for tax	426,123	227,796
Prior year current tax under/(over)provision	-	820,152
Prior year deferred tax under provision	(684,666)	-
	6,101,079	5,008,094

c) Taxation payable – group and company

At 1 January	(995,476)	14,927,047
Charge for the year	8,072,617	5,578,835
Tax paid in the year	(6,676,693)	(21,501,358)
Prior year current tax overprovision	-	
	400,448	(995,476)

10 EQUIPMENT

GROUP AND COMPANY

	Furniture fittings and office equipment Sh	Computer equipment Sh	Total Sh
COST			
At 1 January 2009	11,300,069	26,428,294	37,728,363
Additions	6,879,224	292,410	7,171,634
At 31 December 2009	18,179,293	26,720,704	44,899,997
At 1 January 2010	18,179,293	26,720,704	44,899,997
Additions	1,378,741	2,064,240	3,442,981
At 31 December 2010	19,558,034	28,784,944	48,342,978
DEPRECIATION			
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
At 31 December 2009	9,271,115	24,284,505	33,555,620
At 1 January 2010	9,271,115	24,284,505	33,555,620
Charge for the year	2,606,630	1,306,832	3,913,462
At 31 December 2010	11,877,745	25,591,337	37,469,082
NET BOOK VALUE			
At 31 December 2010	7,680,289	3,193,607	10,873,896
At 31 December 2009	8,908,178	2,436,199	11,344,377

Included in equipment are assets with a cost of Sh 23,674,666 (2009 – 22,443,433) that are fully depreciated. The normal annual depreciation charge on these assets would have been Sh 1,434,851(2009 – 1,254,675).

11 INTANGIBLE ASSETS

GROUP AND COMPANY

	Computer and CDS Software Sh
COST	
At 1 January 2009	44,265,774
Additions	4,063,968
At 31 December 2009	48,329,742
At 1 January 2010	48,329,742
Additions	1,033,154
At 31 December 2010	49,362,896
AMORTISATION	
At 1 January 2009	20,036,886
Charge for the year	6,992,152
At 31 December 2009	27,029,038
At 1 January 2010	27,029,038
Charge for the year	7,227,982
At 31 December 2010	34,257,020
NET BOOK VALUE	
At 31 December 2010	15,105,876
At 31 December 2009	21,300,704

12 INVESTMENT IN SUBSIDIARY

	2010 Sh	2009 Sh
COMPANY		
CDSC Nominees Limited – at cost	20,000	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 2010 the subsidiary company was dormant.

13 FIXED DEPOSITS

GROUP AND COMPANY

	2010 Sh	2009 Sh
Maturing within 120 days:		
CFC Stanbic Bank Limited – interest rate at 4.6 % (2009 – 7.75%)	35,308,042	34,045,114
CBA Limited– interest rate at 4.8%(2009 - 9.0 %)	23,170,021	22,206,037
Chase Bank-Interest rate at 6.25%	20,110,616	-
	78,588,679	56,251,151
	=========	=========

14 RECEIVABLES

	2010 Sh	2009 Sh
Transaction levy fees receivable	6,931,726	4,138,692
Net Depository levy receivable	7,043,461	2,687,645
Bond Levy Debtors	771,286	-
Prepayments	7,920,925	6,993,105
Other receivables	1,466,296	541,740
	24,133,694	14,361,182
	=========	=========

15 CALL DEPOSITS

Maturing on demand:

	2010 Sh	2009 Sh
CFC Stanbic Bank Limited – interest rate at 3% (2009-7.1%)	-	32,870,255
Commercial Bank of Africa Limited–interest rate at 3.25% (2009-7%)	22,573,105	21,946,397
	22,573,105	54,816,652
	=========	===========

16 SHARE CAPITAL

	2010 Sh	2009 Sh
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:

	2010 Sh	2009 Sh
Tax losses available for offset against future profits		-
Accelerated capital allowance	(2,654,974)	(4,474,685)
Leave pay provision	235,002	83,175
	(2,419,972)	(4,391,510)

