SPECIMEN FINANCIAL STATEMENTS

KENYA SME LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2009

Note 1: ***This specimen provides an illustrative set of financial statements prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the reporting requirements of the Kenyan Companies Act for accounting periods beginning 1st January 2009. The illustration is in respect of a company that is preparing financial statements that comply with IFRS for SMEs for the first time, having previously complied with full IFRS. The presentation format is not the only acceptable form of presentation and other forms of presentation may be acceptable provided that they comply with the disclosure requirements of IFRS for SMEs.***

The specimen is intended for use by the staff of RSM Ashvir and its clients only. The specimen is not an interpretation of the IFRS for SMEs, and where necessary, reference should be made to the standard.

Note 2: ***The specimen does not cover the following Sections of the IFRS for SMEs:***

- ***9. Consolidated and separate financial statements***
- ***12. Other financial instruments issues***
- ***15. Investments in joint ventures***
- ***19. Business combinations and goodwill***
- ***24. Government grants***
- ***26. Share-based payment***
- ***31. Hyperinflation***
- ***34. Specialised activities***

Note 3: ***Each item in the specimen financial statements is referenced (on the left) to the applicable presentation and disclosure requirements of the IFRS for SMEs and the Kenyan Companies Act. The following reference format has been used in this specimen:***
9.26: refers to paragraph 9.26 of the IFRS for SMEs
CA: refers to the reporting requirements of the Kenyan Companies Act
BP: refers to best reporting practice adopted in Kenya

CONTENTS

CA	**Board of directors**	………………………………..
		………………………………..
		………………………………..
		………………………………..
		………………………………..
BP	**Company secretary**	……………………………….
		……………………………….
		……………………………….
	Registered office	L.R. No. ……………………..
		…th Floor, …………. Building
		…………………. Street/Road
		P.O. Box ……………….
		Nairobi,
		Kenya.
	Independent auditor	RSM Ashvir
		Certified Public Accountants
		1st Floor, Reliance Centre,
		Woodvale Grove, Westlands
		P.O. Box 349 - 00606
		Nairobi,
		Kenya.
BP	**Principal bankers**	………………………………..
		………………………………..
BP	**Legal advisers**	………………………………..
		………………………………..

CA - 157(1) The directors submit their report together with the audited financial statements for the year ended 31st December 2009, which disclose the state of affairs of the company.

Principal activities

CA The principal activities of the company are …………………………………………………………..

Results and dividends

CA - 157(1) The net profit/(loss) for the year of Shs ……….. (2008: Shs …...……) has been added to/deducted from retained earnings. During the year, an interim dividend of Shs ………… (2008: Shs …………) was paid. The directors recommend the approval of a final dividend of Shs .... (2008: Shs ....).

Or
The net profit/(loss) for the year of Shs ………… (2008: Shs …………) has been added to/deducted from retained earnings. The directors do not recommend the declaration of a dividend for the year.

Directorate

CA The directors who held office during the year and to the date of this report are set out on page 1.

Auditor

The company's auditor, RSM Ashvir, has expressed its willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act.

Or
During the year, RSM Ashvir was appointed as the company's auditor and has expressed its willingness to continue in office in accordance with the Section 159 (2) of the Kenyan Companies Act.

By order of the board

…………………………………..
Director/Company Secretary

Nairobi …………..…………………... 2010

Kenya SME Limited
Statement of directors' responsibilities
For the year ended 31st December 2009

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

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 as at 31st December 2009 and of its profit/loss and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on ………………………………….. 2010 and signed on its behalf by:

……………………………………	……………………………………
Director	**Director**

Report on the financial statements

We have audited the accompanying financial statements of Kenya SME Limited, set out on pages 5 to 20 which comprise the balance sheet as at 31st December 2009, the profit and loss account, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2009 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act.

