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REPORT OF THE CONTROLLER AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE 2006

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SCHOOL EQUIPMENT PRODUCTION UNIT

MAKERS OF SCHOOL EQUIPMENT AND TEACHING AIDS

P.O. Box 25140 - 00603 NAIROBI Telephone: +254 - 020 - 3869279,3874582

Cable: SEPU FAX No. 3861232 and Workshops: K.S.T.C NGONG ROAD

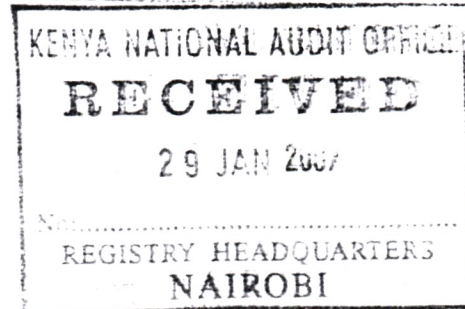
E-mail: sepu@wananchi.com,

Website: www.sepukenya.com

V.A.T No. 013570F

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Please address all correspondence to the Managing Director

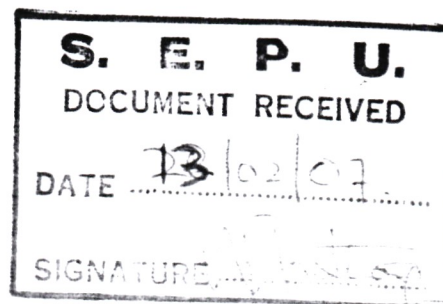


FINANCIAL STATEMENTS

FOR THE

FINANCIAL YEAR ENDED

30TH JUNE 2006



School Equipment Production Unit

A company limited by guarantee and not having a share capital

**Financial Statements
for the year ended 30th June 2006**

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School Equipment Production Unit

A Company limited by guarantee and not having a share capital.
The Unit is incorporated under the company's Act cap. 486.

Directors Report

The directors submit their report together with audited accounts for the year ended 30 June 2006

Principal Activity:-

The Principal activity of the Company continue to be designing, producing and selling science educational equipments.

Reserves:-

The Directors propose to carry forward the balance of the profit amounting to Kshs. 9,748,787.

Dividends:-

The company's Articles of Association prohibits payment of Dividends.

Directors:-

The Directors who served during the year were:-

Prof. David N. Kariuki

Mr. Jason Akoyo

Prof. Isaac O. Kibwage

Mrs. Christine P.N. Nakitare

Prof. Henry M. Thairu

Mrs. Neilias M. Kinyori

Mr. Charles I. Imbali

Mrs. Nancy W. Karimi

Mr. Elkanah K. Lagatt

Mrs. Lydia Nzomo

Mr. David Siele

Registered Office

Kenya Science Teachers' College
Ngong Road,
P.O Box 25140-00603
Nairobi, Kenya.

Bankers

National Bank of Kenya Limited,
Harambee Avenue Branch,
P.O Box 41862,
Nairobi, Kenya.

Kenya Commercial Bank Limited,
Milimani Branch,
P.O Box 69695,
Nairobi, Kenya.

Auditors:-

The Auditor General Corporations will continue auditing the Corporations accounts as stipulated under section 2 (c), of the State Corporations Act Cap 446

School Equipment Production Unit


Statement of Directors' responsibilities

Company law requires the directors to prepare financial statement 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 profit or loss of the Company for that period. In preparing those financial statements the directors are required to: -

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

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

Signed.


.....
DIRECTOR


.....
DIRECTOR / SECRETARY

DATE: 21st Dec 2006

DATE: 21/12/2006



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE 2006

I have audited the financial statements of School Equipment Production Unit for the year ended 30 June 2006 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Unit and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those Standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and the significant estimates made by the directors as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for the opinion.

1. Property, Plant and Equipment – Kshs.1,618,128

As indicated in previous reports the School Equipment Production Unit holds title to land reference no. 290/4009 at Imara Daima, Embakasi, Nairobi, measuring 5.10 hectares that has not been valued and incorporated in the financial statements. Further, the land has reportedly been encroached upon by squatters. This situation is indicative of significant impairment on some of the properties. Consequently, I am unable to confirm whether the carrying values, as stated in the financial statements reflect the fair values of the properties as at the Balance Sheet date.

