

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

**FINANCIAL STATEMENTS**

**31 DECEMBER 2003**

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

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003

|  |        |
|--|--------|
| Corporate information                    | 2      |
| Report of the directors                  | 3      |
| Statement of directors' responsibilities | 4      |
| Independent auditors' report             | 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  
V Awori  
R Mutiso  
T Matianyi

CHIEF EXECUTIVE OFFICER

B Nkungi

SECRETARY

L Ndolo

REGISTERED OFFICE

Kirichwa Road Property  
LR No. 2/187  
P O Box 64063  
Nairobi – 00200 City Square

AUDITORS

Deloitte & Touche  
“Kirungii”, Ring Road, Westlands  
P O Box 40092, 00100-GPO  
Nairobi

BANKERS

The Co-operative Bank of Kenya Limited  
P O Box 48231  
Nairobi – 00200

Kenya Commercial Bank Limited  
P O Box 30081  
Nairobi - 00100

Barclays Bank of Kenya Limited  
P O Box 20415  
Nairobi

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

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 2003.

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 | <u>22,148,297</u> |

DIVIDENDS

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

DIRECTORS

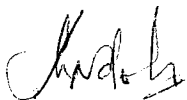
The present directors are shown on page 2.

Ms Agnes Abuom retired on 15 April 2004 and Mr Tom Matianyi was appointed on 20 April 2004.

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

20 May 2004


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


STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

  
.....  
Director

  
.....  
Director

20 May 2004

Certified Public Accountants (Kenya)  
"Kirungii",  
Ring Road, Westlands  
P.O. Box 40092  
Nairobi - 00100 GPO  
Kenya

Telephone: + (254-20) 444 1344/05-12  
Facsimile: + (254-20) 444 8966  
Dropping Zone No. 92  
E-mail: admin@deloitte.co.ke

**Deloitte  
& Touche**

INDEPENDENT AUDITORS' REPORT 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 for the year ended 31 December 2003 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

**Respective responsibilities of directors and auditors**

As described on page 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 2003 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

*Deloitte & Touche*

*4 June, 2004*

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

INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2003



|                                 | Note | 2003<br>Sh        | 2002<br>Sh        |
|---------------------------------|------|-------------------|-------------------|
| INCOME                          | 2    | 88,211,641        | 76,857,803        |
| STAFF COSTS                     | 3    | 43,056,196        | 42,954,680        |
| ADMINISTRATION COSTS            |      | 10,331,452        | 11,507,382        |
| OTHER OPERATING COSTS           | 4    | 20,407,860        | 22,215,948        |
|                                 |      | <u>73,795,508</u> | <u>76,678,010</u> |
| OPERATING SURPLUS               |      | 14,416,133        | 179,793           |
| FINANCE COSTS                   | 5    | (14,034,301)      | (15,007,068)      |
| SURPLUS/(DEFICIT) BEFORE GRANTS |      | 381,832           | (14,827,275)      |
| GRANTS FOR SUPPORT COSTS        | 6    | 21,766,465        | 30,142,807        |
| SURPLUS FOR THE YEAR            | 12   | <u>22,148,297</u> | <u>15,315,532</u> |

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

BALANCE SHEET  
31 DECEMBER 2003

|                                       | Note | 2003<br>Sh         | 2002<br>Sh         |
|---------------------------------------|------|--------------------|--------------------|
| <b>ASSETS</b>                         |      |                    |                    |
| Bank and cash balances                |      | 23,739,189         | 21,368,530         |
| Short term deposits                   | 7    | 46,050,411         | 51,672,369         |
| Loans receivable                      | 8    | 263,970,464        | 217,688,132        |
| Staff loans                           | 9    | 1,913,827          | 1,648,979          |
| Other receivables                     | 10   | 6,847,794          | 1,615,115          |
| Inventory                             |      | 896,429            | 703,907            |
| Property and equipment                | 11   | 17,796,887         | 19,663,325         |
|                                       |      | <hr/>              | <hr/>              |
| <b>TOTAL ASSETS</b>                   |      | <b>361,215,001</b> | <b>314,360,357</b> |
|                                       |      | <hr/> <hr/>        | <hr/> <hr/>        |
| <b>RESERVES AND LIABILITIES</b>       |      |                    |                    |
| <b>RESERVES</b>                       |      |                    |                    |
| Accumulated surplus                   | 12   | 138,549,418        | 116,401,121        |
|                                       |      | <hr/>              | <hr/>              |
| <b>LIABILITIES</b>                    |      |                    |                    |
| Bank overdraft (secured)              | 13   | 40,423,574         | 44,644,234         |
| Group loan contributions              | 14   | 47,627,494         | 34,119,664         |
| Trade and other payables              | 15   | 5,963,672          | 4,126,799          |
| Due to NCCK                           |      | -                  | 330,769            |
| Loans                                 | 16   | 83,998,843         | 70,085,770         |
| Collarated funds (designated funds)   | 17   | 44,652,000         | 44,652,000         |
|                                       |      | <hr/>              | <hr/>              |
|                                       |      | 222,665,583        | 197,959,236        |
|                                       |      | <hr/>              | <hr/>              |
| <b>TOTAL RESERVES AND LIABILITIES</b> |      | <b>361,215,001</b> | <b>314,360,357</b> |
|                                       |      | <hr/> <hr/>        | <hr/> <hr/>        |