CA **Report on other legal requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

Certified Public Accountants
Nairobi

………………………………….. 2010

3.18 **PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2009**

			2009	**2008 Restated**
3.23(d)		**Note**	**Shs'000**	**Shs'000**
5.5(a)	Revenue	4		
5.9	Cost of sales			
5.9	**Gross profit**			
5.9	Other income	5		
5.9	Selling and distribution expenses			
5.9	Administrative expenses			
5.9	Establishment expenses			
5.5(b)	Finance costs	6		
5.9	**Profit/(loss) before tax**	7		
5.5(d)	Income tax (expense)/income	8		
3.19	**Profit/(loss) and total comprehensive income for the year**			
CA	**Dividends:**			
	Interim - paid in year	9		
	Final - proposed	9		

5.11 *Note: The format illustrated above aggregates expenses according to their function (cost of sales, distribution, administrative etc). Alternatively, expenses may be aggregated according to their nature (raw materials and consumables, employee salaries and other benefits, depreciation and amortisation, impairment, etc).*

4.9 **BALANCE SHEET AT 31ST DECEMBER 2009**

		Note	2009 Shs'000	2008 Restated Shs'000
	EQUITY			
4.11(f)	Share capital	10		
CA	Share premium	10		
4.11(f)	Retained earnings			
4.2(r)	**Total equity**			
4.4	**Non-current liabilities**			
4.2(l)	Borrowings	11		
4.2(p)	Post-employment benefit obligation	12		
	Total non-current liabilities			
	REPRESENTED BY			
4.4	**Non-current assets**			
4.2(c)	Investment in quoted shares	13		
4.2(j)	Investment in associate	14		
4.2(e)	Property, plant and equipment	15		
4.2(g)	Intangible assets	16		
4.2(o)	Deferred tax asset	17		
4.4	**Current assets**			
4.2(a)	Cash at bank and in hand			
4.2(b)	Trade and other receivables	18		
4.2(n)	Current tax recoverable			
4.2(d)	Inventories	19		
4.4	**Current liabilities**			
4.2(a)	Borrowings	11		
4.2(l)	Trade and other payables	19		
4.2(n)	Current tax payable			
4.2(p)	Provision for warranty obligations	21		
4.2(p)	Current portion of post-employment benefit obligation	12		
	Net current assets/(liabilities)			

32.9 The financial statements on pages 5 to 20 were approved for issue by the board of directors on …………………... 2010 and were signed on their behalf by:

……………………
Director

……………………
Director

6.3 **STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2009**

		Note	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends* Shs'000	Total Shs'000
	At 1st January 2008							
	As previously reported							
6.3(b)	Prior period adjustment	22						
	As restated				-			
6.3(c)	Profit/(loss) for the year							
	Dividends:							
6.3(c)	- Final for 2007							
	- Interim for 2008	9						
32.8	- Proposed for 2008*	9						
	At 31st December 2008				-			
	At 1st January 2009							
	As previously reported							
6.3(b)	Prior period adjustment	22						
	As restated				-			
6.3(c)	Profit/(loss) for the year							
6.3(c)	Shares issued for cash	10						
	Dividends:							
6.3(c)	- Final for 2008	9						
	- Interim for 2009							
32.8	- Proposed final for 2009*	9						
	At 31st December 2009				-			

32.8 ** Presenting proposed dividends as a segregated component of retained earnings (as illustrated above) is optional.*

3.18 *Note: if the only changes to equity during the periods presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies, an entity may present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.*

7.3 **STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2009**

		Note	2009 Shs'000	2008 Restated Shs'000
	Cash flows from operating activities			
7.7(a)	Profit for the year			
7.7(a)	Adjustments for:			
7.17	Income tax expense			
7.8(c)	Depreciation of property, plant and equipment	15		
	Impairment loss	15		
7.8(b)	Amortisation of intangibles	16		
	Fair value (gain)/loss on quoted shares	13		
7.13	Unrealised exchange (gain)/loss			
	Gain on sale of equipment			
7.14	Dividend income	5		
7.14	Interest expense	6		
7.8(a)	Changes in operating assets and liabilities			
	Decrease (increase) in trade and other receivables			
	Decrease (increase) in inventories			
	Increase (decrease) in trade payables			
	Increase in current and long-term employee benefit payable			
	Cash generated from operations			
7.14	Interest paid			
7.17	Income tax paid			
	Net cash from operating activities			
7.3	**Cash flows from investing activities**			
	Purchase of quoted shares	13		
7.14	Dividends received on quoted shares			
7.14	Dividend received from associate			
	Proceeds from sale of equipment			
	Purchases of equipment	15		
	Net cash used in investing activities			
7.3	**Cash flows from financing activities**			
	Payment of finance lease liabilities			
	Repayment of borrowings			
7.14	Dividends paid			
	Net cash used in financing activities			
	Net increase (decrease) in cash and cash equivalents			
	Cash and cash equivalents at start of year			
7.13	Exchange gain/(loss) on cash and cash equivalents			
	Cash and cash equivalents at end of year	23		

