

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

**FINANCIAL STATEMENTS**

**31 DECEMBER 2007**

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

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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

CORPORATE INFORMATION

DIRECTORS	Mr J Muriu	-	Chairman
	Mr A Ngugi	-	Honorary Treasurer
	Rev Peter Karanja		
	Mr S Awuor		
	Mrs V Awori		
	Mr T Matiany		

CHIEF EXECUTIVE OFFICER                      P Mbungu

SECRETARY                                              L Ndolo  
P.O Box 45099  
00100 GPO  
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

PRINCIPAL 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 2007.

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 the provinces in Kenya.

The company is in the process of transforming to a regulated Micro-finance institution.

RESULTS

	Sh
Profit before tax	1,065,882
Tax Credit	3,900,535
	<hr/>
Profit for the year	4,966,417
	<hr/> <hr/> <hr/>

DIVIDEND

The company does not pay dividends.

DIRECTORS

The present directors are shown on page 2. Rev Mutava Musyimi resigned on 9 August 2007 and Rev Peter Karanja was appointed in his place. Prof. Roberto Mutiso retired on 25<sup>th</sup> October 2007 and has not been replaced.

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

2008

SMALL AND MICRO ENTERPRISE PROGRAMME  
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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 that 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 are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the 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

2008

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

We have audited the financial statements of Small and Micro Enterprise Programme set out on pages 6 to 24 which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in revenue reserves and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, 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**

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

SMALL AND MICRO ENTERPRISE PROGRAMME  
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INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Sh	2006 Sh
INTEREST INCOME	2	131,361,884	107,238,845
INTEREST EXPENSE	3	(23,825,928)	(21,311,993)
NET INTEREST INCOME		107,535,956	85,926,852
FEE INCOME	4	29,790,103	21,047,200
OTHER OPERATING INCOME	5	6,192,979	6,792,737
OPERATING INCOME		143,519,038	113,766,789
OPERATING EXPENSES	6	(119,627,520)	(101,853,286)
BAD AND DOUBTFUL DEBTS		(22,825,636)	(5,568,490)
PROFIT BEFORE TAX		1,065,882	6,345,013
TAXATION CREDIT/ (CHARGE)	8	3,900,535	(2,268,816)
PROFIT AFTER TAXATION		4,966,417	4,076,197

SMALL AND MICRO ENTERPRISE PROGRAMME  
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BALANCE SHEET  
31 DECEMBER 2007

	Note	2007 Sh	2006 Sh
<b>ASSETS</b>			
Bank and cash balances		5,158,515	14,231,916
Treasury bills	9	136,242,440	150,393,913
Loans to customers	10	594,921,604	447,667,968
Other receivables	11	2,932,955	2,502,946
Stationery inventory		343,594	663,772
Intangible assets	12	14,184,910	9,457,369
Property and equipment	13	23,611,794	25,428,358
Tax recoverable	8(c)	1,011,670	-
Deferred tax	18	4,170,091	-
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>782,577,573</b>	<b>650,346,242</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>RESERVES AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Group loan collateral savings	14	336,588,699	246,822,050
Accruals and other liabilities	15	7,652,312	7,274,478
Borrowings	16	220,570,001	181,674,386
Revolving loan fund	17	13,600,000	13,600,000
Deferred tax liability	18	-	325,220
Taxation payable	8(c)	-	1,449,964
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>578,411,012</b>	<b>451,146,098</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>RESERVES</b>			
Revenue reserves		204,166,561	199,200,144
		<hr/>	<hr/>
<b>TOTAL RESERVES AND LIABILITIES</b>		<b>782,577,573</b>	<b>650,346,242</b>
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 6 to 24 were approved by the board of directors on  
and were signed on its behalf by:

2008

)  
)  
) Directors  
)  
)