The financial statements on pages 6 to 16 were approved by the board of directors on 20 May 2004 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 2003

|  | Note  | 2003<br>Sh        | 2002<br>Sh        |
|--|-------|-------------------|-------------------|
| <b>Cash used in operations</b>                   | 18(a) | (15,685,165)      | (15,623,814)      |
| Finance costs                                    |       | (14,034,350)      | (15,007,068)      |
| Grants for support costs                         |       | 21,766,465        | 30,142,807        |
|  |       | <hr/>             | <hr/>             |
| <b>Net cash used in operating activities</b>     |       | (7,953,050)       | (488,075)         |
|  |       | <hr/>             | <hr/>             |
| <b>Net cash used in investing activities</b>     |       |                   |                   |
| Purchase of property and equipment               |       | (4,990,711)       | (2,233,150)       |
|  |       | <hr/>             | <hr/>             |
| <b>Financing activities</b>                      |       |                   |                   |
| Loans received                                   |       | 47,790,000        | 38,210,000        |
| Loan repayment                                   |       | (33,876,878)      | (5,777,350)       |
|  |       | <hr/>             | <hr/>             |
| <b>Net cash from financing activities</b>        |       | 13,913,122        | 32,432,650        |
|  |       | <hr/>             | <hr/>             |
| <b>Net increase in cash and cash equivalents</b> |       | 969,361           | 29,711,425        |
| Cash and cash equivalents at 1 January           |       | 28,396,665        | (1,314,760)       |
|  |       | <hr/>             | <hr/>             |
| <b>Cash and cash equivalents at 31 December</b>  | 18(b) | <u>29,366,026</u> | <u>28,396,665</u> |

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003

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. Provisions for taxation have thus not been made in these financial statements as, in the opinion of the directors, the tax exemption will be granted given the charitable nature of the company's principal activities.

**Group loan contributions**

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**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 provident fund operated by the National Council of Churches of Kenya (NCCCK).

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.

|                               | 2003<br>Sh        | 2002<br>Sh        |
|-------------------------------|-------------------|-------------------|
| 2 INCOME                      |                   |                   |
| Interest on loans             | 67,406,454        | 59,012,707        |
| Loan disbursement fees        | 8,730,894         | 6,979,830         |
| Interest on fixed deposits    | 3,567,952         | 4,582,183         |
| Loan application fees         | 4,809,484         | 3,830,635         |
| Sundry income                 | 1,933,470         | 1,472,208         |
| Membership fees               | 1,326,700         | 946,500           |
| Gain on disposal of equipment | 436,687           | 33,740            |
|                               | <u>88,211,641</u> | <u>76,857,803</u> |
| 3 STAFF COSTS                 |                   |                   |
| Basic salaries                | 23,954,832        | 23,133,581        |
| House allowances              | 11,536,992        | 11,111,640        |
| Staff training                | 818,062           | 3,102,572         |
| Provident fund contributions  | 1,800,555         | 1,801,365         |
| Medical expenses              | 2,699,150         | 1,730,197         |
| Other staff costs             | 1,596,339         | 880,742           |
| Casual wages                  | 223,569           | 549,386           |
| Benevolent fund contributions | 171,820           | 323,133           |
| NSSF                          | 201,674           | 201,360           |
| Leave pay                     | 53,203            | 120,704           |
|                               | <u>43,056,196</u> | <u>42,954,680</u> |

The average number of employees during the year was 84 (2002 – 81).