2. Debtors – Kshs.29,229,168

As disclosed in note 4 to the financial statements, gross debtors figure of Kshs.29,229,168 before provision for doubtful debts of Kshs.13,949,531 includes and amount of Kshs.15,279,637 trade debtors most of which have been outstanding since the years 1992 to 1998. The debtors amount also include staff advances of Kshs.1,162,428 out of which Kshs.679,080 is due from a deceased officer. In view of the above, I am unable to confirm whether the Unit will be able to recover these amounts and if so when. Any additional provision that would have been necessary in relation to these uncertainties has not been incorporated in the financial statements

Opinion

Except for the reservations set out in the preceding paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2006 and of its loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenyan Companies Act.


P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

15 January 2007

School Equipment Production Unit

Balance Sheet as at 30 June 2006

| | Note | 2006 Kshs. | 2005 Kshs. |
|--------------------------------------|---------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, Plant and Equipment | 1 & 2 | 1,618,128 | 1,823,266 |
| Current assets | | | |
| Inventories | 3 | 19,920,176 | 12,931,827 |
| Trade receivables | 4 | 15,279,637 | 23,442,394 |
| Cash and cash equivalents | 5 | 1,756,672 | 252,246 |
| Total assets | | 38,574,613 | 38,449,733 |
| EQUITY AND LIABILITIES | | | |
| Other reserves | 10 & 11 | 10,301,064 | 10,301,064 |
| Retained earnings | 12 | 9,748,787 | 13,697,855 |
| Total Equity | 13 | 20,049,851 | 23,998,919 |
| Non-current liabilities | | | |
| Deferred tax | | 29,457 | 29,457 |
| Total non-current liabilities | | 29,457 | 29,457 |
| Current liabilities | | | |
| Trade and other payables | 6 | 18,495,305 | 14,421,357 |
| Total Current liabilities | | 18,495,305 | 14,421,357 |
| Total Liabilities | | 18,524,762 | 14,450,814 |
| Total Equity and Liabilities | | 38,574,613 | 38,449,733 |

..... DIRECTOR

..... DIRECTOR / SECRETARY

DATE: 21/12/2006

School Equipment Production Unit

Profit and Loss Account for the year ended 30 June 2006

| | 2006 Kshs. | 2005 Kshs. |
|--|-------------------|-------------------|
| Turnover | <u>27,482,218</u> | <u>25,341,861</u> |
| Loss / Profit before taxation | -3,949,068 | -9,855,985 |
| After charging | | |
| Depreciation | 234,854 | 280,898 |
| Legal & Professional fees | - | 438,830 |
| Audit Fees | 100,000 | 100,000 |
| Restated Profit / Loss for the year before taxation | -3,949,068 | -9,855,985 |
| Loss / Profit adjustment account | | |
| | 2006 Kshs. | 2005 Kshs. |
| Accumulated Profit B/F | 13,697,855 | 23,553,840 |
| Loss for the year | -3,949,068 | -9,855,985 |
| Accumulated Profit | <u>9,748,787</u> | <u>13,697,855</u> |

School Equipment Production Unit

Cash flow statement for the year ended 30 June 2006

| | Notes | 2006 Ksh. | 2005 Ksh. |
|--------------------------------------|-------|-------------------|--------------------|
| Operating Activities | | | |
| Loss / Profit before Tax | | -3,949,068 | -9,855,985 |
| Adjustment for no-cash items | | | |
| Depreciation | | 234,854 | 280,898 |
| | | <u>-3,714,214</u> | <u>-9,575,087</u> |
| Working Capital | | | |
| Increase/Decrease in Stock | 3 | -6,988,349 | -2,382,504 |
| Increase/Decrease in Debtors | 4 | 8,162,757 | -3,852,343 |
| Increase/Decrease in Creditors | 6 | 4,073,948 | 228,577 |
| | | <u>1,534,142</u> | <u>-15,581,357</u> |
| Investing Activities | | | |
| Property, Plant and Equipment | 2 | -29,716 | -46,000 |
| Net Increase / Decrease in Cash | | 1,534,142 | -15,581,357 |
| Cash and Cash Equivalents | | | |
| Balance at the beginning of the year | | 252,246 | 15,879,603 |
| Balance at the end of the year | 5 | <u>1,756,672</u> | <u>252,246</u> |