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

STATEMENT OF CHANGES IN REVENUE RESERVES  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Revenue reserves Sh
At 1 January 2006	195,123,947
Profit for the year	4,076,197
	-----
At 31 December 2006	199,200,144
	=====
At 1 January 2007	199,200,144
Profit for the year	4,966,417
	-----
At 31 December 2007	204,166,561
	=====

SMALL AND MICRO ENTERPRISE PROGRAMME  
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CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Sh	2006 Sh
Cash (used in)/generated from operations	19(a)	(48,014,317)	7,831,378
Tax paid	8(c)	(3,056,410)	-
		<hr/>	<hr/>
Net cash (used in)/generated from operations		(51,070,727)	7,831,378
		<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(3,208,470)	(8,814,471)
Purchase of intangible assets		(7,841,282)	(10,162,160)
Proceeds on disposal of property and equipment		-	800,000
		<hr/>	<hr/>
Net cash used in investing activities		(11,049,752)	(18,176,631)
		<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>			
Loans received		146,750,000	68,300,000
Loans repayments		(141,955,335)	(86,746,664)
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		4,794,665	(18,446,664)
		<hr/>	<hr/>
Decrease in cash and cash equivalents		(57,325,814)	(28,791,917)
Cash and cash equivalents at 1 January		158,085,541	186,877,458
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	19(b)	100,759,727	158,085,541
		<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards.

**Adoption of new and revised International Financial Reporting Standards (IFRS)**

*Standards and Interpretations effective in the current period*

In the current year, the company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual periods beginning 1 January 2007 and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments and management of capital (see note 24).

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 7; Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, IFRIC 8; Scope of IFRS 2, IFRIC 9; Reassessment of embedded derivatives and IFRIC 10; Interim Financial Reporting and Impairment. The adoption of these interpretations has not led to any changes in the company's accounting policies.

*Standards and Interpretations issued but not effective in the current period*

At the date of approval of these financial statements, the following new or revised Standards and Interpretations were in issue but not yet effective:

- IFRS 8 on Operating Segments
- IFRIC 11 - IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Arrangements
- IFRIC 13 - IAS 18 Revenue: Customer Loyalty Programs
- IFRIC 14 – IAS 19 Employee Benefits: Effect of Minimum Funding Requirements on Asset Ceiling.

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the company.

**Basis of accounting**

The company prepares its financial statements on the historical cost basis of accounting. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

**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 at the time of effecting the transactions.

**Grants and donations**

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

SMALL AND MICRO ENTERPRISE PROGRAMME  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

**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.

**Inventory**

Inventory represents stocks of stationery and is stated at cost.

**Property and equipment**

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

**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.

**Intangible assets-computer software costs**

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

**Financial instruments**

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

*Loans receivable*

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

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

*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*

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.

*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.

**Leases**

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

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.

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

1 ACCOUNTING POLICIES (Continued)

**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 taxation is provided, under 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

**Retirement benefits**

The company operates a provident fund for its employees. The scheme is administered independently by Insurance Company of East Africa and is funded by contributions from both the company and employees.

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.