Movement in net deferred tax liability is as follows:

	2010 Sh	2009 Sh
At 1 January	(4,391,510)	(4,962,251)
Deferred tax charge to the income statement (note 9(a))	1,286,872	570,741
Prior year deferred tax over provision	684,666	-
At 31 December	(2,419,972)	(4,391,510)

18 PAYABLES

GROUP AND COMPANY

	2010 Sh	2009 Sh
Accrued expenses	15,663,458	14,033,145
Trade and other payables	6,644,399	3,824,947
Leave pay provision	783,339	368,630
	23,091,196	18,226,722

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	
	2010 Sh	2009 Sh	2010 Sh	2009 Sh
(a) Due to related parties				
Due to CDSC Nominees Limited	-	-	20,000	20,000
CDSC Guarantee Fund	181,373	72,100	181,373	72,100
	181,373	72,100	201,373	92,100

	GROUP		COMPANY	
	2010	2009	2010	2009
	Sh	Sh	Sh	Sh
(b) Due from related parties				
CDSC Registrars	2,130,106	-	2,130,106	0
	2,130,106	0	2,130,106	0

(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

	2010 Sh	2009 Sh
Salaries and other benefits	32,135,451	27,481,171
Directors' remuneration		
Fees for services as directors	657,142	710,714

20 NOTES TO THE STATEMENT OF CASH FLOWS

	2010 Sh	2009 Sh
(a) Reconciliation of operating profit to cash used in operations		
Profit before taxation	21,198,738	13,200,486
Adjustments:		
Investment revenue recognised in profit or loss	(4,664,417)	(7,250,035)
Depreciation and amortisation of non-current assets	11,141,444	10,520,522
Operating cash flows before movements in working capital	27,675,765	16,470,973
Decrease/(increase) in receivables	(9,772,512)	1,306,934
(Decrease)/increase in payables	4,864,474	(23,652,925)
Increase/(Decrease) in due to related party balances	109,273	(200,550)
(Increase)/Decrease in amounts due from related parties	(2,130,107)	-
Net cash generated from/(used in) operations	20,746,893	(6,075,568)

		2010 Sh	2009 Sh
(b)	Analysis of cash and cash equivalents		
	Bank and Cash balances	37,813,963	13,649,462
	Call deposit	22,573,105	54,816,652
	Fixed deposits	78,588,679	56,251,151
		138,975,747	124,717,265

