

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 07 AUG 2019 **REPORT**
wednesday

TABLED BY: *Hon. Benjamin Wakeni*
(Majority Party Whip)

TABLED BY: *Harima Ahmed* **OF**

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KABARNET HOTEL LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2017**



KABARNET HOTEL LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

26 SEP 2017



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KEY COMPANY INFORMATION

Background information

Kabarnet Hotel Limited (“KHL”, “The Company”) was incorporated under the Kenya Companies Act (Cap 486) in 1976. The shareholders of KHL are the Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC)) and Kipng’ochoch Farm Limited. TFC is the majority shareholder in MEL with a direct controlling stake of 98.4% shares with Kipngochoch Farm Limited 1.6% shareholding. From the management perspective, KHL is classified as a Commercial State Corporation by virtue of being a subsidiary of TFC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Hotel.

Principal Activities

The principal activity of the KHL is operation of a hotel facility mainly focusing on provision of accommodation and conference facility services to potential customers.

Directors

The Directors who served the company during the year/period were as follows:

- | | | | |
|----|---------------------|---|-----------------------|
| 1. | Mrs. Pauline Rwamba | - | Chairperson |
| 2. | Mr. Orumoi T. Jonah | - | Managing Director TFC |
| 3. | Mr. Dickson Yatich | - | Director |

Corporate Secretary

Tourism Finance Corporation
11th Floor, Utalii House, Uhuru Highway
P.O. Box 42013-00100
Nairobi - Kenya

Registered Office

Kabarnet Hotel
P.O.Box: 109-30400
Kabarnet
Telephone: 053 – 22094 E-mail: kabarnethotel.ktdc@gmail.com Website: www.kabarnethotel.co.ke




Corporate Bankers

Kenya Commercial Bank
Kabarnet Branch
P.O. Box 175
KABARNET.

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084 – 00100
NAIROBI,

THE BOARD OF DIRECTORS

| | | |
|-------------------------------|---|--|
| <p>1. PAULINE RWAMBA</p> |  | <p>Ms. Pauline Rwamba is the chairman of the Board of Directors. She is a career Social/Community Development Specialist. She is a consultant with Polypat Consultancy Firm offerings training on Donor Relations, Youth and Women Empowerment, Table Banking and Revolving Fund, Strategic Plans, Market and Value Chains, Group Dynamics and Conflict Resolution, Psychosocial Support, Impact Evaluation and Documentation, Financial Literacy and Resource Mobilization.</p> <p>She holds a Master's degree in Business Administration (Marketing) and a degree in Business Administration, Entrepreneurship</p> |
| <p>2. MR. ORUMOI T. JONAH</p> |  | <p>Mr. Orumoi is the Managing Director; Tourisma Finance Corporation. He holds a Master of Science degree in Finance and Investment, and is a Fully Qualified Accountant (FACCA) and a graduate of BA (Hons) in Accounting & Finance.</p> |
| <p>3. MR. DICKSON YATICH</p> |  | <p>Representing Kipngochoch farm Ltd</p> |

MANAGEMENT TEAM

| NAME | | PHOTO | PROFESSIONAL/ACAD EMIN QUALIFICATIONS | AREA OF RESPONSIBILI TY |
|-----------------|--|--|---|------------------------------------|
| 1. REUBEN ARGUT | |  | MBA (Marketing)- BSc. Hospitality Management, Dip. Hotel Management & Dip. Sc. Educ. | GENERAL MANAGER |
| 2 BENSON KANDIE | |  | C.P.A-SECTION 1- DCM II-(Kenya Institute of Management) | Accountant |
| 3 CHARLES TOO | |  | | Food and Beverage Supervisor |

CHAIRMAN'S STATEMENT

On behalf of my fellow Board Members, and the Management, I am pleased to present the Annual Report of Kabarnet Hotel Limited. This report addresses happenings during the Financial Year 2016/2017 and the Financial Statements of the company for the year ended 30th June 2017.

The Board of Directors efforts supported by the Management of the hotel has focused on implementing strategies aimed at improving the hotel's performance and efficiency and enhancing the value of investments.

The Tourism Sector has, in the last two years experienced a spell of poor performance largely occasioned by security concerns and economic downturn in some key tourist markets. Additionally, the atmosphere surrounding the anticipated Kenyan General Election and the current food prices in Kenya which have increased tremendously in the last five years have also contributed to a challenging business environment. The foregoing affected the performance and profitability of the hotel.

In response, the Board initiated a Turnaround Strategy that involved the recruitment of key personnel such as an experienced General Manager in the hotel which move has resulted in a significant increase in revenues. In the coming year, the Management, with the support of the Board of Directors, will continue with the implementation of the Turnaround Strategy which includes the refurbishment of the hotel; on a phased out programme in a bid towards making the facility more competitive and profitable, particularly vital, in face of the increased competition in the town.

