

REPUBLIC OF KENYA



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6TH JULY 2016
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REPORT

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ON

THE FINANCIAL STATEMENTS OF
SMALL ENTERPRISES FINANCE
COMPANY LIMITED

FOR THE YEAR
ENDED 31 DECEMBER 2015

SMALL ENTERPRISES FINANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

Small Enterprises Financial Company Limited
Financial Statements
For the year ended 31 December 2015

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DIRECTORS AND ADMINISTRATION

Directors

Victor Kidiwa
Jacob Mananda

Secretary

C A Otieno (Mrs)
Finance House
Loita Street
PO Box 34045, 00100
Nairobi GPO

Auditor

PricewaterhouseCoopers (PwC)
PwC Towers
Waiyaki Way/Chiromo Road
PO Box 439363, 00100
Nairobi GPO

Registered office

Finance House
Loita Street
PO Box 34045, 00100
Nairobi GPO
Telephone 340401/2/3
Telefax 0254 2 250399
Telex 22662
Telegrams DEVBANK.KE
Nairobi
Kenya

Bankers

Development Bank of Kenya Limited
Finance House
Loita Street
PO Box 30483, 00100
Nairobi GPO

The Kenyan Companies Act requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of its profit or loss for that period. 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.

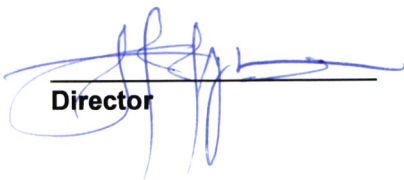
The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- ii) Selecting and applying appropriate accounting policies;
- iii) Making accounting estimates and judgements that are reasonable in the circumstances.

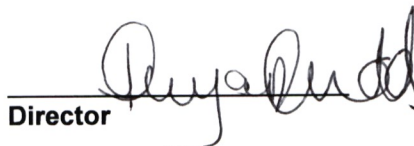
The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 31 December 2015 and of its performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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 the next twelve months from the date of this statement.

Approved by the Board of Directors on 18 MAY 2016 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR – GENERAL ON SMALL ENTERPRISES FINANCE COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2015

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Small Enterprises Finance Company Limited set out on pages 6 to 18, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, 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 information have been audited on my behalf by PricewaterhouseCoopers CPA auditors appointed under Section 23 of the Public Audit Act 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of audit were obtained.

Management's Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015, and submit the report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about 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

Small Enterprise Finance Company Limited – Annual Report and Financial Statements for the year ended 31 December 2015

of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

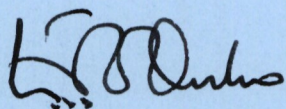
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the Audit, that:

- (i) I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books and;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



FCPA Edward R. O. Ouko, CBS
AUDITOR – GENERAL

Nairobi

03 June 2016

Statement of comprehensive income

		Year ended 31 December	
	Note	2015	2014
		KShs'000	KShs'000
Interest income	4	2,704	2,386
Net recoveries/(impairment losses) on loans and advances	11(b)	249	(223)
		<hr/>	<hr/>
Net interest income after impairment losses on loans and advances		2,953	2,163
Administration expenses	5	(666)	(1,243)
		<hr/>	<hr/>
Profit before taxation		2,287	920
Income tax expense	6	(686)	(276)
		<hr/>	<hr/>
Net profit for the year		1,601	644
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive income		1,601	644
		<hr/>	<hr/>

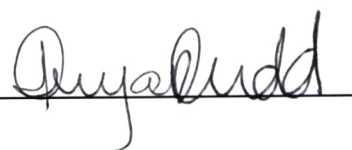
The notes set out on pages 10 to 18 form an integral part of these financial statements.

Statement of financial position

		As at 31 December	
	Note	2015	2014
		KShs'000	KShs'000
ASSETS			
Non-current assets			
Deferred tax asset	7	211	181
Current assets			
Bank balances	8	4,310	7,994
Term deposits	8	8,006	8,290
Financial assets held to maturity	19	27,149	21,135
Other assets	10	148	215
Tax recoverable		4,378	4,665
		43,991	42,299
TOTAL ASSETS		44,202	42,480
EQUITY AND LIABILITIES			
Current liabilities			
Other liabilities	12	2,153	2,032
Shareholders' equity			
Ordinary share capital	13	26,375	26,375
6% Preference share capital	13	9,149	9,149
Retained earnings		6,525	4,924
		42,049	40,448
TOTAL EQUITY AND LIABILITIES		44,202	42,480

The financial statements on pages 6 to 18 were approved for issue by the Board of Directors on 18 MAY 2016 and signed on its behalf by:

Director 

Director 

The notes set out on pages 10 to 18 form an integral part of these financial statements.