NOTES

1. General Information

3.24(a)
3.24(b)

Kenya SME Limited (the Company) is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address of its registered office and principal place of business is .... The principal activities of the company are ....

8.5

2. Basis of preparation and summary of significant accounting policies

3.23(d)
3.23(e)
3.3 8.5(a)

These financial statements have been prepared on a going concern basis and in compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. They are presented in Kenya Shillings (Shs), rounded to the nearest thousand. The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

35.12

The financial statements of the previous year were prepared in accordance with full International Financial Reporting Standards. Prior period adjustments have been passed and the comparative figures restated in accordance with the transition procedures set out in the IFRS for SMEs. A description of the nature of each change in accounting policy and reconciliations are set out in Note 22.

23.30(a)

Revenue recognition

Revenue from sales of goods is recognised when the goods are delivered and title has passed. Revenue from sale of services is recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of Kenya.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

Glossary

Income tax expense represents the sum of the tax currently payable and deferred tax.

29.2

The tax currently payable is based on taxable profit for the year, determined in accordance with the Kenyan Income Tax Act.

29.15
29.16
29.21
29.22

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

29.19

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

Translation of foreign currencies

30.2 30.7
30.1

All transactions in foreign currencies are initially recorded in Kenya Shillings, using the spot rate at the date of the transaction. Foreign currency monetary items at the balance sheet date are translated using the closing rate. All exchange differences arising on settlement or translation are recognised in profit or loss.

NOTES (CONTINUED)

2. Basis of preparation and summary of significant accounting policies (continued)

Share capital, share premium, and dividends

22.1 Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of the par value are classified as 'share premium' in equity. Dividends are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting*.

** This is optional.*

14.12(a) *Investments in associates*

14.5 Investments in associates are accounted for at cost less any accumulated impairment losses.

Dividend income from investments in associates is recognised when the company's right to receive payment has been established. It is included in other income.

Financial assets

11.14(c) Investments in quoted shares are initially recognised at the transaction price and subsequently measured at fair value, with changes in fair value being recognised in profit or loss. Fair value is determined using the quoted bid price at the reporting date.

11.13
11.14 Trade and other receivables are initially recognised at the transaction price. Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

*Property, plant and equipment, including investment property**

17.31 (a) Items of property, plant and equipment, including investment property, are measured at cost less accumulated depreciation and any accumulated impairment losses.

17.31 (b) Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

17.31(c)	Buildings	2 per cent
	Fixtures and equipment	10-30 per cent

17.23 If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

17.30
17.28 On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in profit or loss.

** This specimen illustrates investment property being accounted for using the cost model. Investment property whose fair value can be measured reliably without undue cost or effort must be measured at fair value at each reporting date .*

Intangible assets

18.27 (a) & (b) Intangible assets are purchased computer software that is stated at cost less accumulated depreciation and any accumulated impairment losses. It is amortised over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

NOTES (CONTINUED)

2. Basis of preparation and summary of significant accounting policies (continued)

Impairment of non-financial assets

27.7 At each reporting date, property, plant and equipment, investment property, intangible assets, and investments in associates are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

27.29 If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

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

20.9
20.11
20.12 Rights to assets held under finance leases are recognised as assets of the company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

20.15 Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

13.22(a) *Inventories*

13.4 Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method.

