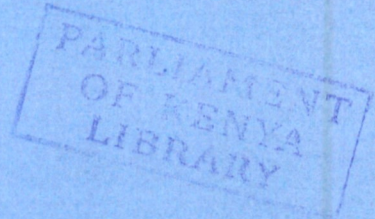




REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 02 APR 2019	DAY: TUESDAY
TABLED BY:	MAJORITY LEADER
CLERK-AT THE-TABLE:	

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA SAFARI LODGES AND HOTELS
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2018**

- MOMBASA Beach Hotel
- NGULIA Safari Lodge
- VOI Safari Lodge



KENYA SAFARI LODGES & HOTELS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2018**

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

KENYA SAFARI LODGES & HOTELS

Box 90414 - 80100 Mombasa, Kenya & Box 42013 Nairobi - Kenya

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w ▶ www.safari-hotels.com



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KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

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KEY ENTITY INFORMATION

a) Background information

Kenya Safari Lodges & Hotels Ltd (“KSLH”, “The Company”) was incorporated under the Kenya Companies Act (Cap 486) in 1966. The shareholders of KSLH are Tourism Finance Corporation (TFC,) Mountain Lodges Ltd and Kenya Wildlife Services (KWS). Tourism Finance Corporation is the majority shareholder in KSLH with a direct controlling stake of 82.45% shares. From a management control perspective, KSLH is classified as a State Corporation by virtue of being a subsidiary of TFC. The company operates three units namely; Mombasa Beach hotels, Ngulia Safari Lodge and Voi Safari Lodge.

b) Principal Activities

The Principal activity of the Kenya Safari Lodges and Hotels is ownership and operation of hotel and lodge facilities in Kenya. KSLH vision is to provide premiere hospitality experiences in Kenya; the mission is to enhance customer value by offering premiere Hospitality experiences with an African heritage and core values are Integrity Service excellence Discipline Team work Innovation Social responsibility Dedication and commitment

c) Directors

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

Name of Director		Date of Appointment	Alternate	Date of Appointment
Mr.Paul Kurgat	Chairman	1 st March 2018		
Mr Michael Matu	Director	11 th Dec 2009	-	-
Mr Jonah Orumoi-TFC	Director	1 st Feb 2016	Ms.Nora Ratemo	18 th Sept 2017
Mr Julius Kimani	Director	1 st July 2017	Mr Edwin Wanyonyi	09 th Oct 2015
Ms Fatma Hirsi - PS, Ministry of Tourism	Director	1 st Jan 2016	Ms. Regina Kanyi	1 st July 2017
Mr Said Mwangi Ali	Director	Left- 31 st Jan 2018		
Ms Pauline Rwamba	Director	9 th Jun 2016		

d) Corporate Secretary

John Saitoti Karia
Corporation Secretary
Tourism Finance Corporation



KENYA SAFARI LODGES AND HOTELS LIMITED
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e) General Manager of the Company- KSLH

Registered Office

Mombasa Beach Hotel
Mt. Kenya Road, Nyali
P.O. Box 90414, 80100
Mombasa.

f) Corporate Headquarters

P.O. Box 90414, 80100
Mombasa Beach Hotel
Mt. Kenya Road, Nyali
Mombasa.

g) Corporate Contacts

Tel: 041-471861-5/ +254 722 203143/4
Email: info@kenya-safari.co.ke
Website: www.safari-kenya.com

h) Corporate Bankers

Kenya Commercial Bank
Treasury Square
P.O. Box 90254-80100
Mombasa.
Barclays Bank
Nkrumah Road, Mombasa
P.O. Box 90182 – 80100
Mombasa.

i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084- 00100
Nairobi.

j) Principal Legal Advisers




The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112- 00200
Nairobi.

Miller & Company Advocates
P.O Box 90088-80100, GPO, Mombasa.
Kishore Nanji Advocates
P.O Box 86878 – 80100, Mombasa.