	2007 Sh	2006 Sh
2 INTEREST INCOME		
Interest on loans	122,736,476	100,913,548
Interest on treasury bills and short term deposits	8,625,408	6,325,297
	-----	-----
	131,361,884	107,238,845
	=====	=====
3 INTEREST EXPENSE		
Interest on loans	19,459,128	17,916,349
Interest on group collateral savings	4,249,100	3,358,201
Interest on bank overdraft	60,457	37,443
Foreign exchange loss	57,243	-
	-----	-----
	23,825,928	21,311,993
	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007 Sh	2006 Sh	
4	FEE INCOME		
	Loan disbursement fees	18,053,377	13,229,235
	Loan application fees	9,763,466	6,836,865
	Membership fees	1,973,260	981,100
	29,790,103	21,047,200	
5	OTHER OPERATING INCOME		
	Sundry income	4,459,247	5,992,737
	Training fees	1,733,732	-
	Gain on disposal of property and equipment	-	800,000
	6,192,979	6,792,737	
6	OPERATING EXPENSES		
	Staff costs (note 7)	68,053,114	61,075,145
	Transformation costs	10,119,887	5,551,070
	Depreciation and amortisation	8,138,775	5,526,812
	Bank charges	4,664,190	5,445,937
	Office rent	4,567,483	3,421,730
	Travel and transport costs	4,432,690	4,061,558
	Programme costs	3,643,568	3,188,645
	Communication expenses	3,040,289	2,534,505
	Printing and stationery	2,698,415	2,332,892
	Loans receivable insurance	2,631,335	1,970,980
	Office expenses	2,138,144	1,893,601
	Auditors' remuneration	1,317,740	1,284,938
	Legal and professional fees	1,832,641	1,112,185
	Personnel insurance	659,233	339,266
	Advertising costs	334,203	220,666
	Office equipment maintenance	306,850	332,597
	Subscriptions and donations	261,470	521,977
	Computer expenses	297,264	652,168
	General insurance	250,166	139,245
	Clients training	228,871	-
	Fidelity insurance	11,192	247,369
	119,627,520	101,853,286	

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

	2007 Sh	2006 Sh
7	STAFF COSTS	
	39,858,524	35,849,599
	18,695,660	17,349,880
	3,904,059	2,561,171
	2,952,771	2,605,612
	1,749,922	1,748,804
	397,173	161,550
	214,670	523,579
	280,335	236,200
	-	38,750
	<u>68,053,114</u>	<u>61,075,145</u>
	=====	=====
8	TAXATION	
	(a) Tax expense	
	1,505,324	1,947,209
	(1,048,745)	321,607
	(3,446,566)	-
	(910,548)	-
	<u>(3,900,535)</u>	<u>2,268,816</u>
	=====	=====
	(b) Reconciliation of expected tax based on accounting profit to tax expense	
	1,065,882	6,345,013
	<u>1,065,882</u>	<u>6,345,013</u>
	=====	=====
	319,765	1,903,504
	136,814	365,312
	(3,446,566)	-
	(910,548)	-
	<u>(3,900,535)</u>	<u>2,268,816</u>
	=====	=====
	(c) Tax movement	
	1,449,964	(497,245)
	(3,056,410)	-
	1,505,324	1,947,209
	(910,548)	-
	<u>(1,011,670)</u>	<u>1,449,964</u>
	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007 Sh	2006 Sh
9		
TREASURY BILLS		
<b>Held to maturity:</b>		
Face value - maturing within 90 days	137,050,000	151,000,000
Less: unearned discount	(807,560)	(606,087)
	<u>136,242,440</u>	<u>150,393,913</u>
	=====	=====

The weighted average effective interest rate on treasury bills as at 31 December 2007 was 6.85% (2006 - 5.75%).

10		
LOANS RECEIVABLE		
Loans to customers	609,870,503	457,959,008
Staff loans	3,347,215	3,614,775
Less: Provision for doubtful loans	(18,296,114)	(13,905,815)
	<u>594,921,604</u>	<u>447,667,968</u>
	=====	=====

The maturity periods for loans to customers 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 2007 was 20% (2006 - 20%).

The maturity periods for staff loans 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.

11		
OTHER RECEIVABLES		
	2007 Sh	2006 Sh
Staff receivables	29,515	1,081,547
Due from National Council of Churches of Kenya (NCCCK)	77,136	317,136
Deposits and prepayments	2,246,620	524,579
Withholding tax recoverable	233,653	233,653
Accrued interest receivable	346,031	346,031
	<u>2,932,955</u>	<u>2,502,946</u>
	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007 Sh	2006 Sh
12 INTANGIBLE ASSETS		
COST		
1 January 2007	10,162,160	-
Additions	7,841,282	10,162,160
	<u>                    </u>	<u>                    </u>
At 31 December 2007	18,003,442	10,162,160
	=====	=====
AMORTISATION		
1 January 2007	704,791	-
Charge for the year	3,113,741	704,791
	<u>                    </u>	<u>                    </u>
At 31 December 2007	3,818,532	704,791
	<u>                    </u>	<u>                    </u>
NET BOOK VALUE		
At 31 December 2007	14,184,910	9,457,369
	=====	=====