Financial liabilities

11.13
11.14 Financial liabilities are initially recognised at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

Employee benefits - post-employment benefits

28.19
28.41 The liability for post-employment benefit obligations relates to terminal gratuities. All full-time staff, excluding directors, are covered by the programme. Employees who resign or retire after completing at least five years of service are entitled to fifteen days pay for each completed year of service. The company does not fund this obligation in advance.

28.41(c) The company's obligations, both vested and unvested, to pay terminal gratuities to employees are recognised based on employees' service up to the balance sheet date and their salaries at that date.

NOTES (CONTINUED)

2. Basis of preparation and summary of significant accounting policies (continued)

Employee benefits - post-employment benefits (continued)

28.13 The company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to profit or loss in the year to which they relate.

Provision for warranty obligations

All goods sold by the company are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the company's option. When revenue is recognised, a provision is made for the estimated cost of the warranty obligation.

8.7 **3. Key sources of estimation uncertainty**

Warranty obligations: estimates made in determining the warranty provision are based on past experience and may change based on the actual cost of fulfilling the warranty.

23.30(b) **4. Revenue**

	2009 Shs'000	2008 Shs'000
Sale of goods		
Sale of services		

23.30 **5. Other income**

	2009 Shs'000	2008 Shs'000
Rental income from investment property		
Dividends received from investments in quoted shares		
14.13 Dividend received from associate		
Fair value gain - quoted shares		
Gain on disposal of property, plant and equipment		

11.48(b) **6. Finance costs**

	2009 Shs'000	2008 Shs'000
Interest on bank loan and overdraft		
Interest on finance leases		
Exchange loss/(gain) on foreign currency borrowings*		

** Such exchange losses/gains should be classified as finance costs only if they can be regarded as an adjustment to interest costs.*

7. Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

13.22(c) Cost of inventories recognised as expense
CA Depreciation of property, plant and equipment
27.32(a) Impairment loss on property, plant and equipment (included in cost of sales)
20.16(b) Operating lease rentals
30.25(a) Foreign exchange loss on trade payables (included in cost of sales)
28.40 Post-employment benefits - contribution to NSSF
CA Auditor's remuneration

NOTES (CONTINUED)

	8. Income tax expense	**2009 Shs'000**	**2008 Shs'000**
29.31(a)	Current tax		
29.31(c)	Deferred tax (Note 19)		
29.31(b)	Under-provision in prior year		

29.32(c) Income tax is calculated at 30 per cent (2008: 30 per cent) of the estimated assessable profit for the year.

Income tax expense for the year of Shs ………… in 2009 (2008: Shs ....) differs from the amount that would result from applying the tax rate of 30 per cent (both 2009 and 2008) to profit before tax because, under the tax laws of Kenya, expenses in respect of .... amounting to Shs .... (2008: Shs ....) that are recognised in measuring profit before tax are not tax-deductible.

9. Dividends

At the forthcoming annual general meeting, a final dividend in respect of the year ended 31st December 2009 of Shs ………… per share amounting to Shs ………… (2008: Shs ……….. per share amounting to Shs ……………) is to be proposed. During the year, an interim dividend of Shs ………... per share amounting to Shs ………….. (2008: Shs ………. per share amounting to Shs ……………) was paid. The total amount of dividend paid and proposed per share for the year is Shs .... (2008: Shs ....) amounting to Shs .... (2008: Shs ....).

	10. Share capital	**No. of ordinary shares issued**	**Issued and fully paid up capital Shs'000**	**Share premium Shs'000**
4.12(a)	At 1st January 2008 and 31st December 2008			
	Issued for cash in 2009			
	At 31st December 2009			

The total number of authorised ordinary shares is ……………… (2008: …..……….) with a par value of Shs …………… each.

On ………………….., the issued and paid up capital was increased from Shs ……….. to Shs ……….. by an issue for cash of ………… ordinary shares at a price of Shs ……….. per share.

4.12(b) The share premium account represents the excess of the price paid for shares over the par value and is not distributable.