Statement of changes in equity

	Ordinary share capital	Preference share capital	Retained earnings	Total
Year ended 31 December 2014	KShs'000	KShs'000	KShs'000	KShs'000
At start of the year	26,375	9,149	4,280	39,804
Total comprehensive income for the year				
Net profit for the year	-	-	644	644
At end of year	26,375	9,149	4,924	40,448
Year ended 31 December 2015				
At start of year	26,375	9,149	4,924	40,448
Total comprehensive income for the year				
Net profit for the year	-	-	1,601	1,601
At end of year	26,375	9,149	6,525	42,049

The notes set out on pages 10 to 18 form an integral part of these financial statements.

Statement of cash flows

	Note	Year ended 31 December	
		2015 KShs'000	2014 KShs'000
Operating activities			
Profit before taxation		2,287	920
Changes in working capital items			
- Decrease / (increase) in other assets		67	(150)
- Increase in other liabilities		121	88
Tax paid		(429)	(273)
		<hr/>	<hr/>
Net cash generated from operations		2,046	585
		<hr/>	<hr/>
Cash flows from investing activities			
(Increase) / decrease in investments in government securities		(6,014)	15
		<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents		(3,968)	600
Opening cash and cash equivalents balances		16,284	15,684
		<hr/>	<hr/>
Closing cash and cash equivalents at 31 December 2015	8	12,316	16,284
		<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 10 to 18 form an integral part of these financial statements.

Notes

1 Reporting entity

The company is incorporated as a limited liability company in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The core business of the company was to offer loans to small and medium enterprises. Currently the company is dormant with plans for revival in place. The address of its registered office is:

Small Enterprises Finance Company Limited
Finance House
Loita Street
PO Box 34045, 00100
Nairobi GPO

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act. The measurement basis applied is the historical cost convention as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The financial statements are presented in Kenyan Shillings (Kshs), rounded to the nearest thousand.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates and assumptions are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Changes in accounting policy and disclosures

i) New standards, amendments and interpretations adopted by the Company

A number of amendments to standards arising from the annual improvement to IFRSs became effective for the first time in the financial year commencing 1 January 2015 and have been adopted by the Company. None of them has had an effect on the Company financial statements.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

ii) New and revised standards and interpretations not yet adopted

A number of new standards and interpretations have been published that are not mandatory for annual periods commencing 1 January 2015 and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is as follows:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess the full impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers', which replaces IAS 11, IAS 18 and their interpretations (SIC 13 and IFRIC 13, 15, and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and markets. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing concept of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2018. The Company is currently assessing the impact of the amendment on its financial statements.

Amendments to IFRS 7, applicable to annual periods beginning on or after 1 January 2016 provides guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

Amendments to IAS 1 titled "Disclosure initiative" applicable to annual periods beginning on or after 1 January 2016 which clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which entity operates ('the Functional Currency'). The financial statements presented in Kenya shillings, which is the Company's presentation currency. All financial information presented in these financial statements has been rounded off to the nearest thousand Kenya shillings.

(c) Income recognition

Interest income is recognized on an accrual basis based on interest rate of returns.

(d) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Company upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

Loans and advances are shown at the gross amount due adjusted for any impairment losses. The provision for loan impairment losses is increased by charges to income and decreased by charge-offs net of recoveries.

Impairment loss provision is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

When an advance is deemed uncollectable, it is written off against the related provision for impairment losses. Subsequent recoveries of advances that have been written off are credited to the statement of comprehensive income.

(e) Taxation

Tax on the operating results for the year comprises the current charge and change in deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities, and the amounts used for taxation purposes, except differences relating to the initial recognition of assets and liabilities which affect neither accounting nor taxable profit. Deferred tax is calculated on the basis of tax rates currently enacted.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Taxation (continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realized.

(f) Cash and cash equivalents

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include term deposits and bank balances.

(g) Dividends

Dividends are recognized as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(h) Provisions

A provision is recognized if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Investment securities

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the company from classifying investment securities as held to maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Company has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 Going concern

The company ceased financing any new development projects and is currently pursuing recovery of existing project loans and advances.

The directors believe that the assets will realise the recorded amounts and all liabilities will be fully discharged. Consequently, no adjustments to the carrying amount of assets and liabilities or reclassification has been effected, and the financial statements have been prepared on a going concern basis.