School Equipment Production Unit

Profit & Loss Summary for the year ended 30th June 2006

| | | 30th June 2006 Kshs. | 2005 Kshs. |
|------------------------------------|---|--------------------------|--------------------------|
| Gross Profit | F | 23,057,021 | 11,732,006 |
| Other Income & interest receivable | | - | 87,848.00 |
| | | <u>23,057,021</u> | <u>11,819,854</u> |
| Expenditure | | | |
| Establishment Expenses | A | 828,081 | 570,888 |
| Administration Expenses | B | 25,344,972 | 20,737,657 |
| Selling Expenses | C | 605,997 | 234,458 |
| Bank Charges | | 227,039 | 132,836 |
| | | <u>27,006,089</u> | <u>21,675,839</u> |
| Net Loss / Profit for the year. | E | <u><u>-3,949,068</u></u> | <u><u>-9,855,985</u></u> |

School Equipment Production Unit

Statement of changes in Equity for the year ended 30 June 2006

| | General reserve | Capital Reserve | Revenue Total |
|---------------------------|--------------------|--------------------|-------------------|
| As at 1st July 2004 | 1,832,500 | 8,468,564 | 10,301,064 |
| Net Profit for the year | | -9,855,985 | -9,855,985 |
| As at 30 June 2005 | 1,832,500 | -1,387,421 | 445,079 |
| As at 1 July 2005 | 1,832,500 | -1,387,421 | 445,079 |
| Net Loss for the year | | -3,949,068 | -3,949,068 |
| As at 30 June 2006 | 1,832,500 | -5,336,489 | -3,503,989 |

a). **Capital reserve represents:**

The accumulated grants and loans received from / or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976.

b). **General reserve represents:**

Grants received from the Kenya Government after the incorporation of the company.

School Equipment Production Unit

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Notes to the Financial Statements for the year ended 30 June 2006

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with the international accounting standards. The principal accounting policies adopted are set out below.

Basis of accounting

The Accounts are prepared under the Historic cost basis of accounting.

Depreciation

Fixed Assets are depreciated on a reducing balance basis to write the cost of the asset down to their residue value over their expected useful lives at the following rates:-

| | |
|---------------|------|
| Land | Nil |
| Buildings | 2.5% |
| Machinery | 15% |
| Motor vehicle | 25% |

NB: The Land is under lease hold.

Turnover

Turnover represents the invoices value of goods and services less returns.

2 PROPERTY, PLANT & EQUIPMENT

| Cost | Land Kshs. | Building Kshs. | Machinery & others Kshs. | Motor Vehicle & M/ Cycle Kshs. | Total Kshs. |
|---------------------------|----------------|-------------------|--------------------------------|--------------------------------------|-------------------|
| as at 30 June 2005 | 132,000 | 668,700 | 8,596,304 | 672,155 | 10,069,159 |
| additions | - | - | 29,716 | - | 29,716 |
| Disposal during the year | - | - | - | - | - |
| as at 30 June 2006 | 132,000 | 668,700 | 8,626,020 | 672,155 | 10,098,875 |

Depreciation

| | | | | | |
|---------------------------------|--|----------------|------------------|----------------|------------------|
| as at 30 June 2005 | | 352,283 | 7,413,758 | 479,852 | 8,245,893 |
| Charge for the year | | | | | |
| as at 30 June 2006 | | 7,910 | 178,868 | 48,076 | 234,854 |
| Total as at 30 June 2006 | | 360,193 | 7,592,626 | 527,928 | 8,480,747 |

Net Book Value

| | | | | | |
|---------------------------|----------------|----------------|------------------|----------------|------------------|
| as at 30 June 2006 | 132,000 | 308,507 | 1,033,394 | 144,227 | 1,618,128 |
| as at 30 June 2005 | 132,000 | 316,417 | 1,182,546 | 192,303 | 1,823,266 |

Buildings constructed on land leased to the company from Kenya Science Teachers College at a peppercorn rental.