The Board exudes confidence that the fortunes of the company will improve significantly in the coming year and the hotel's potential will be fully realized.

Finally, I take this opportunity to thank my fellow Directors, Shareholders, Management and Staff for their support during the year.



Pauline Rwamba
Chairman of the Board of Directors

REPORT OF THE CHIEF EXECUTIVE OFFICER


On behalf of management of Kabarnet Hotel Limited, I am pleased to present to you the annual report and financial statements of the company for the year ended 30th June 2017.

During the year 2017, the hotel achieved a loss of Kshs 2,152,000 as compared to Kshs 5,899,000 in 2016. The management is however hopeful that the ongoing renovation of the facility will yield positive impact and that more efforts will be directed towards increasing operational efficiency and implementing strategies such as advertising and promotion that are directed towards securing more business, within and outside the county.

Specific strategies for improving performance of the hotel will involve;

- i. Sourcing for Conference business to leverage on the newly refurbished conference hall with a capacity of 100 participants.
- ii. Refurbishment of the presidential suite currently leased to the County Government of Baringo and subsequent increase of revenue generated by the facility.
- iii. Rationalization of the hotel's human capital in a bid towards ensuring optimal operational efficiency
- iv. Overall cost management to achieve industry standards and maximize profitability.

Finally, on behalf of management and staff of Kabarnet Hotel Ltd, may I express our sincere appreciation to the Board of Directors for their full support, timely guidance and encouragement during the year ended 30th June 2017.


REUBEN ARGUT
GENERAL MANAGER

CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises rules, practices and processes by which a company is directed, controlled and operated as power is exercised over its assets and resources. Kabarnet Hotel Limited is committed to maintaining the highest standards of Corporate Governance. Our governance framework, led by the Board, supports our culture, values and our commitment to conducting business responsibly.

The hotel is run through the direction of the Board of Directors. The Board leads the strategic direction of the hotel through effective oversight and review, sets the hotel's strategic aims and monitors the performance of the hotel. The Board of Directors has a schedule of matters specifically reserved for Board approval including matters relating to the hotel's business and commercial strategy, major capital projects, overview and control of the hotel's operating and financial performance and monitoring of the hotel's overall system of internal controls.

The Board holds meetings on a regular basis to deliberate on issues of strategic and operational importance as required under Statute. The Directors are given timely information so that they can maintain effective control over strategic, financial, operational and compliance issues.

Board of Directors Composition

The composition and appointment of the Board of Directors is governed by the Articles of Association of the company and agreement between the two shareholders; Tourism Finance Corporation and Kipngochoch Farm Limited. The roles of the Board of Directors are as hereunder;

Chairperson

He chairs the Board and General meetings, including the Annual General Meeting, of the Company. He leads the operation and governance of the Board and is responsible for maintaining an effective Board. He ensures that Directors receive timely, accurate and clear information on the hotel's business and that all Directors are fully informed of relevant matters and is responsible for promoting corporate governance.

Directors

They are responsible for setting the hotel's strategy. They also scrutinise the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance.

Company Secretary

The Company Secretary role involves assisting the Chairman in promoting the highest standards of corporate governance and includes ensuring good information flows within the Board. He also advises the Board on all governance matters. He is responsible to the Board for ensuring that its procedures are complied with.

Role of Management

In order to ensure that the Board discharges its responsibilities it delegates some of its duties to the management of the hotel led by the Hotel Manager. The Management is responsible for the development of the hotel's strategic direction and implementation of the agreed strategy. They oversee its business operations and manage its risks. They are accountable to the Board for all aspects of the performance and management of the hotel. They are also required to provide timely and accurate information to the Board to ensure the Board makes effective and informed decisions.

BOARD ACCOUNTABILITY

Conflict of Interest

The Board Members are required to make disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered.

Board of Management Emoluments

The Board of Management are entitled to a sitting and other allowances (where applicable) for every meeting attended, within the set Government guidelines. The aggregate amount of emoluments paid to the Board Members during the financial year for services rendered are disclosed in the accounts.

Corporate Secretary

Sign: 

Date: 2/9/17

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In recognition of its obligations as a responsible corporate entity, the Board of Directors and management sustained the company's participation in corporate activities that enhance the social, economic and environmental interests that affect the community. Consequently, we have endeavoured to contribute to initiatives that impact on improvement of their social well-being.

The Environment

Environmental Sustainability is key to the hotel's business. We have therefore, undertaken to contribute towards National Forestation initiatives in collaboration with the Forest Department. Since 2014, the company has sustained a tree-planting programme at Kirandich dam- water catchment area, where our main source of water to Kabarnet town is coming. We have also, encouraged individual farmers to plant trees along the upstream.

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2017 which show the state of the hotel's affairs.

Principal activities

The principal activity of the hotel is the operation of the hotel by providing accommodation and conference facility services to potential customers.