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

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

	2010 Sh	2009 Sh
Within one year	5,515,068	5,252,445
Between one and two years	5,790,817	5,515,068
	11,305,885	10,767,513

22 CONTINGENT LIABILITIES - GROUP AND COMPANY

	2010 Sh	2009 Sh
Reserve overdraft facilities	-	-

23 CAPITAL COMMITMENTS - GROUP AND COMPANY

	2010 Sh	2009 Sh
Authorised and contracted for	4,543,080	-
Authorised but not contracted for	-	-

24 INCORPORATION

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

25 CURRENCY

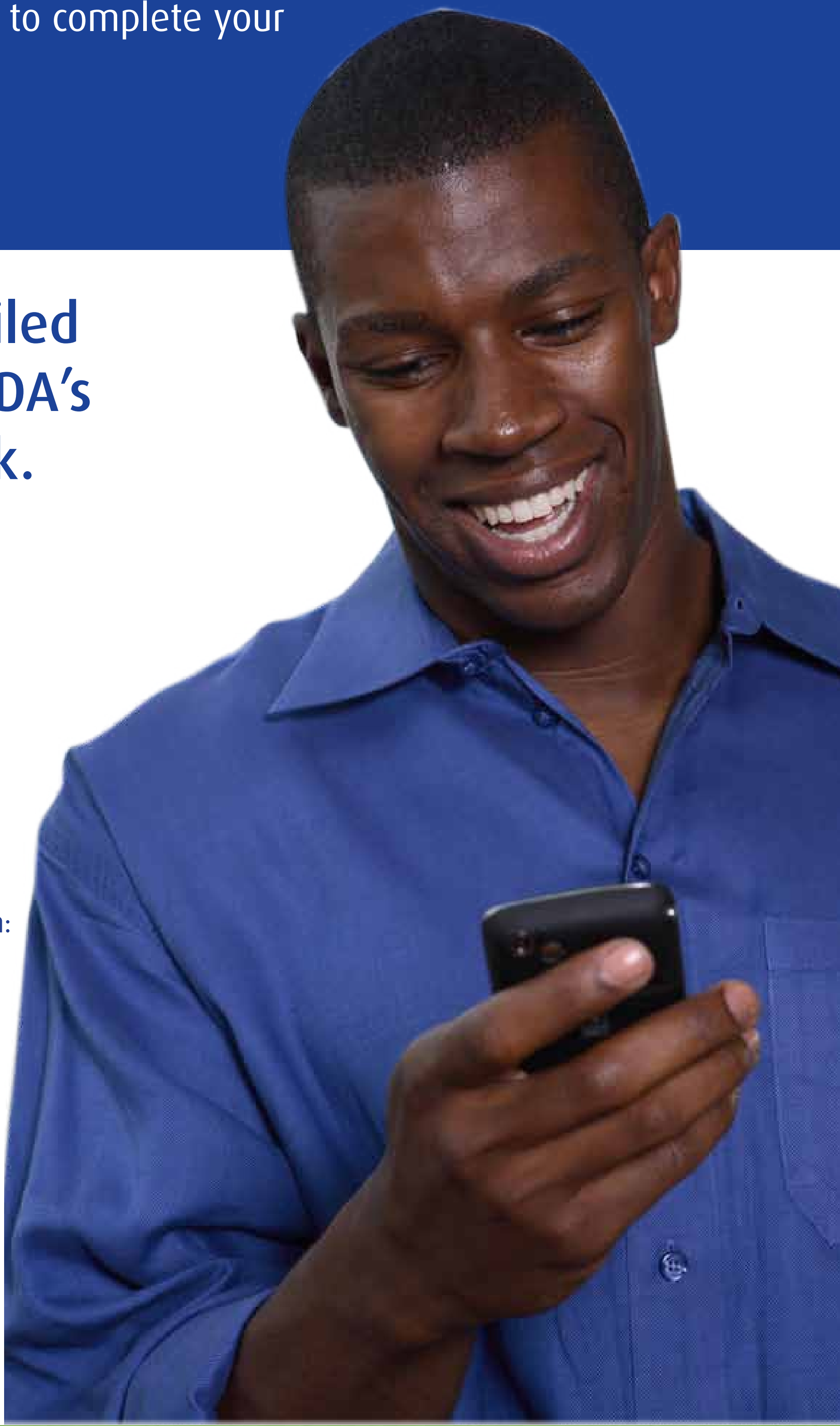
The financial statements are presented in Kenya Shillings (Sh).

2372

Access your CDS account through your mobile phone.

Send a message with the word "register" to **2372** and follow the instructions to complete your registration.

Each SMS costs 10/=.



Please pick a detailed brochure at your CDA's customer care desk.

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For more information, please contact us on:
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P.O Box 3464 GPO 00100, Nairobi, Kenya
Tel: 2229407 • Fax: 2229405
Mobile: 0724-256130, 0733-222033

AUTHORISED DEPOSITORIES AGENTS.(CDA'S)

1. DRUMMOND INVESTMENT BANK LTD (B01)
Hughes Building, 2nd Floor
P.O. Box 45465-00100 Nairobi
Tel: 318686/318689/90
Fax: 2223061
Email: info@francisdrummond.com
Website: www. francisdrummond.com

2. DYER & BLAIR INVESTMENT BANK (B02)
Loita House, 10th Floor
P.O. Box 45396-00100 Nairobi
Tel: 3240000/227803/4/5
Fax: 3240114
Email: shares@dyerandblair.com
Website: www.dyerandblair.com