M. F. Khatib Advocates
P.O Box 83566 - 80100 GPO, Mombasa.

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THE BOARD OF DIRECTORS

Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
1. Mr. Paul Kurgat		<p>DoB: 9th May 1969</p> <p>Mr. Kurgat is the chairman of the Board of Directors with effect from 1st March 2018. He holds a Masters Degree in Tourism Management and a Bachelor's Degree in Hospitality and Events Management from Moi University; and he is also a graduate of the Kenya Utalii College. Mr. Kurgat is a member of The Tourism Professionals Association (TPA, Kenya), the General Assembly of Action Aid and is the National Chairman of the Kenya Utalii College Alumni Association. He has served in senior management positions in several hospitality organizations and brings to the Board over twenty-one (21) years' experience in the Tourism and Hospitality industry.</p>
2. Mr. Said Mwangi Ali		<p>DoB: 9th Novemeber 1967</p> <p>Mr. Saidi Ali served as the chairman of KSLH Board of Directors upto 28th February 2018. He has a marketing background. He is a Member and former Secretary of Culture at Kenya Arab Friendship Founder member of Kenya Motor Repairers Association (KEMRA) and Former Board member of Hotel & Restaurant Authority (now Tourism Regulatory Authority).</p>
3. Ms Fatma Hirsi		<p>DoB: 17th August 1963</p> <p>Mrs. Fatuma Hirsi Mohammed is the immediate former PS, Tourism. She holds a PhD in Communication Studies from Moi University, an MBA in Management Strategy & Marketing from Strathmore Business School and a Post-graduate Diploma in Public Relations from Kenyatta University. She has a broad international and local experience in public relations, marketing, branding, strategic communications, and reputation management. Through her long career she has had direct experience with the United Nations in development and cooperation programmes. She</p>


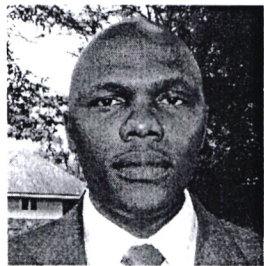
KENYA SAFARI LODGES AND HOTELS LIMITED

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For The Year Ended June 30, 2018

		<p>previously worked in the postal services, banking, media (electronic and print) and telecommunications (fixed and mobile telephony). She has been a board member at KP L & C and a managing consultant at FHM Collaborations.</p> <p>She has been recognized for her leadership and honored with a Fellow and Lifetime Achievement Awards by the Public Relations Society of Kenya which she served as chairlady for five years. The President of the Republic of Kenya has awarded her with an Order of Chief of the Burning Spear (CBS).</p>
<p>4. Mr.Orumoi T. Jonah</p>		<p>DoB: 20thOctober 1978</p> <p>Mr. Orumoi the Chairman of the Finance, HR and Administration Committee. He holds a Master of Science Degree in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He graduated with a BA (Hons.) in Accounting & Finance from the University of East London, UK. Currently he is the Managing Director of Tourism Finance Corporation, and has served as Head of Finance & ICT at the Kenya Tourism Board. He has previously worked as Finance & Leasing Contracts Manager/ Acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.</p>
<p>5. Mr Michael Matu</p>		<p>DoB: 13thSeptemehr 1968</p> <p>Mr.Michael Matu the Chairman of the Audit Committee holds an Masters in Business Administration (United States International University). a BA (University of Guelph, Canada) and a Graduate Diploma (McGill University, Canada). He serves as the Executive Director, Heri Group and Deputy Chairman & Chief Executive Officer, Olympia Capital Holdings Limited</p>

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Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
6. Ms. Pauline Rwamba		<p>DoB: 29th December 1972</p> <p>Ms. Pauline Rwamba is a member of the Board and holds a Master's degree in Business Administration, Marketing Option from the Kenya Methodist University and an undergraduate degree in Business Administration, Entrepreneurship option. She is a career Social/Community Development Specialist. She is a consultant with Polypat Consultancy Firm offering 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>
7. Mr. Edwin Wanyonyi		<p>DoB: 26th June 1975</p> <p>Mr. Edwin a member of Board of Directors holds an MBA(UON) , Bachelor of Business Administration , Dip in Resource Mobilization, Cert in Strategic Leadership from Kenya Institute of Administration and a post graduate Diploma in Resource Mobilization from Kenya Institute of Management and certificate in Project Management. Member of KIM, Kenya Fundraising Professionals and National Steering Committee Member of UNDP Small Grants. A Taskforce Member of the Tourism Recovery Taskforce in Kenya. Currently he is the deputy directors, strategy and changes at KWS Over 12 years experience in strategic management both in the public and private sector.</p>

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Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
<p>8. Mr John Karia</p> <p>Company Secretary</p>		<p>DoB: 25th May, 1984</p> <p>Mr. John Saitoti Karia is the Head of Legal Services and Corporation Secretary. He is an Advocate of the High Court of Kenya and a Certified Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Chartered Institute of Arbitrators (Kenya Branch). He holds a Master's degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi. ICPSK – Member No. CPSB/2714</p>
<p>9. Victor M Shitakha</p> <p>General Manager</p>		<p>DoB: 1964</p> <p>Mr. Shitakha served as General Manager of the Company during the financial year under review. He holds a BA in Hospitality and Tourism Management from Moi University, an Associate Degree in Business Administration and Sales and Marketing certificate and a Diploma in Hotel Management from Kenya Utalii College</p> <p>Work Experience: 2012-2016: General Manager Tamarind Restaurant Mombasa 2009-2012: General Manager Hotel Africana Uganda 2005-2009: General Manager Wellworth's Beach Resort Dar es Salaam 2005: Deputy General Manager Nyali Beach 2004: General Manager Lake Naivasha Sopa Group's 2000-2003: Cruise Commander Voyager Beach Resort</p>