Results

The results of the company for the year ended June 30, 2017 are set out on page 12-29

Dividends

The Directors do not recommend payment of dividends.

Directors

The members of the Board of Directors who served during the year are shown on page 4 in accordance with Regulation of the company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of Kabarnet Hotel in accordance with the article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act (2003) which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board


Corporate Secretary
Nairobi

Date: 2/9/17.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the *hotel* at the end of the financial year/period and the operating results of the hotel for that year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the hotel.

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the hotel's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2017, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

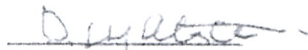
Nothing has come to the attention of the Directors to indicate that the *company* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The company's financial statements were approved by the Board on 21st September 2017 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 KABARNET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kabarnet Hotel Limited set out on pages 12 to 36 which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position as at 30 June 2017 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 Companies Act, 2015.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

1.1 Revenue - Sales

The statement of comprehensive income for the year ended 30 June 2017 reflects revenue of Kshs.13,537,000. However, scrutiny of the sales day books and sales records revealed that the hotel earned revenue amounting to Kshs.17,548,615 resulting to an understatement of the revenue by Kshs.4,011,615. In the circumstance, the financial statement is misstated by the same amount.

1.2 Inaccurate Computation of Depreciation

The depreciation charge for the year of Kshs.1,952,000 disclosed in the fixed assets movement schedule note 7(a) was calculated on wrong costs balances thereby overstating the charge by Kshs.243,685. Management has not explained reasons for the carrying forward wrong asset balances in the books over the several periods.

1.3 Trade and Other Receivables

The statement of financial position as at 30 June 2017 reported receivables balance of Kshs.6,432,000 as supported by Note 9. The receivables increased by Kshs.1,757,000 from Kshs.4,675,000 as at 30 June 2016 to Kshs.6,432,000 as at 30 June 2017. Aging

Report of the Auditor General on the Financial Statements for Kabarnet Hotel Limited for the year ended 30 June 2017

analysis however revealed that Kshs.3,940,000 (or 61%) had remained uncollected for a period of over one year. Evidently, the company has demonstrated lack of seriousness in credit control which had adversely affected the profitability and constrained cash flow. It was also observed that there was no provision for bad and doubtful debts. In the circumstance, the accuracy and collectability of the receivables balance of Kshs.6,432,000 as at 30 June 2017 could not be confirmed.

1.4 Trade and Other Payables

The financial statement for the year ended 30 June 2017 reflects trade and other payable balance of Kshs.14,912,000. Included in this figure are trade payables of Kshs.2,243,000 which have been outstanding since 2013 and earlier years. The supporting documents provided in respect of trade payables indicates a figure of Kshs.2,193,356 while the financial statements reflect a figure of Kshs.2,243,000 resulting into unexplained difference of Kshs.49,644. According to records provided for audit verification, the trade payables include suppliers who according to management have changed business names, closed down and no demand notes have been sent to the hotel demanding the payments. In addition, the trade and other payables figure also includes unremitted VAT of Kshs.9,129,854 and catering levy fees of Kshs.1,439,960, which have been outstanding since 2013 and whose accrued interest and penalties as a result of delay and non-remittance has not been disclosed. Provision of audit fees has not been honored since 2013 amounting to Kshs.374,000. Further, the overall balance of trade and other payable as per the documents provided indicates a figure of Kshs.14,526,870 while the financial statements for the year under review shows a figure of Kshs.14,912,000 resulting into unexplained variance of Kshs.385,130. In the circumstance, the figure of trade and other payables cannot be accurately confirmed.

1.5 Comparative Figures

The following comparative figures differed between the financial statements as shown in the table for which no explanation has been made or a correction done.

| Item | 2015/2016 | 2016/2017 |
|--------------------------------|-------------|-------------|
| | Kshs | Kshs |
| Revenue | 11,086,000 | 9,982,000 |
| Loss | (1,576,000) | (2,152,000) |
| Shareholders' Equity | 7,729,000 | 7,741,000 |
| Cash Generated from Operations | 2,994,000 | 1,329,000 |
| Advance Loan | 0 | 4,323,000 |

1.6 Property, Plant and Equipment

Included in the statement of financial position as at 30 June 2017 is a figure of Kshs.62,907,000 in respect of property, plant and equipment. However, the fixed assets movement schedule disclosed under note 7(a) shows that the closing cost of property, plant and equipment were incorrectly computed as the total is Kshs.76,870,000 and not Kshs.76,905,000 resulting to a difference of Kshs.35,000. The net book value of Kshs.62,907,000 was understated as re-computation reveals a net book value of Kshs.63,110,435 resulting to a difference of Kshs.203,435. The supporting note 7(a) has not been properly stated and therefore it is difficult to confirm balances at the beginning of the year, additions and closing balances as the years are mixed up and start dates not indicated.