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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|   | 2003<br>Sh                             | 2002<br>Sh |
|---|--|------------|
| 7 | SHORT TERM DEPOSITS                    |            |
|   | The Co-operative Bank of Kenya Limited |            |
|   | 46,050,411                             | 51,672,369 |

The effective interest rate on the fixed deposit as at 31 December 2003 was 6% (2002 - 9%).

|   | 2003<br>Sh         | 2002<br>Sh         |
|---|--------------------|--------------------|
| 8 | LOANS RECEIVABLE   |                    |
|   | Loans - gross      |                    |
|   | 269,356,452        | 223,571,832        |
|   | Less: Provision    |                    |
|   | (5,385,988)        | (5,883,700)        |
|   | <u>263,970,464</u> | <u>217,688,132</u> |

The loan maturity periods range from 26 to 78 weeks from the date of the loan disbursements. The loans are disbursed to micro and small enterprises and the effective interest rate at 31 December 2003 was 20%.

Included in loans receivable is an amount due from NCKK of Sh 3 million which was settled subsequent to the year end.

|   | 2003<br>Sh                 | 2002<br>Sh       |
|---|----------------------------|------------------|
| 9 | STAFF LOANS                |                  |
|   | Receivable within one year |                  |
|   | 1,462,074                  | 957,745          |
|   | Receivable after one year  |                  |
|   | 451,753                    | 691,234          |
|   | <u>Total staff loans</u>   | <u>1,648,979</u> |

Included in staff loans is an amount of Sh nil (2002 - Sh 46,982) due from company officers.

|    | 2003<br>Sh                  | 2002<br>Sh       |
|----|-----------------------------|------------------|
| 10 | OTHER RECEIVABLES           |                  |
|    | Insurance claim lodged      |                  |
|    | 4,440,207                   | -                |
|    | Staff debtors               |                  |
|    | 418,321                     | 412,472          |
|    | Prepayments                 |                  |
|    | 405,795                     | 968,990          |
|    | Withholding tax recoverable |                  |
|    | 233,653                     | 233,653          |
|    | Due from NCKK               |                  |
|    | 1,349,818                   | -                |
|    | <u>6,847,794</u>            | <u>1,615,115</u> |

The amount due from NCKK is in respect of provident fund for staff paid on behalf of the Council.

The insurance claim is for a motor vehicle which was stolen during the year. The claim was paid in February 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 PROPERTY AND EQUIPMENT

|                        | Freehold<br>land<br>and<br>buildings<br>Sh | Motor<br>vehicles<br>Sh | Computers,<br>office furniture,<br>fittings and<br>equipment<br>Sh | Total<br>Sh |
|------------------------|--|-------------------------|--|-------------|
| <b>COST</b>            |  |                         |  |             |
| At 1 January 2003      | 16,191,092                                 | 5,348,648               | 12,456,469   | 33,996,209  |
| Additions              | 95,000                                     | 4,150,900               | 744,811  | 4,990,711   |
| Disposals              | -  | (4,150,900)             | (70,375)   | (4,221,275) |
| At 31 December 2003    | 16,286,092                                 | 5,348,648               | 13,130,905   | 34,765,645  |
| <b>DEPRECIATION</b>    |  |                         |  |             |
| At 1 January 2003      | 888,439                                    | 4,383,793               | 9,060,652  | 14,332,884  |
| Charge for the year    | 440,107                                    | 1,569,069               | 1,286,660  | 3,295,836   |
| Eliminated on disposal | -  | (604,214)               | (55,748)   | (659,962)   |
| At 31 December 2003    | 1,328,546                                  | 5,348,648               | 10,291,564   | 16,968,758  |
| <b>NET BOOK VALUES</b> |  |                         |  |             |
| At 31 December 2003    | 14,957,546                                 | -                       | 2,839,341  | 17,796,887  |
| At 31 December 2002    | 15,302,653                                 | 964,855                 | 3,395,817  | 19,663,325  |

Included in motor vehicles, office furniture and equipment are assets with a cost of Sh 8,062,552 (2002 - Sh 8,062,552) which were fully depreciated. The normal depreciation charge on these assets would have been Sh 2,146,191 (2002 - Sh 2,146,191).

|                        | 2003<br>Sh  | 2002<br>Sh  |
|------------------------|-------------|-------------|
| 12 ACCUMULATED SURPLUS |             |             |
| At 1 January           | 116,401,121 | 101,085,589 |
| Surplus for the year   | 22,148,297  | 15,315,532  |
| At 31 December         | 138,549,418 | 116,401,121 |
| 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 2003 was 13% (2002 - 16%).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 5% per year.