KENYA SAFARI LODGES AND HOTELS LIMITED
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MANAGEMENT TEAM

Name	Photo	Key Professional/Academic Qualifications & Work Experience
2. Victor M Shitakha		<p>Mr. Shitakha served as General Manager of the Company during the financial year under review. He holds a BA in Hospitality and Tourism Management from Moi University, an Associate Degree in Business Administration and Sales and Marketing certificate and a Diploma in Hotel Management from Kenya Utalii College</p> <p>Work Experience: 2012-2016: General Manager Tamarind Restaurant Mombasa 2009-2012: General Manager Hotel Africana Uganda 2005-2009: General Manager Wellworth's Beach Resort Dar es Salaam 2005: Deputy General Manager Nyali Beach 2004: General Manager Lake Naivasha Sopa Group's 2000-2003: Cruise Commander Voyager Beach Resort</p>
3. Victor Mwambui		<p>Mr. Mwambui, the Administration Manager, is a graduate of Kenya Utalii College, Nairobi (Diploma in Hotel Management). He has a vast experience in hotel operations, administration and human resources management. He has over 28 years working experience and served in various roles in hotels and lodges managed by the former African Tours & Hotels Ltd (1990 –June 1998) and presently at Kenya Safari Lodges & Hotels Ltd (July 1998 to date). From April to November 2016 he served as Acting General Manager.</p> <p>He is an Associate Member of the Association of Business Executives (UK) and holds an Advanced Diploma in Human Resource Management (ABE level 6) from the same institution. Locally, he is a member of the Tourism Professionals Association.</p>

KENYA SAFARI LODGES AND HOTELS LIMITED
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Name	Photo	Key Professional/Academic Qualifications & Work Experience
4. Benard Chepkwony		<p>Mr. Chepkwony Finance Manager (KSLH) holds Master's degree in Business Administration from Nairobi university Bachelor of Arts degree in Economics from Kenyatta university and his professional qualifications include CPA(K), CPS(K)</p> <p>Work Experience: August 2005-December 2007: Accountant (NSL and VSL) November 2010-October 2011: Accountant Sunset November 2011-January 2013: Finance Manager (KSLH) February 2013-September 2017 : Group Credit Controller October 2017 – to date: Finance Manager (KSLH)</p>
5. Lillian Obura		<p>Ms. Obura the internal auditor holds bachelor of Commerce degree (Accounting Option) from Africa Nazarene University and Diploma in Banking. Member of Institute of Internal Auditors (Kenya chapter) & ISACA.</p> <p>Work Experience: 2007- 2008- Accountant, Tamarind Mombasa 2008-2013: Asst. Internal Auditor – KSLH 2014 – to date : Internal Auditor – KSLH</p>
6. Eunice Nzilani		<p>Ms. Nzilani the Human Resource Manager(KSLH) holds Bachelor of Business Administration Human Resource degree from Jomo Kenyatta University Higher Diploma in HRM and Industrial relations Technical University of Mombasa Diploma in HRM and Industrial Relations(TUM) Member of Institute of Human Resource Management</p> <p>Work Experience: 2014 – to date: Human Resource Manager-KSLH Jan 2012-Apr 2014 HRO –AWL 2011-HRO-A.Appreals 2006-2010 –HRM Sai Rock Hotel</p>

KENYA SAFARI LODGES AND HOTELS LIMITED
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CHAIRMAN'S STATEMENT

Kenya's economy in 2017 endured periods of turbulence and tourism just like other key sectors of the economy was impacted by adverse weather conditions, uneasiness during the elections, sky ricketing inflation, a slowdown in credit and volatile prices in the international market.

The hotel and tourism industry managed to overcome the negative impact of drought in the agricultural sector in most parts of the country. Despite the ripple effects on the manufacturing and agro processing sector, the hospitality and services sector of the economy was able to register growth during the year contributing to the overall growth rate of 4.8%.

The KSLH group configuration of a beach hotel combined with two safari lodges enabled it to register growth in business despite the uneasiness over elections during the first quarter of July-September in the beginning of the financial year 2017/2018.