In addition, the net book value of property, plant and equipment of Kshs.62,907,000 as at 30 June 2017 includes the value of motor vehicle KYU 313 of Kshs.16,000 with accumulated depreciation of Kshs.104,000 indicating that the asset is fully depreciated. The vehicle has remained grounded over a long period of time and appears unserviceable. As at the time of audit the hotel management had not disposed of the vehicle and therefore the vehicle continues to depreciate in value.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kabarnet Hotel Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Going Concern

During the year under review, the hotel recorded a loss of Kshs.2,155,000 compared to a loss of Kshs.5,899,000 during the year 2015/2016 resulting in accumulated losses of Kshs.81,686,000. In addition, the current liabilities of Kshs.61,079,000 exceeded current assets of Kshs.6,838,000 by negative working capital of Kshs.54,241,000. This situation indicates a material uncertainty exists that may cast significant doubt on the Hotel's ability to continue as a going concern. Therefore its continued operation as a going concern is dependent on the support of creditors and the National Government. The financial statements do not disclose this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Failure to Submit Annual Returns

The hotel is incorporated under the Companies Act (Cap 486) and is a limited company. It was observed that the hotel has not been filing its annual returns with registrar of companies contrary to Companies Act 2015 and Companies (General) regulations 2015 section 54 and 55.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Unconfirmed Borrowings

The statement of financial position as at 30 June 2017 reported borrowings of Kshs.18,559,000 and Kshs.46,167,000 as supported by notes 15 and 18 (b) respectively. These balances have remained the same and have not been supported by terms and conditions. In the circumstance, the balance could not be confirmed as fairly stated.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Internal Control Weakness

The Kabarnet Hotel Limited had no organizational or governance structure, internal audit department and risk management policy in place as at the time of the audit in February 2019. Therefore, processes of governing, actions to be taken to mitigate risk, regulations and accountability had not been structured and documented. In addition, the staffing needs of the hotel could not be identified since there was no staff establishment list.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my 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 the audit;
- ii. in my opinion, adequate accounting records have been kept by the Hotel, so far as appears from the examination of those records; and,

- iii. The financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern/ sustainability of services and using the going concern basis of accounting unless the Kabarnet Hotel either intends to liquidate the business or to cease operations, or have no realistic alternative but to do so.

Management is 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

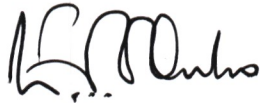
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Kabarnet Hotel's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the hotel to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the hotel to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

15 May 2019



KABARNET HOTEL LIMITED
Reports and Financial Statements
for the year ended June 30, 2017

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2017


| | Note | 2017 KShs '000' | 2016 KShs '000' |
|---|-------|-----------------------|-----------------------|
| REVENUE | | 13,537 | 9,353 |
| Other Income | | 1,449 | 629 |
| TOTAL REVENUE | | 14,986 | 9,982 |
| COST OF SALES | | 3,752 | 3,219 |
| GROSS PROFIT | | 11,234 | 6,763 |
| OPERATING EXPENSES | | | |
| Administration Costs | 4(a) | 11,207 | 10,443 |
| Selling and Distribution Costs | 5 | 227 | 225 |
| Depreciation of property, plant and equipment | 7 (a) | 1,952 | 1,994 |
| TOTAL OPERATING EXPENSES | | 13,386 | 12,662 |
| OPERATING PROFIT/(LOSS) | | (2,152) | (5,899) |
| Finance Income | | - | - |
| Finance Costs | | - | - |
| PROFIT/ (LOSS) BEFORE TAXATION | | (2,152) | (5,899) |
| PROFIT/ (LOSS) | | (2,152) | (5,899) |



STATEMENT OF FINANCIAL POSITION
 AS AT JUNE 30, 2017

| | Note | 2017 Kshs '000' | 2016 Kshs '000' |
|--------------------------------------|-------|-----------------------|-----------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 7(a) | 62,907 | 64,829 |
| Total Non-Current Assets | | <u>62,907</u> | <u>64,829</u> |
| Current Assets | | | |
| Inventories | 8 | 177 | 136 |
| Trade and other receivables | 9 | 6,432 | 4,675 |
| Bank and cash balances | 10 | 229 | 134 |
| TOTAL ASSETS | | <u>69,745</u> | <u>69,774</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Ordinary share capital | 11 | 5,000 | 5,000 |
| Revaluation reserve | 12 | 66,793 | 66,793 |
| Revenue Reserves | | (81,686) | (79,534) |
| Capital and Reserves | | <u>(9,893)</u> | <u>(7,741)</u> |
| Non-Current Liabilities | | | |
| Borrowings | 15 | 18,559 | 18,559 |
| Total Non-Current Liabilities | | <u>18,559</u> | <u>18,559</u> |
| Current Liabilities | | | |
| Borrowings | 18(b) | 46,167 | 46,167 |
| Trade and other payables | 16 | 14,912 | 12,789 |
| Total Current Liabilities | | <u>61,079</u> | <u>58,956</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>69,745</u> | <u>69,774</u> |