School Equipment Production Unit

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Notes to the Financial Statements
for the year ended 30 June 2006 (continued)

3 INVENTORIES

Stock and work in progress are stated at the lower of cost and net realisable value. Cost comprises the cost of raw materials and attributable production, overheads appropriate to the location and condition of stock at the balance sheet date.

| | 2006 Kshs. | 2005 Kshs. |
|------------------------------------|-------------------|-------------------|
| Raw materials & tools for workshop | 454,658 | 505,684 |
| Work in progress | 280,907 | 326,702 |
| Finished goods | <u>19,184,611</u> | <u>12,099,441</u> |
| | <u>19,920,176</u> | <u>12,931,827</u> |

4 TRADE RECEIVABLES

| | 2006 Kshs. | 2005 Kshs. |
|-----------------------------------|--------------------|-------------------|
| Trade Receivables | 24,817,185 | 27,062,854 |
| OTHER CURRENT ASSETS | | |
| Staff Advances | 1,162,428 | 1,052,106 |
| Sepu Sacco | 51,787 | 51,787 |
| Pensions | <u>3,197,768</u> | <u>3,197,768</u> |
| | 29,229,168 | 31,364,515 |
| Less Provision for doubtful debts | <u>-13,949,531</u> | <u>-7,922,121</u> |
| | <u>15,279,637</u> | <u>23,442,394</u> |

School Equipment Production Unit

Notes to the Financial Statements
for the year ended 30th June 2006 (continued)

5 CASH AND CASH EQUIVALENTS

| | 2006 Kshs. | 2005 Kshs. |
|-----------------------------|------------------|----------------|
| Cash in Hand | 2,099 | 30,000 |
| National Bank of Kenya Ltd. | 1,752,034 | 120,826 |
| Kenya Commercial Bank | 2,539 | 101,420 |
| | <u>1,755,672</u> | <u>252,246</u> |

6 TRADE AND OTHER PAYABLES

| | 2006 Kshs. | 2005 Kshs. |
|----------------|-------------------|-------------------|
| Trade Payables | 9,121,283 | 8,677,039 |
| Other Payables | 9,374,024 | 5,744,318 |
| | <u>18,495,307</u> | <u>14,421,357</u> |

(a) Other Payables constitutes:-

| | 2006 Kshs. | 2005 Kshs. |
|----------------------------------|------------------|------------------|
| Madison Insurance (Ind. Policy) | 100,780 | 44,517 |
| Board of Trustees (N.S.S.F.) | 233,800 | 83,400 |
| National Hospital Insurance Fund | 157,680 | 56,880 |
| Uja Services | 89,477 | 58,147 |
| KRA - Withholding Tax (VAT) | 599,516 | - |
| Kenya Engineering Workers Union | 37,176 | 55,764 |
| C.O.T.U | 17,100 | 8,100 |
| Salaries (Sepu Sacco) | 1,917,461 | 860,270 |
| Madison Insurance (Pensions) | 2,603,900 | 1,907,359 |
| Auditor General Corporations | 870,000 | 770,000 |
| Kenya Power & Lighting Co. Ltd., | - | 17,580 |
| Telecom Kenya Ltd., | - | 11,442 |
| Paymaster General | 2,725,941 | 1,836,218 |
| Michael Kinyanjui | 21,193 | 34,641 |
| | <u>9,374,024</u> | <u>5,744,318</u> |

School Equipment Production Unit

Notes to the Financial Statements
for the year ended 30 June 2006 (continued)

7 TAXATION:

Provision for corporation Tax 29,457 29,457
This provision was made in 1986. Pending approval from tax exemption
The company paid no taxes for the year ended 30 June 2006 and does not account for the deferred taxes.