Conferencing is the main stay of business at MBH and a majority of conference guests are sourced from Government ministries, departments and agencies (MDAs) either as residential or non-residential delegates. Due to activities associated with the August 2017 elections, business levels at Mombasa Beach Hotel declined whilst the two lodges recorded relatively higher average monthly room occupancies compared to the previous year. The healthier business levels within the Tsavo Safari circuit helped contribute to the positive performance of the lodges.

Although there was a limited resumption of some charter and international scheduled flights into Mombasa from source markets the Kenya Coastal region continues to record low business materializations from the foreign leisure market segment. Thus the down turn at the Kenya Coast continues to hamper the growth of foreign leisure business in Ngulia and Voi Safari Lodges.

There was excitement linked with the launch of the Standard Gauge Railway (SGR) in Kenya in June 2017, because of the opportunities it created to tap into the local tourism segment. Thus

The last half of the financial year under review witnessed a strengthening of this travel trend especially during school holidays leading to an increase in bed-nights.

ANNUAL TRADING RESULTS 2017/2018

Overall sales revenue increased to Kshs301m a 22% rise from Kshs236m attained in FY2016/2017 and Ksh260m in FY 2015/2016. All the 3 Units of KSLH recorded increased sales revenues compared to the previous year, though this was below the targeted sales in the annual budget 2017/2018 as show in the table below:

(FY 2017/2018) Turnover				FY 2017/2018 Net Profit/(Loss)		
Unit	Actual (Ksh'000)	Budget (Ksh'000)	2016/17 (Ksh'000)	2017/2018 (Ksh'000)	Budget (Ksh'000)	2016/17 (Ksh'000)
Mombasa Beach Hotel	191,889	252,504	159,579	2,831	(2,550)	(16,986)
Voi Safari Lodge	71,553	101,640	45,043	(18,205)	(6,758)	(31,739)
Ngulia Safari Lodge	37,509	86,856	31,067	(20,407)	(5,229)	(25,212)
TOTAL	300,951	441,000	235,689	(35,781)	(14,537)	(73,937)



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The below budget performance was as a result of lower than estimated room and bed occupancies as demonstrated in the table below:

	2017/2018 Average Room Occupancy			Average Bed Occupancy		
	Actual %	Budget %	2016/2017	Actual	Budget	2016/17
Mombasa Beach Hotel	28%	59%	35%	23%	48%	24%
Voi Safari Lodge	42%	55%	23%	40%	55%	21%
Ngulia Safari Lodge	20%	45%	17%	20%	45%	17%

The Company registered an operating loss Ksh 35.8 million which is more favourable compared to the operating loss of Ksh 73.9 million in the previous year. Although KSLH is yet to reach a positive profits position, this year-to-year decline in operating loss is reflective of a trend that begun in the FY 2014/2015 implying that management turn around strategies are beginning to bear fruit.

The achievement of the budgeted sales turnover for the financial year 2017/2018 was premised on the refurbishment of the flagship unit, Mombasa Beach Hotel at total cost of Ksh 131 million. Although the renovation project was scheduled to begin during the second quarter of the period under review this was set-aside in favour a new re-development project that is the Mombasa International Convention Centre. The latter is yet to be rolled-out therefore the company was only able to undertake minimal capital improvement such as installation of a new stand-by generator and 50 new split-unit air-conditioners for guest rooms at Mombasa Beach Hotel and much more is yet to be achieved. As a result KSLH properties are unable to command a leadership position in market share within their respective locations.

Resignation of the General Manager: Mr. Victor M. Shitakha who was appointed general manager and accounting officer of the Company on 24 November 2016 resigned on 29 June 2018 and gave a 3-months notice expiring end of September 2018. The Board of the Company accepted his resignation and approved the appointment of the Administration Manager on acting capacity to serve in the office of General Manager.

Chairman- Board of Directors

21st November, 2018



KENYA SAFARI LODGES AND HOTELS LIMITED
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Report of the General Manager

The first quarter of the 2017/2018 financial year coincided with the Kenya elections period and the associated political uncertainty had a negative impact on occupancy levels across the company. Despite the impact of the August 2017 elections, Kenya Safari Lodges & Hotel Ltd as a hospitality company proved to be resilient for the remaining part of the period under review and recorded a consolidated sales turnover of Ksh 301 million compared to the previous year's sales of Kshs236 million and Kshs260 million for FY 2015/2016.

Away from the August and September 2017 elections, the second quarter witnessed a gradual increase in bookings across all units. Conferencing business which has been the mainstay of Mombasa Beach Hotel trading operations, quickly picked-up and the positive trend continued through the third and fourth quarters of the financial year. County Governments and National Government ministries, departments and agencies contributed a significant proportion of seminar business in terms of residential and non-residential clients. During the December 2017 festive period, the units recorded impressive occupancy levels mainly derived from the domestic market.