The financial statements were approved by the Board on 21st September 2017 and signed on its behalf by:



 Chairman



 Member

STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED JUNE 30, 2017

| | Ordinary share capital ksh'000' | Revenue Reserve ksh'.000' | Revaluation Reserve ksh'000' | Shareholders Equity Ksh.'000' |
|----------------------------|---------------------------------------|---------------------------------|------------------------------------|-------------------------------------|
| At July 1, 2015 | 5,000 | (73,634) | 66,793 | (1,841) |
| Total comprehensive income | | - | - | - |
| At June 30, 2015 | 5,000 | (73,634) | 66,793 | (1,841) |
| At July 1 2016 | 5,000 | (79,534) | 66,793 | (7,741) |
| Total comprehensive income | | (2,152) | | (2,152) |
| At June 30 ,2017 | 5,000 | (81,686) | 66,793 | (9,893) |

KABARNET HOTEL LIMITED

Reports and Financial Statements

for the year ended June 30, 2017

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

| | Note | 2017 Kshs '000' | 2016 Kshs '000' |
|---|-------|-----------------------|-----------------------|
| OPERATING ACTIVITIES | | | |
| Cash generated from/(used in) operations- Note | 17(a) | 125 | (1,329) |
| Net cash generated from/(used in) operating activities | | <u>125</u> | <u>(1,329)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of Furniture and Equipment | 7(a) | (30) | (5,533) |
| Net cash generated from/(used in) investing activities | | <u>95</u> | <u>(6,092)</u> |
| FINANCING ACTIVITIES | | | |
| Advance/Loan Received Note | 16(b) | - | 4,323 |
| Net cash generated from/(used in) financing activities | | <u>95</u> | <u>(2,539)</u> |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | <u>95</u> | <u>(2,539)</u> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 134 | 2,673 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | <u>229</u> | <u>134</u> |

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD
 ENDED 30 JUNE 2017

| | Original Budget | Final Budget | Actual On Comparable | Performance Difference |
|--------------------------------------|--------------------|-----------------|-------------------------|---------------------------|
| Revenue | | | | |
| Sales | 16,684,897 | | 13,536,676 | (3,148,221) |
| Other income | 602,783 | | 1,449,737 | 846,954 |
| Total revenues | 17,287,680 | | 14,986,413 | (2,301,267) |
| Cost of sales | 4,963,637 | | 3,751,528 | (1,212,109) |
| Gross profit | 12,324,043 | | 11,234,890 | (1,089,158) |
| Expenses | | | | |
| Administration costs | 14,340,998 | | 11,254,745 | (3,086,253) |
| Selling and distribution costs | 193,050 | | 226,330 | 33,280 |
| Depreciation of PPE | 2,072,490 | | 1,964,000 | (108,490) |
| Total Operating Expenses | 16,606,538 | | 13,445,075 | (3,161,463) |
| Operating profit/(loss) | (4,282,495) | | (2,210,185) | (2,072,305) |
| Finance Income | - | | | |
| Finance Costs | - | | | |
| Profit/(Loss) before taxation | (4,282,495) | | (2,210,185) | (2,072,305) |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED JUNE 30, 2017

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

1.(a) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company and all values are rounded to the nearest thousand (Kshs'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

(b) Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted by the Hotel

The following are new standards that have been adopted by the Hotel for the financial year beginning on or after 1 July 2016 and have no material impact on the Hotel:

IAS 1 Disclosure Initiative – Amendments to IAS 1 Effective for annual periods beginning on or after 1 January 2016. The amendments clarify; that entities have flexibility as to the order in which they present the notes to financial statements, that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, The materiality requirements in IAS 1.

IAS 7 Disclosure Initiative – Amendments to IAS 7. The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12. The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount

2(a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the company actually receives such grants.
- (iii) Other income is recognised as it accrues.

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Hotel. The comparison between the budget amounts and the actual performance are presented as a separate additional financial statement in the statement of comparison of budget and actual amounts

c). In-kind contributions

In-kind contributions are donations that are made to the *company* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *company* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

f. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and buildings is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life while motor vehicle and furniture and Equipment is on Reducing balance method. The annual rates in use are:

| | |
|--|---|
| Buildings and civil works | 25 years or the unexpired lease period (2.5% p.a) |
| Plant and machinery | (12.5% p.a) |
| Motor vehicles, including motor cycles | 25% |
| Computers and related equipment | 33.3% |
| Office equipment, furniture and fittings | 12.5% |

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and impairment of property, plant and equipment (Continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

a. Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

b. Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

c. Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the *company*, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement

d. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

e. Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

b) Deferred Tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *company* or not, less any payments made to the suppliers.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

f. Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

g. Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

h. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the *company* operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

i. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

j. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

RELATED PARTY DISCLOSURES

(a) **Government of Kenya**

The Government of Kenya through Tourism Finance Corporation is the principal shareholder of Kabarnet Hotel Limited, holding 98.4% of the equity interest with the remaining 1.6% being held by kipngochoch Farm limited.