|   | 2003<br>Sh        | 2002<br>Sh        |
|---|-------------------|-------------------|
| 15 TRADE AND OTHER PAYABLES   |                   |                   |
| Trade payables  | 1,106,676         | 736,949           |
| Accruals and other payables   | 4,856,996         | 3,389,850         |
|   | <u>5,963,672</u>  | <u>4,126,799</u>  |
| 16 LOANS  |                   |                   |
| K-Rep Bank Limited loan - interest payable<br>at the rate of 20% per annum  | -                 | 5,076,927         |
| K-Rep Development Agency loan - without interest  | 98,843            | 98,843            |
| Jitegemee Trust loan - interest payable at the rate of 7% per year  | 15,000,000        | 30,000,000        |
| Plan International - bullet loan without interest;<br>repayment commences in April 2005   | 16,000,000        | 10,910,000        |
| Hivos-Triodos Fonds – loan repayable quarterly with effect<br>from 1 August 2003; annual interest rate pegged to the annual<br>Kenya Government treasury bills interest rate plus 2% pa | 9,200,000         | 23,000,000        |
| NCKK Advocacy Programme loan  | 1,000,000         | 1,000,000         |
| The Co-operative Bank of Kenya Limited - guaranteed loan,<br>interest payable at the rate of 11% per annum. Maximum<br>loan amount is Sh 120 million (US\$ 1.5 million)                 | 40,000,000        | -                 |
| DANIDA  | 2,700,000         | -                 |
|   | <u>83,998,843</u> | <u>70,085,770</u> |
| Repayable as follows:   |                   |                   |
| Within one year   | 24,298,843        | 20,175,715        |
| After one year  | 59,700,000        | 49,910,055        |
|   | <u>83,998,843</u> | <u>70,085,770</u> |

The loan from Jitegemee Trust is secured by a debenture on all the assets of the company.

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

The loan from Jitegemee Trust is secured by an unlimited irrevocable guarantee by NCKK.

The loan from The Co-operative Bank of Kenya Limited is secured by a general lien over all collection accounts of the company in the bank, a USAID guarantee amounting to Sh 60 million (US\$ 750,000) and a floating debenture over all assets of the company.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 COLLARATED FUNDS

These are funds obtained from USAID and have been deposited with The Co-operative Bank of Kenya Limited (see note 13) as collateral for the bank overdraft facility.

| 18 NOTES TO THE CASH FLOW STATEMENT                                | 2003<br>Sh          | 2002<br>Sh          |
|--|---------------------|---------------------|
| (a) Reconciliation of operating surplus to cash used in operations |                     |                     |
| Operating surplus  | 14,416,133          | 179,793             |
| Adjustments:   |                     |                     |
| Depreciation   |                     |                     |
| (Gain)/loss on equipment disposals                                 | 3,295,836           | 2,575,718           |
| Insurance claim  | (436,687)           | 33,740              |
|  | 3,998,000           | -                   |
| Cash generated from operations before working capital changes      | <u>21,273,282</u>   | <u>2,789,251</u>    |
| Increase in inventory  | (192,522)           | (235,976)           |
| Increase in loans receivable                                       | (46,282,332)        | (25,209,208)        |
| (Increase)/decrease in staff loans                                 | (264,848)           | 1,079,248           |
| (Increase)/decrease in other receivables                           | (5,232,679)         | 12,321,747          |
| Increase in group loan contributions                               | 13,507,830          | 1,749,452           |
| Increase/(decrease) in trade and other payables                    | 1,836,873           | (1,388,815)         |
| Movement in amounts due to/from NCKK                               | (330,769)           | (6,729,513)         |
| Cash used in operations  | <u>(15,685,165)</u> | <u>(15,623,814)</u> |
| (b) CASH AND CASH EQUIVALENTS                                      |                     |                     |
| Bank and cash balances   |                     |                     |
| Short term deposits  | 23,739,189          | 21,368,530          |
| Bank overdraft   | 46,050,411          | 51,672,369          |
|  | (40,423,574)        | (44,644,234)        |
|  | <u>29,366,026</u>   | <u>28,396,665</u>   |

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.

19 CAPITAL COMMITMENTS  
Authorised but not contracted for

|  | 2003<br>Sh     | 2002<br>Sh       |
|--|----------------|------------------|
|  | 985,589        | 1,800,000        |
|  | <u>985,589</u> | <u>1,800,000</u> |

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 CONTINGENT LIABILITY

The company applied to Kenya Revenue Authority for tax exemption in view of its principal activities, which are not for profit making. The Authority has in the meantime disputed the company's application arguing that the company's activities are taxable under the current interpretation of the Income Tax Act. The directors have contested the Authority's position on this matter but the final outcome of the application has not yet been determined.

The company has been realising adjusted tax losses for each year of its operations from the date of its incorporation as a result of which any penalties arising from denial of the tax exemption would be limited to Sh 5,000 per year. Because of this, the directors do not consider it appropriate to provide for the potential tax penalties as the amounts payable, if any, would not be material.

21 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.

22 CURRENCY

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