As we ushered in year 2018, there was optimism about turn around in the foreign tourism segment with anticipation that tourist arrivals would be better than in 2017. Feedback received from suppliers of business in the key traditional source markets indicated a continuing demand for KSLH Lodges.

During the year under review, there were sustained efforts from Kenya Government to guarantee security in popular tourist areas, facilitate infrastructure development and market the attractiveness of destination Kenya as strategies to drive growth in hotel and tourism sector.

Overall Mombasa Beach Hotel showed marked improvement in sales turnover and recorded total revenues amounting to Kshs192 million compared to Kshs160 million in the previous year. The hotel registered an operating profit of Kshs4.4 million as a result of improved conferencing business. The total revenue generated from seminars and workshops increased to Ksh 159.9 million up from Ksh 115.4 million in FY 2016/2017. These achievements were realized despite a myriad of operational challenge associated with the aging facilities, obsolete plant, machinery and equipment increased operating and labour costs and stiff competition from new entrants targeting the same conferencing/MDAs seminar market.

Ngulia Safari Lodge reported total sales amounting to Ksh 38 million compared to Ksh31 million in 2016/2017. The operating profit (loss) was Ksh19 million. Voi Safari Lodge total sales turnover topped Ksh 72 million compared to Ksh 45 million 2016/2017 and the operating profit (loss) was Ksh 17 million.

Challenges Facing the Company

Facilities: The three KSLH business units are properties that were built in the late 60s and they are long overdue for a major refurbishment and modernization of their facilities. Outdated furniture, fittings and equipment in bed rooms and other guest service areas characterize all the units. The aged, obsolete plant, machinery and equipment is a major source of operational inefficiencies, high operating costs and frequent customer complaints. All these can be addressed by a comprehensive renovations and modernization programme.

Business Challenges: the company is facing great challenges in attracting and retaining high-paying clients owing to the status of the facilities.

KSLH

A Heritage of Hospitality

KENYA SAFARI LODGES AND HOTELS LIMITED **Annual Report and Financial Statements** **For The Year Ended June 30, 2018**

Financial Constraints: Inadequate working capital to finance day-to-day operations or meet Company financial obligations as they fall due.

Suppliers and other Creditors: these are owed huge outstanding balances owing to a poor payment record arising from scarcity of funds. Management faces a continuous dilemma of negotiating payment plans with suppliers demanding settlement of outstanding debts. At the same time the Company needs to source goods and services from the same suppliers to continue its trading operations.

Capital Projects Funding : this has not been adequate or consistent as the practice has been to rely on internally generated funds to finance capital improvements. Focus should now be on injection of both fresh equity and debt funds into the Company for the desired renovations and upgrading of facilities to be achieved.

Human Resource Issues: the Company faces huge staff related liabilities in form of unremitted statutory deductions (PAYEE), Staff Retirement Benefits Scheme Contributions, staff terminal benefits and other staff payroll deductions (staff welfare fund, bank check –off loans, unremitted SACCO dues). This has had impact on staff morale and urgent measures need to be put in place to resolve HR related issues for improved staff motivation, well being and service delivery.


General Manager

21st November, 2018

KENYA SAFARI LODGES AND HOTELS LIMITED
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CORPORATE GOVERNANCE STATEMENT

Board of Directors

Kenya Safari Lodges & Hotel has Article of Association as prescribed by the law and under Article 85 the authority to appoint Directors is clearly outlined. It is the practice that directors are nominated for appointment to the Board of Directors by the shareholders mainly on prorata basis.

During the period under review the Board consisted of 4 substantive directors and 3 alternate directors as follows:

TFC

- 3 directors including the chairman of the Board
- 1 alternate director (alternate to Managing Director, TFC)

Mountain Lodges Ltd

- 1 director

KWS

- 1 alternate director to the Director-General (KWS)

Ministry of Tourism

- 1 alternate director representing the Principal Secretary, Tourism

The chairman of the Board is a non executive independent director along with another director nominated by TFC. Re-election and appointment of directors are subject to the provisions of the Articles of Association and the Mwongozo Code of Governance. The directors have a wide range of business and professional skills and experience.

Board Responsibilities

The roles of the board and Management are separate and their responsibilities clearly defined.

The Board defines the Company's strategic intent, objectives and values and ensures that procedures and practices are in place, to protect the Company's assets and reputation. It is responsible for the stewardship of the Company and assumes responsibility for retaining full and effective control over the Company. The Board also controls, supervises and administers the assets of KSLH; determines the provisions to be made for capital and recurrent expenditure of KSLH; enters into association with other bodies or organizations within or outside Kenya as the Board may consider desirable or appropriate; authorize the opening of banking accounts and acts responsibly towards the Company's stakeholders.