	11. Borrowings	**2009 Shs'000**	**2008 Shs'000**
	Non-current		
	Bank loan - fully repayable in 200_, prepayable without penalty		
	Obligations under finance leases		
	Current		
	Bank overdraft		
	Bank loan		
	Obligations under finance leases		
CA	Total borrowings		

NOTES (CONTINUED)

11. Borrowings (continued)

11.46 The bank overdraft and loan are secured by a floating lien over land and buildings owned by the company with a carrying amount of Shs …………. at 31st December 2009 (2008: Shs …………..).

11.42 The bank loan is denominated in US dollars.

11.42 Interest is payable on the bank overdraft at 200 points above the London Interbank Borrowing Rate (LIBOR). Interest is payable on the seven-year bank loan at a fixed rate of 5 per cent of the principal amount.

11.47 The company defaulted in making payments of principal on the bank loan during the year. The amounts have been paid, together with penalty interest, subsequent to the year-end.

Obligations under finance leases

20.13 (b) The company holds one piece of specialised machinery with an estimated useful life of five years under a five-year finance lease. The future minimum lease payments are as follows:

	2009 Shs'000	**2008 Shs'000**
Not later than one year		
Later than one year but within five years		
Later than five years		

The obligation is classified as follows:

Current liability		
Non-current liability		
Total		

21.14 **12. Post-employment benefit obligation - terminal gratuity**

28.41(e) The company's employee benefit obligation for terminal gratuities, based on employees' years of service and salaries at the balance sheet date is as follows:

		2009 Shs'000	**2008* Shs'000**
	At start of year		
28.41(g)	Additional accrual during the year, recognised in the profit and loss account		
	Benefit payments made in year		
	At end of year		

The obligation is classified as:

Current liability		
Non-current liability		
Total		

** Voluntary disclosure of comparative figures.*

NOTES (CONTINUED)

11.41(a) **13. Investment in quoted shares**

	2009 Shs'000	2008 Shs'000
At start of year		
Purchase of shares		
Fair value gain/(loss)		
At end of year		

14. Investment in associate

The company owns 35 per cent of an associate whose shares are not publicly traded.

14.12(b)	Cost of investment in associate
14.12(c)	Dividend received from associate (included in other income)

17.31
4.11(a) **15. Property, plant and equipment**

	Land and buildings Shs'000	Investment property Shs'000	Fixtures and equipment Shs'000	Total Shs'000
Cost				
1st January 2009				
Additions				
Disposals				
31st December 2009				
Accumulated depreciation and impairment				
1st January 2009				
Annual depreciation				
11.48(c) Impairment				
Less accumulated depreciation on assets disposed of				
31st December 2009				
Carrying amount				
31st December 2009				

During 2009, the company noticed a significant decline in the efficiency of a major piece of equipment and so carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of Shs ………… .

20.13(a) The carrying amount of the company's fixtures and equipment includes an amount of Shs …………. (2008: ………….) in respect of assets held under finance leases.

4.14 On 10th December 2009, the directors resolved to dispose of a machine. The machine's carrying amount of Shs ……….. is included in fixtures and equipment at 31st December 2009, and trade payables includes the company's remaining obligation of Shs ………. on the acquisition of this machine. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset and related liability, no impairment loss has been recognised.

17.32(b) Contractual commitments for the acquisition of property, plant and equipment amounted to Shs ……... at 31st December 2009 (2008: Shs ……...).

NOTES (CONTINUED)

18.27 **16. Intangible assets - software**

	2009 Shs'000	2008 Shs'000
Cost		
At start of year		
Additions		
Disposals		
At end of year		
Accumulated amortisation and impairment		
At start of year		
Annual amortisation (included in administrative expenses*)		
At end of year		
Carrying amount		
At end of year		

18.28 The intangible asset comprises two items of application software: general ledger, with a carrying amount of Shs ……..... and remaining amortisation period of 2 years; and payroll with a carrying amount of Shs …....... and remaining amortisation period of 4 years.