3. SUNTRA INVESTMENT BANK LTD(B07)
Nation Centre, 7th Floor
P.O. Box 74016-00200 Nairobi
Tel: 2870000/2223329/247530/2223330
Mobile: 0724-257024, 0733222216
Fax: 2224327
Email: info@suntrastocks.co.ke
Website: www.suntrastocks.com

4. RELIABLE SECURITIES LTD(B08)
IPS building, 6th Floor
P.O. Box 50338 – 00200 Nairobi
Tel: 2241350/4/79
Fax: 2241392
Email: info@reliablesecurities.co.ke

5. CFC STANBIC FINANCIAL SERVICES LTD(B09)
CFC Stanbic Building, 1st Floor
Kenyatta Avenue
P.O. Box 47198-00100 Nairobi
Tel: 3638900/3638080
Fax: 2218813 /3752950
Email: cfcfs@cfcgroup.co.ke
Website: www.cfcfs.co.ke

6. KINGDOM SECURITIES (B11)
Co-operative Bank House, 5th Floor
P.O. Box 48231-00100 Nairobi
Tel: 3276000
Fax: 3276156
Email: info@kingdomsecurities.co.ke

7. AFRIKA INVESTMENT BANK LTD(B12)
Finance House 9th Floor
P.O. Box 11019-00100 Nairobi
Tel: 2210178/212989
Fax: 2210500
Email: info@afrikainvestimentbank.com
Website: www.afrikainvestmentbank.com

8. ABC CAPITAL LTD(B14)
IPS Building, 5th Floor
P.O Box 34137 -00100 Nairobi
Tel: 2246036/2245971
Email: headoffice@abccapital.co.ke

AUTHORISED DEPOSITORIES AGENTS.(CDA'S)

9. STERLING INVESTMENT BANK(B15)
Finance House, 11th Floor
P.O. Box 45080-00100 Nairobi
Tel: 2213914/2244077
Fax: 2218261
Email: info@sterlingstocks.com
Website: www.sterlingstocks.com

10. APEXAFRICA INVESTMENT BANK LTD(B16)
Rehani House, 4th Floor
P.O. Box 43676-00100 Nairobi
Tel: 2242170//2220517
Fax: 2215554
Email: invest@apexafrica.com
Website: www.apexafrica.com

11. FAIDA INVESTMENT BANK LTD(B17)
Windsor House, 1st Floor
P.O. Box 45236-00100 Nairobi
Tel: 243811/2/3
Fax: 243814
Email: faidastocks@wananchi.com
Website: www.faidastocks.com

12. NIC CAPITAL SECURITIES LTD(B18)
NIC House, Masaba Road
P.O. Box 63046-00200 Nairobi
Tel: 2888000/ 2718200/ 4948000
Fax: 2888505/ 2888512
Email: invest@nic-capital.com
Web: www.nic-bank.com

13. GENGHIS CAPITAL LTD(B19)
Prudential Assurance Building, 5th Floor
Wabera Street
P.O Box 9959-00100 Nairobi
Tel: -2337535/36/2373984/968/969
Fax: 246334
Email: info@genghiscapital.co.ke

14.STANDARD INVESTMENT BANK LTD(B20)
ICEA Building, 16th Floor
P.O. Box13714-00800 Nairobi
Tel: 2220225/240296/227004
Fax: 240297
Email: info@standardstocks.com
Website: www.standardstocks.com

15.AFRICAN ALLIANCE KENYA SECURITIES LTD(B23)
Trans National plaza. 1st Floor
Mama Ngina Street
P.O. Box 27639-00506 Nairobi
Tel: 2735013/2735154, 2762000
Fax: 2731162/2216071
Email: securitiesl@africanalliance.co.ke
Website: www.africanalliance.com

16 .KESTREL CAPITAL (EAST AFRICA) LTD(B21)
ICEA Building, 5th Floor
Kenyatta Avenue
P.O. Box 40005-00100 Nairobi
Tel: 251758
Fax: 243264
Email: info@kestrelcapital.com
Website: www.kestrelcapital.com