The conduct of Board members is consistent with their duties and responsibilities to the Company and they must always act within the limitations imposed by the Mwongozo Code of Conduct.



KENYA SAFARI LODGES AND HOTELS LIMITED
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In order to ensure that the Board is able to discharge its responsibilities, the management is required to provide adequate and timely information on the Company's policies. It also considers an operational report from the General Manager; management accounts for each quarter; reports from each Board Committee; specific proposals for capital improvements; and major issues and strategic opportunities for the Company.

The Company Secretary advises the Board on all corporate governance matters and statutory requirements as well as attends all the Board meetings.

Board Committees

The Board has set up 2 main committees as outlined below and delegated specific mandates to each one of them. The committees are:

Board Audit Committee: the membership comprised of Mr. Michael Matu (Chair), Ms. Pauline Rwamba (Member) and Mr. Edwin Wanyonyi (Member). Since Kenya Safari Lodges and Hotel is a state corporation, this committee is guided by the guidelines for audit committees in the public sector issued by the Treasury. Its main activities are to determine whether risks, internal controls and compliance maturities are reasonably in place, planned and directed, for goals of KSLH to be realized as expected by stakeholders. It does this by overseeing the auditing and financial reporting processes of KSLH.

Finance, HR and Administration Committee: the membership comprised of Mr. Orumoi T Jonah (Chair), Mr. Edwin Wanyonyi (Member) and Ms Pauline Rwamba (Member).

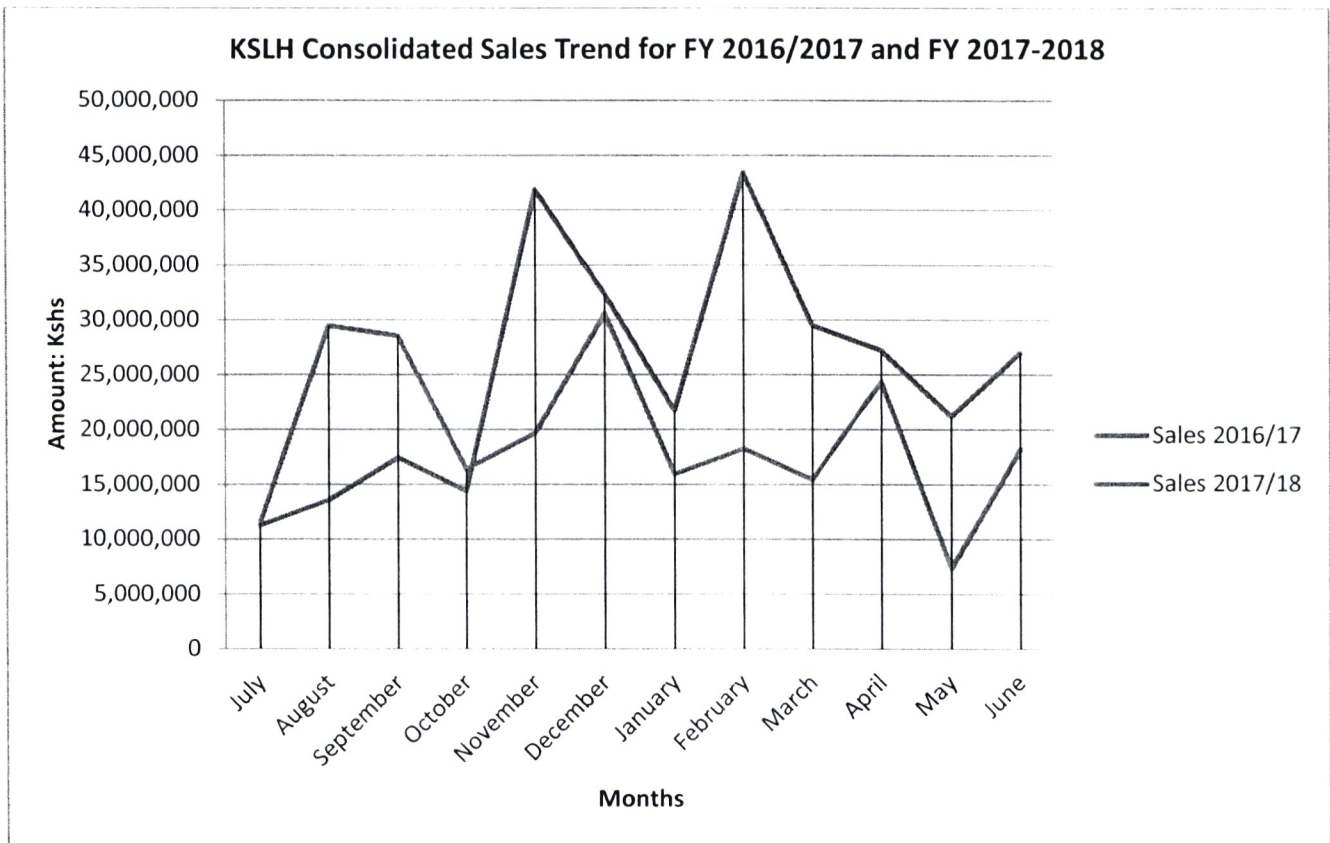
It operates under specific terms of reference that cover the financial, human resource and administrative aspects of the company including legal, marketing and procurement matters.

