

SMALL AND MICRO ENTERPRISE
PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

FINANCIAL STATEMENTS

31 DECEMBER 2002

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

CONTENTS	PAGES
Corporate information	2
Report of the directors	3
Statement of directors' responsibilities	4
Report of the auditors	5
Income statement	6
Balance sheet	7
Cash flow statement	8
Notes to the financial statements	9 - 16

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

CORPORATE INFORMATION

DIRECTORS

J Muriu - Chairman
M Musyimi
S Awuor
A Ngugi
A Abuom
V Awori
R Mutiso

CHIEF EXECUTIVE OFFICER

B Nkungi

SECRETARY

L Ndolo

REGISTERED OFFICE

Kirichwa Road Property
LR No. 2/187
P O Box 64063
Nairobi

AUDITORS

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

BANKERS

Barclays Bank of Kenya Limited
P O Box 20415
Nairobi

Co-operative Bank of Kenya Limited
P O Box 67881
Nairobi

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SMALL AND MICRO ENTERPRISE PROGRAMME
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REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The company focuses on poverty alleviation and employment creation through the support of micro and small enterprises, and is a national network with operations in all provinces.

RESULTS

	Sh
Surplus for the year	15,315,532 =====

DIVIDENDS

As the company is not for profit, no dividends have been declared from the surplus realised during the year.

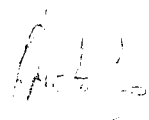
DIRECTORS

The present directors are shown on page 2.

AUDITORS

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

BY ORDER OF THE BOARD



Secretary

Nairobi

31 December 2003

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

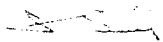
Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the surplus or deficit of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

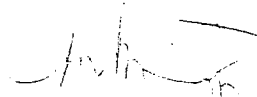
The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Accounting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the company's financial affairs and of its surplus. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the 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 will not remain a going concern for at least twelve months from the date of this statement.



.....
Director



.....
Director

11/03/2003

Certified Public Accountants (KPM) Ltd.
Chartered
100, Broad Street, Westbury
Wiltshire, BA1 1JG, UK
Tel: 01249 411111
Fax: 01249 411111

Company No. 021420111 (1441501)
Registered Office: 100 Broad Street
Westbury, Wiltshire, BA1 1JG, UK
Tel: 01249 411111

**Gill &
Johnson**

**REPORT OF THE AUDITORS TO THE MEMBERS OF
SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)**

We have audited the financial statements on pages 6 to 16 and have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 4, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 December 2002 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act.

Gill & Johnson
To L
15 April, 2003

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

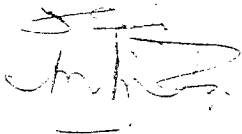
	Note	2002 Sh	2001 Sh
INCOME	2	76,857,803	71,849,470
STAFF COSTS	3	42,954,680	37,170,518
ADMINISTRATION COSTS		11,507,382	8,286,965
OTHER OPERATING COSTS	4	22,215,948	18,907,725
		<u>76,678,010</u>	<u>64,365,208</u>
OPERATING SURPLUS		179,793	7,484,262
FINANCE COSTS	5	(15,007,068)	(15,635,837)
DEFICIT BEFORE GRANTS		<u>(14,827,275)</u>	<u>(8,151,575)</u>
GRANTS FOR SUPPORT COSTS	6	30,142,507	30,087,464
SURPLUS FOR THE YEAR	12	<u>15,315,232</u> =====	<u>21,935,889</u> =====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