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

13 PROPERTY AND EQUIPMENT

	Freehold land Sh	Buildings Sh	Motor Vehicles Sh	Equipment, furniture and and fittings Sh	Total Sh
<b>COST</b>					
At 1 January 2006	11,241,263	6,806,249	11,172,445	14,459,917	43,679,874
Additions	-	676,880	100,000	8,037,591	8,814,471
Disposals	-	-	(2,558,420)	-	(2,558,420)
At 31 December 2006	11,241,263	7,483,129	8,714,025	22,497,508	49,935,925
At 1 January 2007	11,241,263	7,483,129	8,714,025	22,497,508	49,935,925
Additions	-	-	354,706	2,853,764	3,208,470
At 31 December 2007	11,241,263	7,483,129	9,068,731	25,351,272	53,144,395
<b>DEPRECIATION</b>					
At 1 January 2006	-	2,000,820	7,206,730	13,036,416	22,243,966
Charge for the year	-	622,767	2,139,680	2,059,574	4,822,021
Eliminated on disposal	-	-	(2,558,420)	-	(2,558,420)
At 31 December 2006	-	2,623,587	6,787,990	15,095,990	24,507,567
At 1 January 2007	-	2,623,587	6,787,990	15,095,990	24,507,567
Charge for the year	-	353,849	1,964,710	2,706,475	5,025,034
At 31 December 2007	-	2,977,436	8,752,700	17,802,465	29,532,601
<b>NET BOOK VALUES</b>					
At 31 December 2007	11,241,263	4,505,693	316,031	7,548,807	23,611,794
At 31 December 2006	11,241,263	4,859,542	1,926,035	7,401,518	25,428,358

Included in property and equipment are assets with a cost of Sh 21,253,287 (2006 - Sh 15,539,280) which were fully depreciated. The normal depreciation charge on these assets would have been Sh 3,862,890 (2006 - Sh 3,947,648).

14 GROUP LOAN COLLATERAL SAVINGS

Group loan collateral savings represent amounts deposited by customers as collateral for loans advanced to the groups.

The weighted average effective interest rate on group loan collateral savings as at 31 December 2007 was 3.2% (2006 - 3.2%).

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

	2007 Sh	2006 Sh
15	<b>ACCRUALS AND OTHER LIABILITIES</b>	
Accruals	1,246,836	699,951
Sundry payables	6,356,369	5,382,220
Insurance claims	49,107	1,192,307
	<hr/>	<hr/>
	7,652,312	7,274,478
	<hr/>	<hr/>
16	<b>BORROWINGS</b>	
	<b>Loans:</b>	
The Co-operative Bank of Kenya Limited	78,500,000	43,000,000
Jitegemee Trust Limited	13,327,434	39,994,098
Micro Enterprises Support Programme Trust (MESPT)	58,461,329	48,750,000
Plan International	5,090,000	5,090,000
Plannet Finance	-	35,500,000
NCKK Advocacy Programme	2,800,000	2,800,000
Youth Enterprise Development Fund	1,750,000	-
Women Fund	20,000,000	-
	<hr/>	<hr/>
	179,928,763	175,134,098
	<hr/>	<hr/>
<b>Bank overdraft (secured)</b>	40,641,238	6,540,288
	<hr/>	<hr/>
	220,570,001	181,674,386
	<hr/>	<hr/>
	<hr/>	<hr/>
	<b>Maturity of the borrowings</b>	
Due within one year	140,401,030	146,346,952
Due after one year	80,168,971	35,327,434
	<hr/>	<hr/>
	220,570,001	181,674,386
	<hr/>	<hr/>
	<hr/>	<hr/>
	<b>Movement in loan balances:</b>	
At 1 January	175,134,098	193,580,762
Receipts in the year	146,750,000	68,300,000
Repayments in the year	(141,955,335)	(86,746,664)
	<hr/>	<hr/>
At 31 December	179,928,763	175,134,098
	<hr/>	<hr/>
	<hr/>	<hr/>

