

Research Development Unit Co. Ltd

RDU

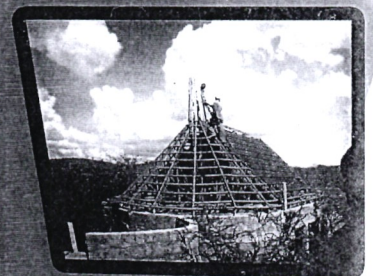
Raising roofing standards in Kenya



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ANNUAL ACCOUNTS 2007



A subsidiary of the National Housing Corporation

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT OF
THE CONTROLLER
AND AUDITOR - GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
RESEARCH DEVELOPMENT UNIT COMPANY LTD
(A SUBSIDIARY OF NATIONAL HOUSING CORPORATION)**

FOR THE YEAR ENDED 30 JUNE 2007

**Research Development Unit
Company Ltd.**

**ANNUAL ACCOUNTS
FOR THE YEAR ENDED
30TH JUNE 2007**

Vision

To be a leader in the provision of engineered roofing systems and Housing Research in Kenya.

Mission

To run a profitable business which improves timber processing and building practices and by so doing, assist in the conservation of indigenous forests of Kenya.

BOARD OF DIRECTORS

RESEARCH DEVELOPMENT UNIT COMPANY LIMITED

30TH JUNE 2007

1. Mr. Bosire Ogero
Chairman to the Board
2. Mr. Elias Kaburu Murithi
Director
3. Mr. Reginald Okumu
Director
4. Mr. Wilson K. Maina
Director
5. Mrs Grace Wanyonyi
Director
6. Mr. Dominic Ndewa
Alt. Director Representing Permanent Secretary
Ministry of Finance
7. Mr. R.M. Wanasakami
Alt. Director Representing Permanent Secretary
Ministry of Housing
8. Mr. Karoli Ooko
Alt. Director Representing Permanent Secretary
Ministry of Lands
9. Mr. V. O. Ogutu
Alt. Director Representing Permanent Secretary
Ministry of Local Government
10. Mr. James W. Ruitha
Executive Director / Managing Director
11. Appolinary C. Kisimbo
General Manager

COMPANY INFORMATION

PRINCIPAL PLACE OF BUSINESS

Ngong Road Forest Station
Off Ngong Road
P.O. BOX 15273-00599
NAIROBI.

REGISTERED OFFICE

Ngong Road Forest Station
Off Ngong Road
P.O. BOX 15273-00599
NAIROBI.

Bankers

Standard Chartered
Yaya Centre
P.O. BOX 76175
NAIROBI.

National Bank of Kenya Ltd
Harambee Avenue Branch
P.O. BOX 72866
NAIROBI.

AUDITORS

The Controller & Auditor General
P.o. Box 3008-00100
NAIROBI.



Introduction:

It is my pleasure to present to you our Annual Report and Financial Statements for the year ended 30th June 2007. Since March 2002, when National Housing Corporation took over operation of Research Development Unit Company from the Government, annual trading results had been characterized by poor sales volumes and high operating costs. 2006/07 Financial Year however registered an improvement in business operations where more products were introduced; creating a wider financial base and operating expenses reduced through cutting-off some idle resources.

The results this year, having registered turnover of **Kshs.27M** from **Kshs.7M** last Financial Year, is a clear indication that the interventions approved by the Board lay a sound foundation for the way forward of the organization. Expansion of the product portfolio through a close check on the operational expenses has created a bright future for the organization.

Economy

The building industry has recorded steady growth since 2002 after a lengthy slump. This has been attributed to prudent fiscal policy and stable political environment. There are challenges in the industry however, and particularly in the roofing part of the building. Availability of timber has been singled out as the most serious challenge considering the speed at which our forests are disappearing. The scarcity of timber therefore means that the little that is available is sold expensively, challenging people in the industry to look at other roofing alternatives.

Marketing

To fully exploit the market, RDU Company Limited is committed to aggressively market the company's products across the country to developers, consultants and other stakeholders. There is potential to market our services in the neighbouring countries of Tanzania, Uganda and Southern Sudan, where we believe there is a ready market. These markets will be exploited once we are satisfied, that we have the structures and infrastructure to deliver, particularly after we substantially address our enormous untapped local potential.

CHAIRMAN'S REPORT

For the Financial Year ended 30th June 2007

Future Prospects

The year 2006/07 marks the beginning of a new era. An era where the Company wants to be recognized as a producer of quality products ranging from Roof Trusses, Panel Flash doors to Steel Works. Eventually, RDU wants to be a fully-fledged construction company to compete with any other construction company in the country and outside.