Profit / loss before taxation is stated after charging:

| | 2006 Kshs. | 2005 Kshs. |
|-----------------------|---------------|---------------|
| Depreciation | 234,854 | 280,898 |
| Interest payable | - | - |
| Auditors remuneration | 100,000 | 100,000 |

8 NET CURRENT ASSETS

Current assets less current liabilities

9 TOTAL ASSETS

Fixed assets add Net assets

10 OTHER RESERVES

The capital reserve represents the accumulated grants and loans received from / or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976.

| | 2006 Kshs. | 2005 Kshs. |
|------------------------------------|------------------|------------------|
| Accumulated trading loss | -49,170 | -49,170 |
| Grants received (Japan Government) | 8,417,734 | 8,417,734 |
| Loans from Kenya Government | 100,000 | 100,000 |
| | <u>8,468,564</u> | <u>8,468,564</u> |

School Equipment Production Unit

Notes to the Financial Statements
for the year ended 30 June 2006 (continued)

11 OTHER RESERVES

The general fund represent grants received from the Kenya Government after the incorporation in 1976.

1,832,500

1,832,500

12 RETAINED EARNINGS

This represents the accumulated losses or profits of previous years together with the current financial year.

School Equipment Production Unit

Overhead Expenses for the year ended 30 June 2006

| | 2006 Kshs. | 2005 Kshs. |
|--|-------------------|-------------------|
| ESTABLISHMENT EXPENSES (A) | | |
| Repairs and maintenance of Equipment & Buildings | 91,222 | 99,025 |
| Motor Vehicle running expenses & repairs | 736,859 | 441,863 |
| Rent and Rates | | 30,000 |
| | <u>828,081</u> | <u>570,888</u> |
| ADMINISTRATION EXPENSES (B) | | |
| Salaries and Wages | 11,335,203 | 11,284,580 |
| Telephone and Faxes | 464,991 | 468,510 |
| Printing and Stationery | 364,062 | 374,883 |
| Insurance money and burglary, motor vehicle | 45,589 | 93,258 |
| Local Travelling & Subsistence allowance | 2,009,391 | 901,804 |
| Debt Collection Expenses | 19,000 | - |
| Directors Allowances | 616,416 | - |
| Legal and Professional expenses | | 438,830 |
| Subscriptions and Donations | 52,800 | 73,750 |
| audit Fees-Internal | 39,045 | - |
| Audit Fees-KENAO | 100,000 | 100,000 |
| Office Expenses | 538,378 | 547,099 |
| Transport - Despatch & Postage | 214,931 | 104,912 |
| Depreciation | 234,854 | 280,898 |
| Medical- for Staff | 150,890 | 99,003 |
| Training & Seminars | 54,200 | - |
| Refund | 1,537,668 | 1,200,886 |
| Entertainment Expenses | 157,354 | - |
| Water and Electricity | 190,165 | 191,131 |
| Staff welfare | 274,899 | 383,939 |
| Primary Science Kit | 13,550 | 3,591,384 |
| Packing Materials | 40,100 | - |
| Increase in Prov.For Doubtful Debts | 6,472,717 | 7,922,121 |
| Terminal Benefits | 418,769 | 602,770 |
| Bank Charges | 227,039 | 132,836 |
| | <u>25,572,011</u> | <u>28,792,594</u> |
| SELLING EXPENSES (C) | | |
| Advertising sales promotion | 605,997 | 111,408 |
| Christmas staff and Board expenses | | 123,050 |
| | <u>605,997</u> | <u>234,558</u> |

School Equipment Production Unit

Trading Account
for the year ended 30 June 2006

| | 2006 Kshs. | 2005 Kshs. |
|----------------------|--------------------------|--------------------------|
| SALES | <u>27,482,218</u> | <u>25,341,861</u> |
| Cost of Sales | | |
| Opening Stock | 12,931,827 | 10,549,323 |
| Purchases | <u>11,413,546</u> | <u>15,992,359</u> |
| | 24,345,373 | 26,541,682 |
| Closing Stocks | <u>19,920,176</u> | <u>12,931,827</u> |
| | 4,425,197 | 13,609,855 |
| Gross Profit | <u>23,057,021</u> | <u>11,732,006</u> |