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

The company sales revenue increased to Kshs301m a 22% rise from Kshs236m attained in FY2016/2017. All the 3 Units of KSLH recorded increased sales revenues compared to the previous year, though this was below the targeted sales in the annual budget 2017/2018. As shown in the table below the first quarter of the year coincided with the Kenya election period and the associated political uncertainty had a negative impact on the occupancy levels.

The remaining three quarters of the year saw an increase in both the conference business at Mombasa beach and foreign tourism which increase sales in the lodges.



The achievement of the budgeted sales turnover for the financial year 2017/2018 was premised on the refurbishment of the flagship unit, Mombasa Beach Hotel at total cost of Ksh 131 million. Although the renovation project was scheduled to begin during the second quarter of the period under review this was set-aside in favor a new re-development project that is the Mombasa International Convention Centre. The latter is yet to be rolled-out therefore the company was only able to undertake minimal capital improvement such as installation of 50 new split-unit air-conditioners for guest rooms at Mombasa Beach Hotel and much more is yet to be achieved. As a result KSLH properties are unable to command a leadership position in market share within their respective locations.



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The company's statutory and other financial obligations have continued to increase as shown below. This state of affairs is attributed mainly by the company decreasing revenues and profitability experienced in the last five year.

	₹ AMOUNT
VAT	184,224,000
WITHOLDING TAX	9,967,000
PAYE	127,717,000
CLT	38,335,000
PENSION	46,139,494
SACCO	11,096,000
TRADE CREDITORS	128,152,000

Consequently the company is facing liquidity risk, due to the negative working capital casting doubt on the ability of the company to meet its financial obligation when they fall due and its continued existence as a going concern depends on the continued support from its creditors.

The Management is hopeful that the company is going to move to profitability as indicated by the reduced loss compared to previous year, given that the insecurity problem in the coastal region has been minimized and also the travel advisories have been lifted. Meanwhile the Management has reviewed its marketing strategies, putting more focus to the lodges to ensure revenues from the lodges start rising to enable the company reduce its trade creditors and other liabilities. Out of court settlement and negotiations on payment modalities have also been undertaken between trade creditors and KSLH, the company having been issued with demand letters

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KSLH is committed to carrying out its business and affairs in a socially responsible, sustainable and meaningful way, taking into account ethics, economic development and the environment while improving the quality of life of the workforce, their families, local community and society at large.

KSLH will focus its commitment and contributions along the lines of the following core themes:

(i) *Environmental protection*- During the year KSLH undertook several beach cleaning exercises geared towards protection and rehabilitation of the environment more specifically the beach environment.

(ii) *Education*- During the year KSLH endeavored to support educational activities which include HIV/AIDS awareness, Career development among the vulnerable groups, Special projects geared towards empowerment of the youth through internship.

(iii) *Sports promotion* -KSLH has sports teams for men and women which participate in local tournaments.

(iv) *Beautification projects* - KSLH sought to partner with other stakeholders in beautification of the city of Mombasa. The lodges have also partnered with KWS on environmental clean-ups within the parks.

(vi) Local community programs-During the year KSLH donated food stuffs and clothing to Canaan Orphanage home (Kisimani) and assisted in repair of twenty beds.



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Kenya Safari Lodges and Hotels affairs.

Principal activities

The Principal activity of the Kenya Safari Lodges and Hotels is ownership and operation of hotel and lodge facilities in Kenya. KSLH vision is to provide premiere hospitality experiences in Kenya; the mission is to enhance customer value by offering premiere Hospitality experiences with an African heritage and core values are Integrity Service excellence Discipline Team work Innovation Social responsibility Dedication and commitment

Results

The results of the entity for the year ended June 30, 2018 are set out on page 1-22

Dividends

The Directors' do not recommend the payment of dividend this year.

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulations of the Kenya Safari Lodges and Hotels Ltd Memorandum and Articles of Association; Mr Paul Kurgat was appointed as the new chairman of the board of directors with effect from 1stMarch 2018 replacing Mr. Said Ali.