BALANCE SHEET
31 DECEMBER 2002

	Note	2002 Sh	2001 Sh
ASSETS			
Bank and cash balances		21,368,530	10,041,120
Short term deposits	7	51,672,369	46,645,324
Loans receivable	8	217,688,132	192,478,924
Staff loans	9	1,648,979	2,728,227
Other receivables	10	1,615,115	13,936,862
Inventory		703,907	467,931
Property and equipment	11	19,663,325	20,039,633
		<hr/>	<hr/>
TOTAL ASSETS		314,360,357	286,338,021
		<hr/> <hr/>	<hr/> <hr/>
RESERVES AND LIABILITIES			
RESERVES			
Accumulated surplus	12	116,401,121	101,085,589
		<hr/>	<hr/>
LIABILITIES			
Bank overdraft (secured)	13	44,644,234	58,001,204
Group loan contributions	14	34,119,664	32,370,212
Trade and other payables	15	4,126,799	5,515,614
Due to NCKK		330,769	7,060,282
Loans	16	70,085,770	37,653,120
Collarated funds (designated funds)	17	44,652,000	44,652,000
		<hr/>	<hr/>
		197,959,236	185,252,432
		<hr/>	<hr/>
TOTAL RESERVES AND LIABILITIES		314,360,357	286,338,021
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 6 to 16 were approved by the board of directors on 11 May 2003 and were signed on its behalf by:



Directors

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 Sh	2001 Sh
Cash used in operations	18(a)	(15,623,814)	(19,483,294)
Finance costs		(15,007,068)	(15,635,837)
Grants for support costs		30,142,807	30,087,464
		<u> </u>	<u> </u>
Net cash used in operating activities		(488,075)	(5,031,667)
		<u> </u>	<u> </u>
Net cash used in investing activities			
Purchase of property and equipment		(2,233,150)	(5,042,149)
		<u> </u>	<u> </u>
Financing activities			
Loans received		38,210,000	36,700,000
Loan repayment		(5,777,350)	(29,265,785)
		<u> </u>	<u> </u>
Net cash from financing activities		32,432,650	7,434,215
		<u> </u>	<u> </u>
Net increase/(decrease) in cash and cash equivalents		29,711,425	(2,639,601)
Cash and cash equivalents at 1 January		(1,314,760)	1,324,841
		<u> </u>	<u> </u>
Cash and cash equivalents at 31 December	18(b)	28,396,665	(1,314,760)
		<u>=====</u>	<u>=====</u>

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

Basis of accounting

The company prepares its financial statements on the historical cost basis of accounting.

Income

Income comprises interest on loans disbursed, interest on fixed deposits held, membership fees, loan application fees, disbursement fees and other sundry interest amounts.

Recognition of income

Interest income is recognised when earned.

Grants for support costs

Grants for support costs are brought into account when received.

Inventory

Inventory represents stocks of stationery at the end of the year and is stated at cost.

Property and equipment

Freehold land is stated at cost. All the other property and equipment is stated at cost less accumulated depreciation.

Depreciation

Freehold land is not depreciated.

Depreciation for all the other property is calculated on a straight line basis at annual rates estimated to write off the cost of the assets over their expected useful lives. The annual rates generally in use are as follows:

Permanent buildings	2.5%
Prefabricated buildings	20%
Motor vehicles	25%
Computers	33.33%
Office furniture, fittings and equipment	12.5%

Taxation

The company is not a profit making organisation and has applied to the Kenya Revenue Authority for tax exemption. Should the tax exemption be denied, the amount of taxes payable by the company would be limited to a penalty of Sh 5,000 per year as the company has been realising adjusted tax losses for each year of its operations from the date of its incorporation. Provision for these taxes have, nevertheless, not been included in these financial statements as, in the opinion of the directors, the amounts are not material. Moreover, the directors are of the opinion that the tax exemption will be granted given the charitable nature of the company's principal activities.

SMALL AND MICRO ENTERPRISE PROGRAMME
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Group loan contributions

Group loan contributions represent amounts deposited by customers and are interest bearing.

Bad debts provision

A general provision for bad and doubtful loans is made based on recoverability rates in each region. Specific provisions are made for those debts whose recovery is known to be doubtful.

Retirement benefits

The company participates in a defined contribution retirement benefit scheme operated by the National Council of Churches of Kenya (NCCK).

A separate benevolent fund is set aside for staff not in the retirement benefit scheme.

The company also makes contributions to the National Social Security Fund (NSSF), which is a statutory defined contribution pension scheme. The scheme is registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to Sh 200 per employee per month. The company's contributions are charged to the income statement as they fall due.

