

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

FINANCIAL STATEMENTS

31 DECEMBER 2004

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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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 Matiany

CHIEF EXECUTIVE OFFICER

B Nkungi

SECRETARY

L Ndolo
P O Box 45099
00200 City Square
Nairobi

REGISTERED OFFICE

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

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
00200 City Square
Nairobi

Kenya Commercial Bank Limited
P O Box 30081
00100 GPO
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 2004.

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>42,716,209</u>

DIVIDENDS

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

DIRECTORS

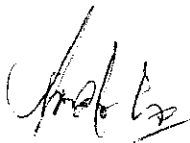
The present directors are shown on page 2.

Dr Agnes Abuom resigned on 15 April 2004 and was replaced by Mr Tom Matianyi on the same day.

AUDITORS

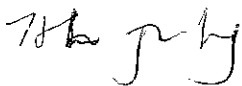
Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD



Secretary

Nairobi



2005


SMALL AND MICRO ENTERPRISE PROGRAMME
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenya 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 Kenya 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



x.....
Director

14 April

2005

**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 19 for the year ended 31 December 2004 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 2004 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

Deloitte & Touche

19 July 2005

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

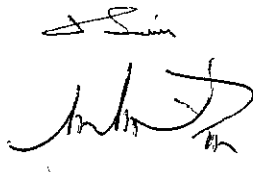
	Note	2004 Sh	2003 Sh
INTEREST INCOME	2	78,417,746	70,974,406
INTEREST EXPENSE	3	(23,333,507)	(14,034,301)
NET INTEREST INCOME		55,084,239	56,940,105
Fees income	4	25,661,836	14,867,078
Other operating income	5	1,966,225	2,370,157
OPERATING INCOME		82,712,300	74,177,340
OTHER OPERATING EXPENSES	6	(80,194,128)	(70,325,830)
BAD AND DOUBTFUL DEBTS		(2,449,631)	(3,469,678)
OPERATING SURPLUS		68,541	381,832
GRANT INCOME	8	42,647,668	21,766,465
SURPLUS FOR THE YEAR		42,716,209	22,148,297

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

BALANCE SHEET
31 DECEMBER 2004

	Note	2004 Sh	2003 Sh
ASSETS			
Bank and cash balances		17,273,726	23,739,189
Short term deposits	9	106,207,053	46,050,411
Treasury bills	10	79,565,158	-
Loans to customers	11	366,500,436	263,970,464
Staff loans	12	7,214,817	1,913,827
Other receivables	13	4,881,445	6,847,794
Stationery inventories		1,539,271	896,429
Property and equipment	14	23,404,068	17,796,887
TOTAL ASSETS		<u>606,585,974</u>	<u>361,215,001</u>
RESERVES AND LIABILITIES			
LIABILITIES			
Group loan collateral savings	15	164,946,774	47,627,494
Accruals and other liabilities	16	7,850,568	5,963,672
Borrowings	17	247,723,005	124,422,417
Designated funds	18	-	44,652,000
Revolving loan fund	19	4,800,000	-
TOTAL LIABILITIES		<u>425,320,347</u>	<u>222,665,583</u>
RESERVES			
Accumulated surplus		181,265,627	138,549,418
TOTAL RESERVES AND LIABILITIES		<u>606,585,974</u>	<u>361,215,001</u>

The financial statements on pages 6 to 19 were approved by the board of directors on 14 April 2005 and were signed on its behalf by:


) Directors

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

STATEMENT OF CHANGES IN ACCUMULATED FUND
FOR THE YEAR ENDED 31 DECEMBER 2004

	Accumulated surplus Sh
At 1 January 2003	116,401,121
Surplus for the year	22,148,297
At 31 December 2003	<u>138,549,418</u>
At 1 January 2004	138,549,418
Surplus for the year	42,716,209
At 31 December 2004	<u>181,265,627</u>