AUTHORISED DEPOSITORIES AGENTS.(CDA'S)

Renaissance Capital

17.RENAISSANCE CAPITAL (KENYA) LTD(B24)
6th Floor, Purshottam Place
Westlands Road, Chiromo
P.O. Box 40560-00100 Nairobi
Tel: 3682000/368100
Fax: 3682339/3681100
Website:www.reinaissancegroup.com

AFRICAN BANKING CORPORATION

18.ABCC- AFRICAN BANKING CORPORATION LTD
ABC Bank, Koinange Street
P.O Box46452-00100 Nairobi
Tel: 2226712/2217856/7/8
Fax: 2222437
Email: westlands@abcthebank.com
Website: www.abcthebank.com

Standard Chartered

19.SCBC- Standard Chartered Securities Services Kenya
Standard Chartered Bank
Phone: +254 20 2281536
Mobile: +254 723124153
Fax: +254 20 374802
Website: www.standardchartered.com

CO OP BANK

20. COBC- CO-OPERATIVE BANK OF KENYA
Co-op Bank House
Haile Selassie Avenue
P.O. Box48231-00100 Nairobi
Tel: 020- 32076100
Fax: 020-227747/219831
Website: www.co-opbank.co.ke

EQUATORIAL COMMERCIAL BANK LIMITED

21. ECBC- EQUATORIAL COMMERCIAL BANK
Equatorial Commercial Bank Centre
Nyerere Road
P.O. Box 52467- 00200 Nairobi
Tel: 2710455
Fax: 2710366
Email: customerservice@ecb.co.ke
Website: equatorialbank.co.ke

EQUITY Bank The Listening, Caring Financial Partner

22. EQBC-EQUITY BANK
Equity Centre
Upper Hill
P.O. Box 75104-00200 Nairobi
Tel: 2736620/17/24
Mobile: 0722209591 / 0733602500
Fax: 2737276
Email: info@equitybank.co.ke
Website: www.equitybank.co.ke

I&M Bank LIMITED

23. IMBC- I&M BANK
I & M Tower, 1st Floor
Kenyatta Avenue
P.O. Box 30238-00100 Nairobi
Tel: 3221200/ 3221217
Fax: 2212947 /2216732
Email: invest@imbank.co.ke
Website: www.imbank.com

AUTHORISED DEPOSITORIES AGENTS.(CDA'S)

24. KCBC- KENYA COMMERCIAL BANK LTD
P.O Box 30664 -00100Nairobi
Piedmont Plaza, Ngong Road, Opposite Kenya Science
Tel: 020 8084388 / 89
Fax: 020 807666
Email: custody@kcb.co.ke
Website: www.kcb.co.ke

25. NBKC-NATIONAL BANK OF KENYA. LTD
National Bank Building
Harambee Avenue
P.O. Box 72866-00200
Tel: 226471/253275/343465
Fax: 311444
Email: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

26. NIBC- NIC BANK LIMITED
NIC House, Masaba Road
P.O.Box 44559-00100 Nairobi
Tel: 2888000
Fax: 2888505/513
Email: info@nic-bank.com
Website: www.nic-bank.com

27. PRBC- PRIME BANK LIMITED
Prime Bank Office
Riverside Drive
P.O. Box 43825-00100 Nairobi
Tel: 4203000/4203116/4203148
Fax: 4451247/4203204
Email: custodial@primebank.co.ke
Website: www.primebank-kenya.com

28. STBC- CFC STANBIC
Stanbic Bank Building
Kimathi Street
P.O. Box 30550-00100 Nairobi
Tel: 3268000 /311997
Fax: 3752906 /310601
Email: customercare@stanbic.com
Website: www.cfcstanbic.co.ke

29. CHBCU-CHASE BANK (KENYA)LTD
Riverside Mews, Central Office
Riverside Drive
P.O. Box 66049-00800
Tel: 020 2774000
Fax: 4454816
Email: info@chasebank.co.ke
Website: www.chasebankkenya.co.ke

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