**Details of security and interest rate for loans and bank overdraft**

- a) The Co-operative Bank of Kenya Limited loan attracts interest at a rate of 11 % (2006 - 11%) per annum and is repayable within 5 years with effect from 2004 on a quarterly basis. The loan is secured by a USAID guarantee amounting to Sh 60 million (US\$ 750,000) and a floating debenture over all assets of the company.
- b) Jitegemee Trust Limited loan is payable in 3 years and is secured by an unlimited irrevocable guarantee by the NCKK and a debenture on all the assets of the company. The effective interest rate as at 31 December 2007 was 10% (2006 - 10%).
- c) MESPT loan is at a flat rate of 6% (2006 – 6%) and is secured by a floating debenture on all assets of the company.

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

16 BORROWINGS (Continued)

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

- d) Plan International loan is interest free and unsecured. It is repayable within a period of two years with effect from April 2006.
- e) Plannet Finance loan is payable in one year and is secured by a revocable promissory note issued by the company. The effective interest rate as at 31 December 2007 was 9.5% (2006 – 9.5%).
- f) The loan from NCKK Advocacy Programme was interest free and unsecured with no fixed repayment period.
- g) The bank overdraft is from The Co-operative bank of Kenya Limited and is secured by a deposit of Sh 30,000,000 and a lien on all the company's Co-operative Bank of Kenya Limited bank accounts. The effective interest rate as at 31 December 2007 was 13% (2006 – 13%).
- h) The loan from the Women Fund is secured by a guarantee from NCKK and an irrevocable promissory note from SMEP. The loan is repayable all at once after 3 years. The total loan allocation to SMEP was Sh 60 million but only Sh 20 million has been received.
- i) The loan from the Youth Enterprise Fund is secured by a floating charge over all assets of SMEP and is repayable at once after three years.

17 REVOLVING LOAN FUND

In October 2005, SMEP entered into an agreement with the Ministry of Labour and Manpower Development, Micro Enterprise Development 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.

18 DEFERRED TAX (ASSET)/LIABILITY

Deferred income taxes are calculated on all temporary differences under the liability method using the currently enacted tax rate of 30%. The net deferred taxation liability is attributable to the following items:

	2007 Sh	2006 Sh
Accelerated capital allowances	1,318,743	832,801
Provisions	(5,488,835)	(507,581)
	-----	-----
	(4,170,092)	325,220
	=====	=====
The movement on the deferred tax account is as follows:		
At 1 January	325,220	3,613
Income statement (credit)/charge (note 8)	(1,048,745)	321,607
Prior year overprovision	(3,446,566)	-
	-----	-----
	(4,170,091)	325,220
	=====	=====

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

	2007 Sh	2006 Sh
19	NOTE TO THE CASH FLOW STATEMENT	
(a)	Reconciliation of profit before tax to cash generated from operations	
	Profit before tax	6,345,013
	1,065,882	
	Adjustments:	
	Depreciation and amortisation	5,526,812
	Gain on disposal of property and equipment	(800,000)
	-----	-----
	Cash generated from operations before working capital changes	11,071,825
	9,204,657	
	Increase in loans receivable	(35,830,384)
	(147,253,636)	
	(Increase)/decrease in other receivables	149,546
	(430,009)	
	Increase/(decrease) in inventory	(66,958)
	320,178	
	Increase in group loan collateral savings	30,285,015
	89,766,649	
	(Decrease)/increase in accruals and other liabilities	2,222,334
	377,844	
	-----	-----
	Cash generated from operations	7,831,378
	(48,014,317)	
	=====	=====
(b)	CASH AND CASH EQUIVALENTS	
	Bank and cash balances	14,231,916
	5,158,515	
	Treasury bills	150,393,913
	136,242,440	
	Bank overdraft	(6,540,288)
	(40,641,228)	
	-----	-----
	100,759,727	158,085,541
	=====	=====

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.