There were no other related party transactions involving the Government of Kenya.

SUMMARY OF ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES

In the process of applying the company's accounting policies, the directors make some judgements and estimates. Such estimates and judgements are based on historical experience among other factors that are deemed reasonable under the prevailing circumstances. The judgements are evaluated each financial year to ensure that they remain reasonable under the circumstances and based on available information.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities when reporting. The judgements made in the process of applying the company's accounting policies that have the most significant effect on the amounts reported in the financial statements include:

1. Property, Plant and equipment

The company's management makes estimates in determining the depreciation rates for PPE. The rates used are as set out in accounting policies note 4.

2. Revaluation of PPE

The company carries Land and buildings of PPE at fair value, with changes in fair value being recognised in the comprehensive income and revaluation reserves respectively.

3. Receivables

Estimates and judgements are made when determining the recoverable amount of receivables.

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

SUMMARY OF ACCOUNTING POLICIES(Continued)

t) Contingent liabilities

The Company does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

u) Financial risk management

The Company's activities expose it to financial risks including credit and market risks. The Company's overall risk management policies are set by the Company BOD and implemented by the Management, and focus on the unpredictability of changes in the operating environment and seek to minimize the potential adverse effects of such risks on the Company's performance by setting acceptable levels of risk. The Company does not hedge against any risks.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party for the other party by failing to discharge an obligation. Credit risk on trade receivables is managed by ensuring that customer pay their water bills

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. BOD has developed a risk management framework for the management of the Company's short, medium and long term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Company manages liquidity risk by continuously reviewing forecasts and actual cashflows, and maintaining banking facilities to cover any shortfalls.

ii) Market risk

Market risk is the fair value or future cash flows of financial instruments will fluctuate because of changes in market price.

SUMMARY OF ACCOUNTING POLICIES(Continued)

a) Currency risk

Currency risk arises on financial instruments denominated in foreign currency. The Company does not have any significant currency risk as it does not have trade receivables, trade payables and borrowings denominated in foreign currency.

b) Other price risk

Other price risk arises on financial instruments because of changes in the price of a financial instrument.

The Company is not exposed to other price risk as it does not hold financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017**

| | 2017 | 2016 |
|-----------------|----------------------|---------------------|
| | Kshs | Kshs |
| | '000' | '000' |
| 1. SALES | | |
| Accommodation | 3,922 | 3,783 |
| Food | 7,778 | 4,156 |
| Beverages | 1,806 | 1,374 |
| Tobacco | 30 | 32 |
| TOTAL | <u>13,537</u> | <u>9,353</u> |

Sales are reported after of 16% VAT, 7% Service charge & 2% Catering levy on gross sales.

2. OTHER INCOME

| | | |
|--------------|--------------|------------|
| Other Income | 1,449 | 629 |
| | <u>1,449</u> | <u>629</u> |

(Mainly, revenue from ,hire of conference facilities,swimming pool,and laundry)

3 COST OF SALES

| | | |
|----------|--------------|--------------|
| Food | 2,571 | 2,231 |
| Beverage | 1,161 | |
| Tobacco | 20 | |
| | <u>3,752</u> | <u>3,219</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4(a) ADMINISTRATION COSTS

| | | |
|---|---------------|---------------|
| Staff costs (note 4b) | 7,160 | 7,607 |
| Directors' emoluments | 361 | 50 |
| Electricity and water | 797 | 799 |
| Transportation, travelling and subsistence (general charges & staff travel) | 141 | 129 |
| Advertising, printing, stationery and photocopying (office Expenses & Entertainment) | 448 | 354 |
| Staff training expenses | - | - |
| Hospitality supplies and services | 18 | 18 |
| Insurance costs | - | - |
| Bank charges and commission | 69 | 51 |
| Auditors' remuneration | 48 | 48 |
| Repairs and maintenance | 243 | 189 |
| Provision for bad and doubtful debts | - | - |
| Other operating expenses (operating cost, property upkeep & other Expenses) | 1,922 | 1,198 |
| | <u>11,207</u> | <u>10,443</u> |

4(b) STAFF COSTS

| | | |
|--|--------------|--------------|
| Salaries and allowances of permanent employees | 5,528 | 6,212 |
| Wages of temporary employees | 1,586 | 1,349 |
| Compulsory national social security schemes | 46 | 46 |
| Leave pay and gratuity provisions | - | - |
| Staff welfare | - | - |
| | <u>7,160</u> | <u>7,607</u> |