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 Sh	2003 Sh
Cash used in operations	20(a)	(28,821,451)	(29,719,515)
Grants for support costs received		42,647,668	21,766,465
		<u>13,826,217</u>	<u>(7,953,050)</u>
INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		450,000	-
Purchase of property and equipment		(9,120,468)	(4,990,711)
		<u>(8,670,468)</u>	<u>(4,990,711)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Loans received		140,900,000	47,790,000
Loans repayment		(38,232,933)	(33,876,878)
Revolving loan received		4,800,000	-
		<u>107,467,067</u>	<u>13,913,122</u>
Net cash generated from financing activities			
Net increase in cash and cash equivalents		112,622,816	969,361
Cash and cash equivalents at 1 January		29,366,026	28,396,665
		<u>141,988,842</u>	<u>29,366,026</u>
Cash and cash equivalents at 31 December	20(b)		

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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 recognition

Interest income is recognised for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. Fees and commissions income are recognised when earned.

Recognition of income

Interest income is recognised when earned.

Grants and donations

Grants and donations are recognised in the period in which they are received.

Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Kenya Shillings at the rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rates ruling at that date. The resulting differences are dealt with in the income statement in the year in which they arise.

Inventories

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 and equipment 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 used are as follows:

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are dealt with in the income statement in the year they arise.

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

1 ACCOUNTING POLICIES (Continued)

Financial instruments

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

Loans to customers

Loans to customers are recognised when cash is advanced to borrowers. They are stated net of provision for doubtful loans.

Bad and doubtful debts

Specific provisions are made against loans and advances when in the opinion of management the company will not be able to collect all amounts due according to the original contractual terms of the loans and advances. In addition, general provisions are maintained based on management's evaluation of the portfolio and advances and other exposures in respect of losses, which although not specifically identified are known from experience to be present in any such portfolio.

When a loan is deemed uncollectable, it is written off against the related provision. Subsequent recoveries of amounts written off are credited to the income statement.

Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity where the company has the positive intent and ability to hold to maturity are measured at amortised cost.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Group loan collateral savings

Group loan collateral savings represent amounts deposited by customers as security for loans advanced and are interest bearing.

Impairment of assets

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

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

1 ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made by way of penalty is recognised as an expense in the period in which termination takes place.

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.

Retirement benefits

The company participates in a defined contribution provident fund operated by the National Council of Churches of Kenya (NCCCK).

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.

	2004 Sh	2003 Sh
2 INTEREST INCOME		
Interest on loans	75,607,135	67,406,454
Interest on short term deposits	2,810,611	3,567,952
	<u>78,417,746</u>	<u>70,974,406</u>
3 INTEREST EXPENSE		
Interest on bank overdraft	5,408,637	7,616,471
Interest on loans	17,924,870	6,417,830
	<u>23,333,507</u>	<u>14,034,301</u>
4 FEES INCOME		
Loan disbursement fees	11,778,332	8,730,894
Loan application fees	6,209,376	4,809,484
Management fees	5,975,528	-
Membership fees	1,698,600	1,326,700
	<u>25,661,836</u>	<u>14,867,078</u>

Management fees of Sh 4,144,500 relate to fees charged for administration of Micro Enterprise Development Project (MEDP) - note 19. The balance is in respect of the administrative fees charged on the management of the group loan collateral savings.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh	2003 Sh
5	OTHER OPERATING INCOME	
	1,516,225	1,933,470
	450,000	436,687
	<u>1,966,225</u>	<u>2,370,157</u>
6	OPERATING EXPENSES	
	48,454,466	43,056,196
	4,622,234	4,419,869
	4,009,764	4,612,985
	3,513,287	3,295,836
	3,204,116	2,062,660
	3,086,588	2,707,222
	2,507,883	1,548,381
	2,481,722	2,284,894
	2,400,000	-
	2,174,367	1,543,520
	916,805	1,425,712
	660,000	615,000
	72,000	-
	-	105,000
	549,134	693,163
	363,147	401,120
	311,341	563,428
	293,462	254,374
	227,622	316,242
	226,963	160,847
	119,227	259,381
	<u>80,194,128</u>	<u>70,325,830</u>
7	STAFF COSTS	
	28,504,855	23,954,832
	14,008,137	11,536,992
	2,201,021	1,800,555
	1,745,527	2,699,150
	1,270,827	1,596,348
	219,037	818,062
	207,225	201,674
	187,595	53,203
	110,242	223,560
	-	171,820
	<u>48,454,466</u>	<u>43,056,196</u>