	2002 Sh	2001 Sh
2 INCOME		
Interest on loans	59,012,707	53,819,108
Loan disbursement fees	6,979,830	6,021,107
Interest on fixed deposits	4,582,183	5,325,730
Loan application fees	3,830,635	4,073,760
Sundry income	1,505,948	1,495,865
Membership fees	946,500	1,113,900
	<hr/>	<hr/>
	76,857,803	71,849,470
	=====	=====
3 STAFF COSTS		
Basic salaries	23,133,581	20,482,433
House allowances	11,111,640	9,482,117
Staff training	3,102,572	1,468,927
Provident fund contributions	1,801,365	1,479,497
Medical expenses	1,730,197	1,916,760
Other staff costs	880,742	935,565
Casual wages	549,386	653,329
Benevolent fund contributions	323,133	409,780
NSSF – costs	201,360	68,960
Leave pay	120,704	273,150
	<hr/>	<hr/>
	42,954,680	37,170,518
	=====	=====

The average number of employees during the year was 81 (2001 – 78).

SMALL AND MICRO ENTERPRISE PROGRAMME
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Sh	2001 Sh
4 OTHER OPERATING COSTS		
Programme costs	7,190,454	4,622,102
Travel and transport costs	3,671,937	4,241,249
Legal and professional fees	3,931,440	4,539,759
Depreciation	2,537,097	2,434,763
Provision for doubtful debts - specific	2,177,480	753,461
- general	280,000	-
Bank charges	1,369,280	1,553,229
Auditors' remuneration (inclusive of VAT)	725,700	675,000
Subscriptions and donations	332,560	88,162
	<u>22,215,948</u>	<u>18,907,725</u>
	=====	=====
5 FINANCE COSTS		
Interest on overdraft	7,707,344	10,264,428
Interest on loans	7,299,724	5,371,409
	<u>15,007,068</u>	<u>15,635,837</u>
	=====	=====
6 GRANTS FOR SUPPORT COSTS		
EED*	15,039,384	14,710,830
USAID**	6,185,887	10,431,390
Hivos-Triodos Fonds	5,920,036	2,400,055
Plan International	1,340,000	1,000,000
Dutch Interchurch Aid	1,177,500	1,545,189
NCCCK WCS***	480,000	-
	<u>30,142,807</u>	<u>30,087,464</u>
	=====	=====

* Initials stand for Evangelische Entwicklungsdienst

** Initials stand for United States of America Agency for International Development

*** Initials stand for National Council of Churches of Kenya Women and Children under Stress

SMALL AND MICRO ENTERPRISE PROGRAMME
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2002 Sh	2001 Sh		
10	OTHER RECEIVABLES				
	Interest receivable	387,543	832,406		
	Staff debtors	412,472	706,812		
	Prepayments	581,447	364,179		
	Withholding tax recoverable	233,653	233,653		
	Others	-	11,799,812		
		<u>1,615,115</u>	<u>13,936,862</u>		
11	PROPERTY AND EQUIPMENT				
		Freehold Land And Buildings Sh	Motor vehicles Sh	Computers, office furniture, fittings and equipment Sh	Total Sh
	COST				
	At 1 January 2002	15,270,092	5,374,648	11,190,679	31,335,419
	Additions	921,000	-	1,312,150	2,233,150
	Disposals	-	(26,000)	(46,360)	(72,360)
	At 31 December 2002	<u>16,191,092</u>	<u>5,348,648</u>	<u>12,456,469</u>	<u>33,996,209</u>
	DEPRECIATION				
	At 1 January 2002	462,582	3,444,938	7,888,266	11,795,786
	Charge for the year	425,857	964,855	1,185,006	2,575,718
	Eliminated on disposal	-	(26,000)	(12,620)	(38,260)
	At 31 December 2002	<u>888,439</u>	<u>4,383,793</u>	<u>9,060,652</u>	<u>14,332,884</u>
	NET BOOK VALUES				
	At 31 December 2002	<u>15,302,653</u>	<u>964,855</u>	<u>3,395,817</u>	<u>19,663,325</u>
	At 31 December 2001	<u>14,807,510</u>	<u>1,929,710</u>	<u>3,302,413</u>	<u>20,039,633</u>

Included in motor vehicles, office furniture and equipment are assets with a cost of Sh 8,062,552 (2001 - Sh 8,088,751) which were fully depreciated. The normal depreciation charge on these assets would have been Sh 2,146,191 (2001 - Sh 1,870,326).