The average number of employees at the end of the year was:

| | | |
|-----------------------------------|-----------|-----------|
| Permanent employees – Management | 1 | 1 |
| Permanent employees – Unionisable | 18 | 18 |
| Temporary and contract employees | 13 | 13 |
| | <u>32</u> | <u>32</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| 5.SELLING AND DISTRIBUTION COSTS | 2017 | 2016 |
|---|-------------------|-------------------|
| | Ksh 000 | Kshs 000 |
| Marketing and promotional expenses | 72 | 49 |
| Sales commissions | 155 | 176 |
| | <u>227</u> | <u>225</u> |
| 6.OPERATING PROFIT/(LOSS) | | |
| The operating profit/(loss) is arrived at after charging/(crediting): | | |
| Staff costs (note 4) | 7,160 | 7,607 |
| Depreciation of property, plant and equipment-Note 7(a) | 1,952 | 1,994 |
| | <u> </u> | <u> </u> |

NOTES TO THE FINANCIAL STATEMENTS
 7(a).PROPERTY, PLANT AND EQUIPMENT

| | Freehold land ksh'.000' | Buildings ksh'.000' | Motor Vehicle ksh'.000' | Furniture And Equipme nt ksh.'.000' | TOTAL ksh.'.000' |
|----------------------------|-------------------------------|---------------------|-------------------------------|---|---------------------|
| COST OR VALUATION | | | | | |
| At July 1, 2016 | | | | | |
| Additions | 6,000 | 60,000 | 120 | 5,222 | 71,342 |
| At June 30, 2016 | | 5,498 | - | 35 | 5,533 |
| As at July 2016 | 6,000 | 65,498 | 120 | 5,257 | 76,875 |
| Additions | 6,000 | 65,498 | 120 | 5,257 | 76,875 |
| As June 2017 | | - | - | 30 | 30 |
| As at July 2015 | 6,000 | 65,498 | 120 | 5,287 | 76,905 |
| Charge for the year | - | 7,500 | 92 | 2,460 | 10,052 |
| As at June 2016 | | 1,637 | 7 | 350 | 1,994 |
| As at July 2016 | - | 9,137 | 99 | 2,810 | 12,046 |
| Charge for the year | - | 9,137 | 99 | 2,810 | 12,046 |
| As at June 2016 | - | 1,637 | 5 | 310 | 1,952 |
| NBV as at June 2017 | 6,000 | 54,724 | 16 | 2,167 | 62,907 |
| NBV as at June 2016 | 6,000 | 56,361 | 21 | 2,447 | 64,829 |

Property, plant and equipment include the following items that are fully depreciated:

Buildings
 Motor vehicle
 Office equipment, furniture and fittings

| | |
|-------------------------------------|----------------------------------|
| annual 2017 Cost or Valuation | Normal depreciation charge |
| 65,498,000 | 1,637,450 |
| 120,000 | 5,340 |
| <u>5,336,600</u> | <u>309,710</u> |
| 70,954,600 | 1,952,500 |

NOTES TO THE FINANCIAL STATEMENTS

7(b).PROPERTY, PLANT AND EQUIPMENT -2015/2016

| | Freehold land ksh'.000' | Buildings ksh'.000' | Motor Vehicle ksh'.000' | Furnitur e And Equipme nt ksh.'.000' | TOTAL ksh.'.000' |
|----------------------------|-------------------------------|------------------------|-------------------------------|--|---------------------|
| COST OR VALUATION | | | | | |
| At July 1, 2015 | 6,000 | 60,000 | 120 | 5,222 | 71,342 |
| Additions | - | - | - | - | - |
| At June 30, 2015 | 6,000 | 60,000 | 120 | 5,222 | 71,342 |
| As at July 2015 | 6,000 | 60,000 | 120 | 5,222 | 71,342 |
| Additions | - | 5,498 | - | 35 | 5,533 |
| As June 2016 | 6,000 | 65,498 | 120 | 5,257 | 76,875 |
| As at July 2014 | - | 6,000 | 82 | 2,065 | 8,147 |
| Charge for the year | - | 1,500 | 10 | 395 | 1,905 |
| As at June 2015 | - | 7,500 | 92 | 2,460 | 10,052 |
| As at July 2015 | | 7,500 | 92 | 2,460 | 10,052 |
| Charge for the year | - | 1,637 | 7 | 350 | 1,994 |
| As at June 2016 | - | 9,137 | 99 | 2,810 | 12,046 |
| NBV as at June 2016 | 6,000 | 56,362 | 21 | 2,447 | 64,829 |
| NBV as at June 2015 | 6,000 | 52,500 | 28 | 2,763 | 61,291 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| 8. INVENTORIES | 2017 Ksh. '000' | 2016 Ksh. '000' |
|-------------------------------|-----------------------|-----------------------|
| Food | 17 | 16 |
| Drink | 71 | 69 |
| Tobacco | 3 | 5 |
| Kitchen/restaurant and Bar | 1 | 1 |
| Stationery and general stores | 54 | 7 |
| Cleaning stock | 4 | 7 |
| Toilet Requisite | - | - |
| Containers | 25 | 29 |
| Guest Suppliers | 1 | 2 |
| Misc. electrical & Tools | 1 | - |
| | <u>177</u> | <u>136</u> |