In pursuit of this dream, the Company is already working closely with the parent company, National Housing Corporation, for consideration in construction of houses in small projects not exceeding twenty units.

Appreciation

I wish to extend my sincere appreciation to all our customers who supported us this year, my fellow Board Members, Management of National Housing Corporation and all staff. It is my prayer that the same will continue into the future.



BOSIRE OGERO


CHAIRMAN

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act Cap 486 requires the Directors to prepare financial statements for each financial year, which include a balance sheet showing in detail the assets and liabilities of the Company, a statement of income and expenditure, and such other statements that the Directors may deem necessary. It also requires the Directors to ensure the Company keeps proper books of account and other books and records in relation to the Company and to all the undertakings, funds, investments activities and property of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice 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 the 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.

CHAIRMAN: 

MANAGING DIRECTOR: 

Date 28th MARCH 2008



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF RESEARCH DEVELOPMENT UNIT COMPANY LTD (A SUBSIDIARY OF NATIONAL HOUSING CORPORATION) FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Research Development Unit Company Ltd (a subsidiary of National Housing Corporation) for the year ended 30 June 2007 set out on pages 5 to 15 which comprise the balance sheet as at 30 June 2007 and profit and loss account, the statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes 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.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the company's state of affairs and its operating results in accordance with the 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.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and 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 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 entity'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 controls. 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. I believe the audit provides a reasonable basis for my opinion.

National Housing Corporation Equity

The balance sheet reflects National Housing Corporation equity of KshsAO,000,000 as at 30 June 2007. As disclosed in note 6 to the financial statements this equity is represented by unspecified number of ordinary paid up and unpaid shares of Kshs.20.00 each. However, this information is not in agreement with the memorandum of association which provide that the share capital of the company shall be Kshs.10,000 divided into one hundred (100) shares of twenty shillings (Kshs.20.00) each. The NHC equity disclosed in these financial statements, is therefore, contrary to the Memorandum of Association.

Opinion

Except for the foregoing reservation, in my OpInOn, proper books of account have been kept and the financial statements give a true and fair view of the financial state of affairs of the company as at 30 June 2007 and of its loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Act (Cap 486 of the Laws of Kenya).



P. N. Komora, CBS
CONTROLLER AND AUDITOR GENERAL

Nairobi

21 April, 2008

PROFIT AND LOSS ACCOUNT

For the Financial Year ended 30th June 2007

	Notes	2006/2007 Kshs.	2005/2006 Kshs.
INCOME			
TURNOVER	1	27,418,267	7,287,695
		27,418,267	7,287,695
OUTGO			
DIRECT COSTS	2	18,259,029	8,472,920
STAFF COSTS	3	7,697,489	4,271,585
OTHER OPERATING EXPENSES	4	4,486,606	4,497,635
		30,443,124	17,242,140
LOSS BEFORE TAX	4	(3,024,857)	(9,954,445)
TAX			-
NET LOSS		(3,024,857)	(9,954,445)
RETAINED LOSSES		(3,024,857)	(9,954,445)

The Notes on Pages 8 to 15 form part of these Accounts.

BALANCE SHEET

AS AT 30 JUNE 2007

CAPITAL EMPLOYED		2006/2007	2005/2006
	Notes	Kshs.	Kshs.
DFID GRANTS	5	8,091,308	8,091,308
NHC EQUITY	6	40,000,000	38,245,337
DFID PROJECT GRANTS	5	29,980,000	29,980,000
RETAINED LOSSES	7	(47,109,296)	(44,084,439)
		30,962,012	32,232,206
REPRESENTED BY			
NON CURRENT ASSETS			
FIXED ASSETS	8	19,072,117	17,367,174
		19,072,117	17,367,174
CURRENT ASSETS			
WORK IN PROGRESS		308,779	569,433
CONSUMABLE STOCK	9	1,158,892	1,695,176
DEBTORS & PREPAYMENTS	10	16,433,705	2,305,823
CASH & CASH EQUIVALENTS	11	7,061,136	10,908,920
		24,962,512	15,479,352
TOTAL ASSETS		44,034,629	32,846,526
LIABILITIES			
TRADE & OTHER PAYABLES	12	13,072,617	614,320
TOTAL LIABILITIES		13,072,617	614,320
NET ASSETS		30,962,012	32,232,206