4 Interest income

	2015 KShs'000	2014 KShs'000
Government securities	2,444	2,235
Term deposits	161	151
Other interest income	99	-
	<hr/>	<hr/>
	2,704	2,386
	<hr/> <hr/>	<hr/> <hr/>

5 Administrative expenses

Directors fees	100	100
General expenses	566	1,143
	<hr/>	<hr/>
	666	1,243
	<hr/> <hr/>	<hr/> <hr/>

Audit fees for the company has been borne by the parent company as the fees has been determined at the parent company level.

6 Income tax expense

	2015 KShs'000	2014 KShs'000
Current tax	716	306
Deferred tax credit (Note 7)	(30)	(30)
	<hr/>	<hr/>
	686	276
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

6 Income tax expense (continued)

The tax on the results differs from the theoretical amount using the basic tax rate as follows:

	2015 KShs'000	2014 KShs'000
Accounting profit before tax	2,287	920
Tax calculated at the statutory income tax rate of 30% (2014: 30%)	686	276

7 Deferred tax asset

Deferred income tax is calculated using the enacted income tax rate of 30% (2014: 30%).

	2015 Shs'000	2014 Shs'000
At start of year	181	151
Credit to the income statement	30	30
At end of year	211	181

The net deferred tax asset at 31 December 2015 and 31 December 2014 is attributable to the following:

	At 1 January 2014 KShs'000	Credit to profit or loss KShs'000	At 31 December 2014 KShs'000
Deferred tax assets	151	30	181
Provisions	151	30	181

Notes (continued)

7 Deferred tax asset (continued)

	At 1 January 2015	Credit to profit or loss	At 31 December 2015
	KShs'000	KShs'000	KShs'000
Deferred tax assets			
Provisions	181	30	211

8 Bank balances and term deposits

	2015 Shs'000	2014 Shs'000
Bank balances	4,310	7,994
Term deposit - due within 90 days	8,006	8,290
Cash and cash equivalent	12,316	16,284

Both the bank balances and the term deposits are held with Development Bank of Kenya Limited, the parent company. The interest earned on these deposits during the year was KShs 161,000 (2014 – KShs 151,000). The effective interest rate on the deposit is 2% (2014 – 2%).

9 Financial assets held to maturity

	2015 Shs'000	2014 Shs'000
Treasury bonds held to maturity: Maturing after one year	27,149	21,135

10 Other assets

Prepayments	148	215
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11 Loans and advances to customers

(a) Loans and advances

Project loans and advances	55,748	56,641
Less: Impairment losses	(55,748)	(56,641)
	-	-

Notes (continued)

11 Loans and advances to customers (continued)

	2015 Shs'000	2014 Shs'000
(b) Impairment losses		
At start of year	56,641	56,418
Write Offs	(644)	-
Recoveries	(472)	-
Provisions made in the year	223	223
	55,748	56,641

12 Other liabilities

Accruals and provisions	1,831	1,710
Other creditors	322	322
	2,153	2,032

13 Share capital

Authorised

1,500,000 ordinary shares of KShs 20 each	30,000	30,000
500,000 6% preference shares of KShs 20 each	10,000	10,000
	40,000	40,000

Issued and fully paid

At 1 January and 31 December		
1,318,749 ordinary shares of KShs 20 each	26,375	26,375
457,435 6% preference shares of KShs 20 each	9,149	9,149
	35,524	35,524

The ordinary shareholders are entitled to receive dividends from time to time and are entitled to one vote per share at general meetings of the company.

The preference shares are non-cumulative and receive discretionary dividends on the par value of their shareholding. The preference shares do not carry the right to vote. All shares rank equally with regards to the company assets except that preference shareholders participate only to the extent of the face value of the shares.

Notes (continued)

14 Related party transactions

The company is a wholly owned subsidiary of Development Bank of Kenya Limited (DBK), which is incorporated in Kenya. DBK is a subsidiary of Industrial & Commercial Development Corporation which is 100% owned by the Government of Kenya.

The following transactions were carried out with related parties:

	2015 Shs'000	2014 Shs'000
Balances and deposits		
Fixed deposit with Development Bank of Kenya Limited	4,310	8,290
Bank balances	8,006	7,994
	<hr/>	<hr/>
	12,316	16,284
	<hr/>	<hr/>
Interest earned on fixed deposit	161	151
	<hr/>	<hr/>

15 Contingencies

Litigations

There are litigations against the company arising from normal cause of business that have been lodged by some customers. The likely outcome of these cases cannot be objectively determined as at the date of signing of these financial statements. However, the Directors do not anticipate that any liability will arise from these suits.