The company trades in foods and beverages and doesn't own any motor vehicles. The inventor at the end of the year comprised of foods, drinks and containers]

9. TRADE AND OTHER RECEIVABLES.

| | | |
|------------------------------------|--------------|--------------|
| Gross trade receivables | 6,432 | 4,675 |
| Provision for doubtful receivables | - | - |
| | <u>6,432</u> | <u>4,675</u> |

At June 30, the ageing analysis of the gross trade receivables was as follows:

| | | |
|-------------------------|--------------|--------------|
| Less than 30 days | 1,957 | 249 |
| Between 30 and 60 days | 492 | 60 |
| Between 61 and 90 days | 38 | 160 |
| Between 91 and 120 days | 5 | 7 |
| Over 120 days | 3,940 | 4,199 |
| | <u>6,432</u> | <u>4,675</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2017
KShs

2015
KShs

'000' '000

10. BANK AND CASH BALANCES

| | | |
|---|------------|------------|
| Cash at bank | 162 | 66 |
| Cash in hand(<i>F/office Float, Bar & Petty cash</i>) | 67 | 68 |
| | <u>229</u> | <u>134</u> |

(Cash at bank ,and petty cash balance at June 2017)
 KCB-KABARNET BRANCH-A/C NO 201641775

11. ORDINARY SHARE CAPITAL

Authorised:

250,000 ordinary shares of Kshs.20 par value each

| | | |
|--|--------------|--------------|
| | <u>5,000</u> | <u>5,000</u> |
|--|--------------|--------------|

Issued and fully paid:

250,000 ordinary shares of Kshs. 20 par value each

| | | |
|--|--------------|--------------|
| | <u>5,000</u> | <u>5,000</u> |
|--|--------------|--------------|

[The share capacity as at June 2017 is the same as it was on June 30th, 2016]

13. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

This is the revaluation of property ,plant and equipment done in the year 2010.

| | | |
|--------------------------------------|--------------|--------------|
| | 2017 | 2016 |
| | Ksh. | Ksh. |
| | '000' | '000' |
| Revaluation at beginning of the year | 66,793 | 66,793 |

There were no revaluation during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

| | 2017 | 2016 |
|--------------------------------------|---------------|---------------|
| 15. BORROWINGS | KSh. '000' | Ksh. '000' |
| Domestic Borrowing | | |
| Balance at the beginning of the year | 18,559 | 18,559 |
| Domestic borrowings during the year | - | - |
| | <u>18,559</u> | <u>18,559</u> |
| Balance at end of the year | | |
| (Loan to the hotel from TFC) | | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. TRADE AND OTHER PAYABLES

| | | |
|--|---------------|---------------|
| Accrued expenses | 2,243 | 2,193 |
| Other payables | - | - |
| | <u>12,669</u> | <u>10,596</u> |
| | <u>14,912</u> | <u>12,789</u> |
| (Statutory deduction, VAT, CLT, and suppliers) | | |

17. NOTES TO THE STATEMENT OF CASH FLOWS

| | ksh. ' 000' | Ksh. ' 000' |
|---|----------------|----------------|
| | 2017 | 2016 |
| (a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations | | |
| Operating profit/(loss) | (2,152) | (5,899) |
| Depreciation | 1,952 | 1,994 |
| Amortisation | - | - |
| Operating profit/(loss) before working capital changes | <u>(200)</u> | <u>(3,905)</u> |
| Increase inventories | (41) | 10 |
| decrease in trade and other receivables | (1,757) | 601 |
| decrease) in trade and other payables | 2,123 | 1,965 |
| Cash generated from/ (used in) operations | <u>125</u> | <u>(1,329)</u> |

18.(a) Analysis of changes in loans

| | | |
|--------------------------------------|----------------|---------------|
| Balance at the beginning of the year | 46,167 | 41,844 |
| Receipts during the year | - | 4,323 |
| Repayments during the year | - | - |
| Balance at end of the year | <u>46, 167</u> | <u>46,167</u> |

(Advance for payroll support from Tourism Finance Corporation up to may 2016)

19(a) Directors' expenses

| | | |
|--|---------|---|
| Sitting allowance (Inclusive of PAYE & Refreshments) | 361,338 | - |
| Transport (Flight & Taxi) | - | - |

20.INCOPORATION

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