The average number of employees during the year was 88 (2003 - 84).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh	2003 Sh
8 GRANT INCOME		
United States of America Agency for International Development (USAID)	41,119,667	1,236,884
Evangelischer Entwicklungsdienst e.V. (EED)	1,528,001	10,847,306
Hivos-Triadós Fonds	-	5,028,810
Plan International	-	660,000
Department for International Development (DFID)	-	2,494,465
Danish International Development Agency (DANIDA)	-	1,499,000
	<u>42,647,668</u>	<u>21,766,465</u>

Kshs 44,652,000 (Sh 41,119,667 + Sh 3,532,333) is in respect of collateralized funds granted by USAID as collateral for the Cooperative Bank Limited overdraft. In accordance with the terms of lending, the amount was to be treated as grant on expiry of the contract period. The difference of Sh 3,532,333 relates to amount refunded arising from non qualifying costs for grants given.

	Maturity date	Interest rate	2004 Sh	2003 Sh
9 SHORT TERM DEPOSITS				
The Co-operative Bank of Kenya Limited	7/01/05	6.00%	45,361,022	45,000,000
The Co-operative Bank of Kenya Limited	15/01/05	4.00%	30,000,000	-
The Co-operative Bank of Kenya Limited	15/03/05	9.00%	30,500,000	-
			<u>105,861,022</u>	<u>45,000,000</u>
Add: Accrued interest			346,031	1,050,411
			<u>106,207,053</u>	<u>46,050,411</u>
10 TREASURY BILLS				
Face value - maturing within 90 days			80,000,000	-
Less: unearned discount			(434,842)	-
			<u>79,565,158</u>	<u>-</u>

The weighted average effective interest rate as at 31 December 2004 was 3.5%.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh	2003 Sh
11 LOANS TO CUSTOMERS		
Loans - gross	373,980,037	269,356,452
Less: Provision for doubtful debts	(7,479,601)	(5,385,988)
	<u>366,500,436</u>	<u>263,970,464</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 2004 was 20% (2003 - 20%).

	2004 Sh	2003 Sh
12 STAFF LOANS		
Receivable within one year	3,499,563	1,462,074
Receivable after one year	3,715,254	451,753
	<u>7,214,817</u>	<u>1,913,827</u>

The loan maturity periods range from 1 to 3 years from the date of the loan disbursements. Interest is charged as per the fringe benefit tax rates prescribed by Income Tax Department.

	2004 Sh	2003 Sh
13 OTHER RECEIVABLES		
Administration fees - MEDP project	1,105,500	-
Due from NCKK	1,412,818	1,349,818
Staff debtors	1,399,966	418,321
Insurance claims	391,317	4,440,207
Deposits and prepayments	338,191	405,795
Withholding tax recoverable	233,653	233,653
	<u>4,881,445</u>	<u>6,847,794</u>

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

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

14 PROPERTY AND EQUIPMENT

	Freehold land and buildings Sh	Motor vehicles Sh	Equipment, furniture and and fittings Sh	Total Sh
COST				
At 1 January 2004	16,286,092	5,348,648	13,130,905	34,765,645
Additions	1,300,000	7,313,025	507,443	9,120,468
Disposals	-	(1,489,228)	-	(1,489,228)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	17,586,092	11,172,445	13,638,348	42,396,885
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
At 1 January 2004	1,328,546	5,348,648	10,291,564	16,968,758
Charge for the year	449,727	1,673,613	1,389,947	3,513,287
Eliminated on disposal	-	(1,489,228)	-	(1,489,228)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	1,778,273	5,533,033	11,681,511	18,992,817
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUES				
At 31 December 2004	<u>15,807,819</u>	<u>5,639,412</u>	<u>1,956,837</u>	<u>23,404,068</u>
At 31 December 2003	<u>14,957,546</u>	<u>-</u>	<u>2,839,341</u>	<u>17,796,887</u>

Included in property and equipment are assets with a cost of Sh 6,573,324 (2003 - Sh 8,062,552) which were fully depreciated. The normal depreciation charge on these assets would have been Sh 1,773,731 (2003 - Sh 2,146,191).