** If the entity classifies its expenses by nature in its income statement, this would say 'included in depreciation and amortisable expense'.*

17. Deferred tax

29.3 The deferred tax assets are the tax effects of expected future income tax benefits relating to:

(a) differences between the carrying amounts and tax written down values of property, plant and equipment;
(b) the post-employment benefit obligation (Note 12), which will not be tax-deductible until the benefit is actually paid but has already been recognised as an expense in measuring the company's profit for the year;
(c) the foreign exchange loss on trade payables, which will not be tax-deductible until the payables are settled but has already been recognised as an expense in measuring the company's profit for the year.

29.31(g) The company has not recognised a valuation allowance against the deferred tax assets because, on the basis of past years and future expectations, management considers it is probable that taxable profits will be available against which the future income tax deductions can be utilised.

29.32(d) The following are the deferred tax liabilities (assets) recognised by the company:

	Property, plant and equipment Shs'000	Foreign exchange loss Shs'000	Terminal gratuities Shs'000	Total Shs'000
1st January 2008				
Charge (credit) to profit or loss for the year				
1st January 2009				
Charge (credit) to profit or loss for the year				
31st December 2009				

29.29 The deferred tax assets for the foreign exchange loss and the provision for terminal gratuities and the deferred tax liability for property, plant and equipment relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the balance sheet.

NOTES (CONTINUED)

4.11(b) **18. Trade and other receivables**

	2009 Shs'000	2008 Shs'000
Trade debtors (Note 25)		
Prepayments		

4.11(c) **19. Inventories**
13.22(b)

Raw materials		
Work in progress		
Finished goods		

4.11(d) **20. Trade and other payables**

Trade payables		
VAT payable		
Accrued expenses		

Trade payables at 31st December 2009 include Shs ………… denominated in foreign currencies (2008: nil).

21.14 **21. Provision for warranty obligations**

	2009 Shs'000	2008* Shs'000
Changes in the provision for warranty obligations during 2009 were:		
At start of year		
Additional accrual during the year		
Cost of warranty repairs and replacement during the year		
At end of year		

The obligation is classified as a current liability because the warranty is limited to twelve months.

** Voluntary disclosure of comparative figures.*

NOTES (CONTINUED)

22. Transition to the IFRS for SMEs

35.13(a) To comply with IFRS for SMEs, the following changes in accounting policy have been made and applied retrospectively:

i) Property, plant and equipment is now carried at historical cost, less depreciation. Previously, property, plant and equipment had been periodically revalued. The carrying amount of property, plant and equipment at the date of the last revaluation (__________ 200_) has been taken as deemed cost and the revaluation surplus at 1st January 2008 has been transferred to retained earnings.
ii) The investment in associate is now carried at cost. Previously it was accounted for using the equity method, with the company's share of the profit or loss of the associate being recognised in the profit and loss account. Investments in associates have therefore been restated at cost as at 1st January 2008, with retained earnings adjusted accordingly.
iii) Post-employment benefit obligations are now measured based on employees' service and salaries at the balance sheet date. Previously they were determined by an actuary using the projected unit credit method, which involved assumptions in respect of service after the balance sheet date and salary increases during that period. The provision has therefore been restated at 1st January 2008, with retained earnings adjusted accordingly.

35.13(b) The effects on equity of these changes in accounting policy has been as follows:

	Share capital Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Total equity Shs'000
At 1st January 2008				
As previously reported				
Transfer of revaluation surplus				
Investment in associate				
Employee benefit obligations				
As restated		-		
At 31st December 2008				
As previously reported				
Transfer of revaluation surplus				
Investment in associate				
Employee benefit obligations				
As restated		-		

35.13(c) and the effect on the profit or loss for the year ended 31st December 2008 has been as follows:

	2008 Shs'000
As previously reported	
Investment in associate	
Employee benefit obligations	
As restated	

NOTES (CONTINUED)

7.2	**23. Cash and cash equivalents**	**2009 Shs'000**	**2008 Shs'000**
	Cash on hand		
	Overdrafts		

24. Commitments under operating leases

20.16 (c) The company rents several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

	2009 Shs'000	**2008 Shs'000**
Minimum lease payments under operating leases recognised		

20.16 (a) At year-end, the company has outstanding commitments under non-cancellable operating leases that fall due as follows:

Within one year		
Later than one year but within five years		
Later than five years		

25. Related party transactions

33.9 The company sells goods to its associate (see Note 14), which is a related party, as follows:

	Sales of goods		**Amounts owed to the company by the related party and included in trade receivables at year-end**	
	2009 Shs'000	**2008 Shs'000**	**2009 Shs'000**	**2008 Shs'000**
Associate				

The payments under the finance lease (see Note 11) are personally guaranteed by a principal shareholder of the company. No charge has been requested for this guarantee.