CHAIRMAN  DATE 28/3/08

MANAGING DIRECTOR  DATE 28/08/08

The notes on pages 15 to 23 form part of these accounts.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	2006/2007	2005/2006
	Ksh.	Ksh.
At Start of Year	32,232,206	26,278,560
Net Profit (Loss)	(3,024,857)	(9,954,445)
NHC Funding	1,754,663	15,908,091
At Year End	30,962,012	32,232,206

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2006/2007	2005/2006
		Ksh.	Ksh.
OPERATING ACTIVITIES			
Cash generated from operations	13	(627,165)	(10,037,574)
Tax paid			
Net cash from operating activities		(627,165)	(10,037,574)
INVESTING ACTIVITIES			
Purchase of fixed assets	8	(3,220,620)	(444,602)
NHC Funding		-	15,908,092
Net cash from/ investing activities		(3,220,620)	15,463,490
Increase/(Decrease) in cash and cash equivalents		(3,847,785)	5,425,916
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At start of the year		10,908,920	5,483,004
At end of year	11	7,061,135	10,908,920

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a. BASIS OF PREPARATION

The financial statements are presented in Kenya Shillings (KShs.) and prepared under the historical cost convention, as modified by the carrying of certain investments at fair value.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Managements best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b. BUILDINGS, PLANT, EQUIPMENT AND MOTOR VEHICLES

All items of plant, equipment and motor vehicles are recorded at cost less depreciation.

Depreciation is calculated on the reducing balance basis, at the following annual rates:

- Buildings	2.5%
- Computer System	30%
- Furniture, Fittings & Equipment	20%
- Motor Vehicles	25%
- Plant & Equipment	12.5%

Gains and losses on disposal of motor vehicles are determined by reference to their carrying amounts and are taken into account in determining the operating profit.

c. RETIREMENT BENEFIT OBLIGATIONS

The Company contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF).

The company's contribution to NSSF in respect of current service is charged to the profit and loss account in the year.

d. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and short term, highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

e. STOCKS

Consumable stocks are valued at the lower of cost and net realizable value, on the basis of first in first out.

f. REVENUE RECOGNITION

Income has been recognized on accrual basis. A provision for doubtful debts is made when collection of the full amount is no longer probable.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

1. TURNOVER

The sources of income are as stipulated below:

ITEM	2006/2007	2005/2006
	Ksh.	Ksh.
Sale of trusses	13,119,950	7,083,020
Other sales	14,298,317	204,675
TOTAL	27,418,267	7,287,695

2. DIRECT COSTS

This is made up of:

	2006/2007	2005/2006
	Ksh.	Ksh.
Labour	4,135,048	3,031,239
Timber	6,207,054	4,409,628
Other Materials	7,864,827	983,353
Transport	52,100	48,700
TOTAL	18,259,029	8,472,920

3. STAFF COSTS

Staff costs comprise the following:

	2006/2007	2005/2006
	Ksh.	Ksh.
Salaries & Emoluments	7,697,489	4,271,585
TOTAL	7,697,489	4,271,585

The number of persons employed by the Company by 30.06.2007 was 35

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

4. PROFIT BEFORE TAX

Profit before tax is stated after charging:

ITEM	2006/2007 Ksh	2005/2006 Ksh
Depreciation	1,132,840	1,109,978
Auditors Remuneration	60,000	-
TOTAL	1,192,840	1,109,978
Other Operating Expenses		
Motor Vehicle Expenses	760,951	1,051,713
Repairs of Equipment	261,112	21,640
security	269,203	461,135
Printing & Stationery	38,605	32,724
electricity	205,700	153,548
Postage & Telephones	242,472	389,295
Insurance	77,278	370,023
Bank Charges	9,478	7,778
water	12,500	17,200
Exhibition	279,888	242,500
Training	102,000	52,000
other Expenses	742,222	468,225
purchases	292,357	119,876
TOTAL	3,293,766	3,387,657
TOTAL	4,486,606	4,497,635

5. DFID FUNDING

	2006/2007 Ksh.	2005/2006 Ksh.
DFID GRANT	8,091,308	8,091,308
DFID PROJECT GRANT	29,980,000	29,980,000
TOTAL	38,071,308	38,071,308

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Continued

FOR THE YEAR ENDED 30 JUNE 2007

6. NHC EQUITY

NHC Equity contribution is as follows:

	2006/2007	2005/2006
	Ksh.	Ksh.
Ordinary paid up share capital @ 20.00	38,245,337	38,245,337
Ordinary unpaid share capital @ 20.00	1,754,663	
TOTAL	40,000,000	38,245,337

7. RETAINED LOSSES

	2006/2007	2005/2006
	Ksh.	Ksh.
Bal b/d	(44,084,439)	(34,129,994)
Loss for the year	(3,024,857)	(9,954,445)
TOTAL	(47,109,296)	(44,084,439)

The accumulated loss brought forward of Kshs. 44,084,438 includes a loss of Kshs.26,941,793 from the former operations of Trussed Rafter Development Unit.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

8. PROPERTY, PLANT & EQUIPMENT MOVEMENT SCHEDULE

	LAND & BUILDING	MOTOR VEHICLE	PLANT & EQUIPMENT	FURNITURE & FITTING	COMPUTER SYSTEM	TOTAL AMOUNT
COST						
At 1ST JULY 2005	15,313,476	3,685,000	1,713,981	1,492,659	80,000	32,285,116
Additions	-	-	188,802	-	168,200	357,002
Disposals	-	-	-	-	-	-
At 30TH JUNE 2006	15,313,476	3,685,000	11,902,783	1,492,659	248,200	32,642,118
COST						
At 1ST JULY 2006	15,313,476	3,685,000	11,902,783	1,492,659	248,200	32,642,118
Additions	-	2,911,120	244,900	-	64,600	3,220,620
Disposals	-	-	-	-	-	-
At 30TH JUNE 2007	15,313,476	6,596,120	12,147,683	1,492,659	312,800	35,862,738
DEPRECIATION						
At 1ST JULY 2005	2,611,508	3,475,105	6,767,245	1,299,708	11,400	14,164,966
Charge for the year	382,836	47,755	595,855	40,871	42,661	1,109,978
On disposal	-	-	-	-	-	-
At 30TH JUNE 2006	2,994,344	3,522,860	7,363,100	1,340,579	54,061	15,274,944
DEPRECIATION						
At 1ST JULY 2006	2,994,344	3,522,860	7,363,100	1,340,579	54,061	15,274,944
Charge for the year	-	459,120	563,660	40,743	69,318	1,132,841
Amortisation	-	-	-	-	-	-
Buildings	382,836	-	-	-	-	382,836
On disposal	-	-	-	-	-	-
At 30TH JUNE 2007	3,377,180	3,981,980	7,926,760	1,381,322	123,379	16,790,621
NET BOOK VALUE						
At 30TH JUNE 2007	11,936,296	2,614,140	4,220,923	111,337	189,421	19,072,117
At 30TH JUNE 2006	12,319,132	162,140	4,539,683	152,080	194,139	17,367,174

Depreciation of fixed assets has been charged to the Profit and Loss Account.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Continued

FOR THE YEAR ENDED 30 JUNE 2007

9. CONSUMABLE STOCK

Stock has been valued at cost, and is made up of

	2006/2007	2005/2006
	Ksh.	Ksh.
Stock of Timber	1,158,892	1,695,176
TOTAL	1,158,892	1,695,176

10. DEBTORS AND PREPAYMENTS

These are made up of:

	2006/2007	2005/2006
	Ksh.	Ksh.
Sundry Debtors	16,423,838	2,287,885
Imprest	9,867	17,938
TOTAL	16,433,705	2,305,823

11. CASH AND CASH EQUIVALENTS

For purposes of the cash flow statement, cash and cash equivalents represent cash and bank balances.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

12. TRADE AND OTHER PAYABLES

These comprise:

	2006/2007	2005/2006
	Ksh.	Ksh.
Sundry Creditors		614,320
NHC Debts	13,072,617	
TOTAL	13,072,617	614,320

13. CASH GENERATED FROM OPERATING ACTIVITIES

	2006/2007	2005/2006
	Kshs.	Kshs.
CASHFLOW GENERATED FROM OPERATIONS		
Net Profit (Loss) before Tax	(3,024,857)	(9,954,445)
Adjustments: for items not involving movement of cash		
Depreciation & Amortisation	1,515,676	1,109,978
Operating profit before working capital	(1,509,181)	(8,844,467)
Working capital adjustments:		
Increase in debtors & prepayments	(14,127,882)	(1,021,523)
Increase in stock	536,284	(745,723)
Increase in creditors	14,212,960	534,320
Decrease work in progress	260,654	39,819
Working capital changes	882,016	(1,193,107)
TOTAL CASH GENERATED	(627,165)	(10,037,574)