15 GROUP LOAN COLLATERAL SAVINGS

Group loan collateral savings represent amounts deposited by customers as collateral for loans advanced to the groups within which the company's customers belong.

The weighted average effective interest rate on group loan collateral savings as at 31 December 2004 was 0.05% (2003 - 5%).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 BORROWINGS (Continued)

Details of security and interest rate for loans and overdrafts (Continued)

- b) Jitegemee Trust Limited – Effective interest rate is 6% (2003 - 7%). It is repayable in 3 years and is secured by an unlimited irrevocable guarantee by the NCCK and a debenture on all the assets of the company.
- c) Plan International - Bullet loan without interest, repayment commences in April 2005. The loan is unsecured.
- d) MEDP loan is interest free, unsecured and has no specific repayment terms.
- e) The loan from NCCK Advocacy Programme is interest free, unsecured and has no specific repayment dates.
- f) Bank overdraft - Effective interest rate as at 31 December 2004 is 13% (2003 - 13%). It is secured by a fixed deposit of Sh 45,000,000 and a lien on all the company's Co-operative Bank of Kenya Limited bank accounts.

18 DESIGNATED FUNDS

The funds at 31 December 2003 were obtained from USAID in 1999 and were deposited with The Co-operative Bank of Kenya Limited as collateral for the bank overdraft facility (note 17(f)).

In accordance with the terms of lending, the amount was to be treated as grant on expiry of the contract period (note 8). Consequently in 2004 upon the expiry of the contract period, the amount has been recognised as income.

19 REVOLVING LOAN FUND

In October 2004, SMEP entered into an agreement with the Ministry of Labour and Manpower Development, Micro Enterprise Project (MEDP) supported by DANIDA for a revolving loan fund to aid farming activities in Taita/Taveta district. The project will run for a period of five years to year 2009.

	2004	2003
	Sh	Sh
20 NOTE TO THE CASH FLOW STATEMENT		
(a) Reconciliation of operating surplus to cash used in operations		
Operating surplus	68,541	381,832
Adjustments:		
Depreciation	3,513,287	3,295,836
Gain on disposal of property and equipment	(450,000)	(436,687)
Insurance claim	-	3,998,000
Cash generated from operations before working capital changes	3,131,828	7,238,981
Increase in loans to customers	(102,529,972)	(46,282,332)
Increase in staff loans	(5,300,990)	(264,848)
Decrease/(increase) in other receivables	1,966,349	(5,232,679)
Increase in inventories	(642,842)	(192,522)
Increase in group loan collateral savings	117,319,280	13,507,830
Increase in accruals and other liabilities	1,886,896	1,506,055
Decrease in designated funds	(44,652,000)	-
Cash used in operations	(28,821,451)	(29,719,515)

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh	2003 Sh
20	NOTE TO THE CASH FLOW STATEMENT (Continued)	
	(b) CASH AND CASH EQUIVALENTS	
	Bank and cash balances	17,273,726
	Short term deposits	23,739,189
	Investment in treasury bills	106,207,053
	Bank overdraft	79,565,158
		-
		(40,423,574)
	<u>141,988,842</u>	<u>29,366,026</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.

	2004 Sh	2003 Sh
21	CAPITAL COMMITMENTS	
	Authorised but not contracted for	1,130,431
		<u>985,589</u>
22	OPERATING LEASE COMMITMENTS	
	Non-cancellable future lease obligations payable in respect of rented premises:	
	Within one year	388,800
	Between one and two years	435,800
	Between three and five years	1,945,520
		14,800
	<u>2,349,120</u>	<u>1,712,000</u>

22 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.

23 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

24 CURRENCY

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