33.7 CA The total remuneration of directors and other members of key management in 2009 (including salaries and benefits) was Shs ………… (2008: Shs …………). Of this amount, directors' remuneration amounted to:

	2009 Shs'000	**2008 Shs'000**
As executives		
Fees		
Total		

NOTES (CONTINUED)

21.15 **26. Contingent liabilities**

During 2009, a customer initiated proceedings against Kenya SME Limited for a fire caused by a faulty product supplied by the company. The customer asserts that its total losses are Shs …………. and has initiated litigation claiming this amount.

The company's legal counsel do not consider that the claim has merit, and the company intends to contest it. No provision has been recognised in these financial statements as the directors do not consider it probable that a loss will arise.

32.10 **27. Events after the end of the reporting period**

On ………………. 2010, there was a flood in one of the company's warehouses. The cost of refurbishment is expected to be Shs ………….. The reimbursements from insurance are estimated to be Shs …………..

MANUFACTURING ACCOUNT

1. COST OF SALES	**2009 Shs'000**	**2008 Shs'000**
Opening stock of finished goods and work-in-progress		
Cost of raw and packing materials consumed (1.1)		
Direct production costs (1.2)		
Closing stock of finished goods and work-in-progress		

1.1 COST OF RAW AND PACKING MATERIALS CONSUMED

Opening stock		
Purchases		
Closing stock		

1.2 DIRECT PRODUCTION COSTS

Salaries and wages		
Staff amenities		
Staff uniforms		
Staff medical		
Factory rent and rates		
Electricity and water		
Fuel and gas		
Security		
Consumables		
Machinery repairs and maintenance		
Vehicle running and maintenance		
Insurance		
Depreciation of property, plant and equipment		
Amortisation of prepaid operating lease rentals		
Research and development		
Factory general expenses		

Kenya SME Limited
Supplementary information
For the year ended 31st December 2009

SCHEDULE OF OPERATING EXPENDITURE

		2009 Shs'000	2008 Shs'000
1.	**SELLING AND DISTRIBUTION EXPENSES**		
	Salaries and wages		
	Insurance		
	Vehicle running and maintenance		
	Staff travel and entertainment		
	Advertising and sales promotion		
	Marking fees		
	Carriage outwards		
	Depreciation of property, plant and equipment		
	Total selling and distribution expenses		
2.	**ADMINISTRATIVE EXPENSES**		
	Employment:		
	Salaries and wages		
	Staff medical		
	Provision for leave		
	Provision for terminal gratuities		
	Staff training expenses		
	Total employment costs		
	Other administration expenses:		
	Directors' remuneration		
	- As executives		
	- Fees		
	Directors' medical		
	Management fees		
	Postages and telephones		
	Vehicle running		
	Entertainment and travel		
	Printing and stationery		
	Advertising and sales promotion		
	Computer expenses		
	Audit fees		
	- Current year		
	- Under/(over) provision in prior year		
	Legal and professional fees		
	Secretarial fees		
	Bank charges and commissions		
	Miscellaneous		
	Total other administration expenses		
	Total administrative expenses		

SCHEDULE OF OPERATING EXPENDITURE (CONTINUED)

3. ESTABLISHMENT EXPENSES	2009 Shs'000	2008 Shs'000
Rent and rates		
Electricity and water		
Repairs and maintenance		
Insurance		
Security		
Licences and subscriptions		
Depreciation of property, plant and equipment		
Depreciation of investment property		
Amortisation of pre-paid operating lease rentals		
Amortisation of intangible assets		
Total establishment expenses		