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Sh	2001 Sh
12 ACCUMULATED SURPLUS		
At 1 January	101,085,589	79,149,700
Surplus for the year	15,315,532	21,935,889
	<hr/>	<hr/>
At 31 December	116,401,121	101,085,589
	=====	=====
13 BANK OVERDRAFT		
The bank overdraft is secured by a fixed deposit and other bank balances held at the Co-operative Bank of Kenya Limited. The overdraft effective interest rate as at 31 December 2002 was 16% (2001-18%).		
14 GROUP LOAN CONTRIBUTIONS		
Group loan contributions represent amounts deposited as collateral by the groups within which the company's customers belong. The contributions are optional and attract interest at the rate of 7% per year.		
	2002 Sh	2001 Sh
15 TRADE AND OTHER PAYABLES		
Trade payables	736,949	732,629
Client savings	-	1,216,238
Accruals and other payables	3,389,850	3,566,747
	<hr/>	<hr/>
	4,126,799	5,515,614
	=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Sh	2001 Sh
16 LOANS		
K-Rep Bank Limited loan: interest payable at the rate of 20% per annum	5,076,927	9,657,709
K-Rep Development Agency loan without interest	98,843	1,295,411
Jitegemee Trust loan: interest payable at the rate of 7% per year	30,000,000	-
Plan International bullet loan without interest; repayment commences in April 2005	10,910,000	2,700,000
Hivos-Triodos Fonds – loan repayable in one instalment not later than 1 April 2005; annual interest rate pegged to the annual Kenya Government treasury bills interest rate plus 2% pa	23,000,000	23,000,000
NCKK Advocacy Programme loan	1,000,000	1,000,000
	<u>70,085,770</u>	<u>37,653,120</u>
	=====	=====
Repayable as follows:		
Within one year	20,175,715	5,785,432
After one year	49,910,055	31,867,688
	<u>70,085,770</u>	<u>37,653,120</u>
	=====	=====

The loans from K-Rep Bank Limited and Jitegemee Trust are secured by separate debentures on all the assets of the company up to a maximum of the outstanding loan balances.

The loans from Hivos-Triodos Fonds, Plan International, K-Rep Development Agency and NCKK Advocacy Programme are unsecured.

17 COLLARATED FUNDS

These are funds obtained from USAID and have been deposited with Co-operative Bank of Kenya Limited as collateral for the bank overdraft facility and the fixed deposit balance as at 31 December 2002 was as stated in note 7 of these financial statements.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Sh	2001 Sh
18	NOTES TO THE CASH FLOW STATEMENT	
(a)	Reconciliation of operating surplus to cash used in operations	
	Operating surplus	7,484,262
	Adjustments:	
	Depreciation	2,434,763
	Loss on equipment disposals	33,740
	Cash generated from operations before working capital changes	9,919,025
	(Increase)/decrease in inventory	100,111
	Increase in loans receivable	(28,246,496)
	Decrease/(increase) in staff loans receivable	(741,177)
	Decrease/(increase) in other receivables	(11,113,040)
	Increase in group loan contributions	17,805,302
	Decrease/(increase) in trade and other payables	929,333
	Decrease in amounts due to NCKK	(8,136,352)
	Cash used in operations	(19,483,294)
(b)	CASH AND CASH EQUIVALENTS	
	Bank and cash balances	10,041,120
	Short term deposits	46,645,324
	Bank overdraft	(58,001,204)
		(1,314,760)

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the banks repayable within three months from the dates of advance.

	2002 Sh	2001 Sh
19	CAPITAL COMMITMENTS	
	Authorised but not contracted for	9,127,851

20 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act. It is registered as a private company limited by guarantee and not having a share capital.

21 CURRENCY

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