	2007 Sh	2006 Sh
20	CAPITAL COMMITMENTS	
	Authorised but not contracted for	15,770,000
	39,705,184	
	=====	=====
	The authorised capital commitments relate to computer hardware and software for a new accounting system, a generator and office equipment.	
	2007 Sh	2006 Sh
21	CONTINGENT LIABILITIES	
	Guarantees	-
	15,000,000	
	=====	=====
	The company has guaranteed a loan advanced to the National Council of Churches of Kenya (NCCCK) by the Cooperative Bank of Kenya Limited.	

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

	2007 Sh	2006 Sh
22 OPERATING LEASE COMMITMENTS		
Non-cancellable future lease obligations payable in respect of rented premises:		
Within one year	2,377,377	1,625,441
In the second to fifth year inclusive	3,966,526	3,249,273
	<u>6,343,903</u>	<u>4,874,714</u>
	=====	=====

23 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

a) SMEP is a company limited by guarantee of the National Council of Churches of Kenya (NCCCK). The balances in the current account with NCCCK is disclosed on notes 11 and 16.

b) Key management compensation

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

	2007 Sh	2006 Sh
Salaries and other benefits	11,214,308	12,265,287
	<u>=====</u>	<u>=====</u>

24 RISK MANAGEMENT POLICIES

(a) Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of retained earnings.

The company's overall strategy remains unchanged from 2006.

**Gearing ratio**

The gearing ratio at the year end was as follows:

	2007 Kshs	2006 Kshs
Borrowings (note 16)	215,411,476	181,674,386
Revolving fund (note 17)	13,600,000	13,600,000
Cash and Cash Equivalents	(136,242,439)	(164,625,829)
	<u>92,769,037</u>	<u>30,648,557</u>
	=====	=====
Equity	217,139,755	199,200,144
Gearing ratio	42.7%	15.4%
	=====	=====

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

24 RISK MANAGEMENT POLICIES (Continued)

**(b) Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

**(c) Credit risk management**

Credit risk refers to the risk that a customer will default on its contractual obligations resulting in financial loss to the company. Receivables consist of Loans receivable and staff loans.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk.

The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

All loan receivables are safeguarded by customers collateral savings.

**(d) Liquidity risk management**

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from financial liabilities. The ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. Included in note 16 is a listing of additional undrawn facilities that the company has at its disposal to further reduce liquidity risk.

The table below analyses the company'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. The amounts disclosed in the table below are undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<b>Within 12 months Shs</b>	<b>Over 12 months Shs</b>
<b>At 31December 2007:</b>		
Accruals and other liabilities	6,371,096	-
Loans	99,759,792	80,168,971
Bank overdraft	35,482,713	-
	=====	=====
<b>At 31December 2006:</b>		
Accruals and other liabilities	7,274,478	-
Loans	139,806,644	35,327,434
Bank overdrafts	6,540,288	-
	=====	=====

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

24 RISK MANAGEMENT POLICIES (Continued)

**(e) Financial risk management objectives**

The company's activities expose it to a variety of financial risks including credit and liquidity risks as well as effects of changes in interest rates. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

Market risk

(i) Foreign exchange risk

The company is not exposed to foreign exchange risk hence this risk is not relevant

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The company holds interest bearing assets in the form of loan advances and treasury bills. An interest rate of 20% per annum is charged on loans advanced. The company also has borrowings in the form of a bank overdraft. Bank overdraft interest rates are charged at the bank's base rate as amended from time to time.

25 COUNTRY OF INCORPORATION

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

26 CURRENCY

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