Auditors

The Auditor General is responsible for the statutory audit of the Kenya Safari Lodges and Hotels Ltd in accordance with article 229(4) (5) (6) and (7) of the Constitution of Kenya and Public Audit Act 2015 and the Public Finance Management (PFM) Act 2012.

By Order of the Board

Mr. John Karia
Corporation Secretary

Mombasa

Date:.....21st.....November 2018



KENYA SAFARI LODGES AND HOTELS LIMITED
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For The Year Ended June 30, 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(5) of the Public Finance Management Act, 2012 and section 14(3) of 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 Company at the end of the financial year/period and the operating results of the Company 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 Company.

The Directors are responsible for the preparation and presentation of the KSLH'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, 2018. 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 entity; (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 Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments 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.

The directors noted the liquidity risk facing the company and within the year the major shareholder supported the company in improving the facility to generate more revenues.

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 the 21st Day of Nov 2018 and signed on its behalf by:

  
Chairman Director Director

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA SAFARI LODGES AND HOTELS LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Safari Lodges and Hotels Limited set out on pages 1 to 25 which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Safari Lodges and Hotels Limited as at 30 June 2018, 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, 2015.

Basis for Qualified Opinion

1. Going Concern

The statement of financial position as at 30 June 2018 reflects current liabilities balance of Kshs.652,383,000 which exceeded current assets balance of Kshs.175,481,000 by Kshs.476,902,000. Further, the Company realized a loss of Kshs.35,781,000, resulting to accumulated deficit of Kshs.453,493,000 as reflected in the statement of financial position as at 30 June 2018.

In addition, the statement of profit and loss and other comprehensive income for the year ended 30 June 2018 shows turnover of Kshs.283,331,000, other income of Kshs.4,976,000 and finance income of Kshs.12,644,000, all totaling to Kshs.300,950,982,000 against a budget of Kshs.441,000,000, representing a performance level of 66% or under collection of Kshs.140,049,018 or 31%. The management has not provided satisfactory reasons as to why the revenue targets could not be met. Further, as previously reported, the Company converted the Tourism Finance Corporation, formerly Kenya Tourist Development Corporation (KTDC) loan of Kshs.75,554,000 into equity in the year 2013/2014 and waived

Report of the Auditor-General on the Financial Statements of Kenya Safari Lodges and Hotels Limited for the year ended 30 June 2018

the interest accrued thereon. However, despite the conversion of the debt to equity, the working capital position and financial performance has not improved.

Consequently, the Company may not be in a position to meet its financial obligations as and when they may fall due and its continued existence as a going concern depends on continued support from the Government, bankers and creditors.

2. Property, Plant and Equipment

2.1 Fully Depreciated Assets

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.676,419,000 and a nil balance in respect to property, plant and equipment and intangible assets respectively which include fully depreciated assets with a total cost of Kshs.173,554,000 and Kshs.3,845,000 as disclosed in Notes 13 and 13A to the financial statements. Although some of the assets are in use, the economic value of these assets has not been accounted for in these financial statements as they are carried at nil balance, contrary to International Reporting Standard No.16 which states that "revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date".

Consequently, financial statements for the year ended 30 June 2018 do not comply with International Financial Reporting Standard No. 16 as prescribed by the Public Sector Accounting Standards Board.

2.2 Non-Compliance with Terms of Leasehold Agreement

Note 13 to the financial statements for the year ended 30 June 2018 reflects land and buildings balance of kshs.661,567,000, out of which Kshs.40,000,000 is in respect of leasehold land for Voi and Ngulia Safari Lodges. However, lease agreements availed for audit review indicated that the two leases will expire in November 2018 and March 2019 respectively and may not be renewed by one of the shareholders, Kenya Wild Life Services, which owns 0.02% of the Company's shares. The lessor cited breach of lease terms and non-payment of lease rentals for the period between year 2012 and 2018. The management applied for renewal of the leases but documentary evidence that the request has been accepted by Kenya Wildlife Service was not been availed for audit verification.

The possible loss of the two lodges may adversely impact on the Company's future revenue generating capacity.

2.3 Freehold Land

Note 13 to the financial statements for the year ended 30 June 2018 reflects land and buildings balance of Kshs.661,567,000 which includes freehold land balance of Kshs.360,000,000 for Mombasa Beach Hotel whose support lease title was not availed for audit verification nor beacons demarcating the land boundary shown. In addition, various

handing over reports between successive General Managers availed for audit review, do not include the freehold land which is charged as follows:

Charge No.	Date	Presentation No.	Charged by	Value	Comments
10	04.05.1992	005 of 23.04.1992	Anurali Jafferli M.	Unquantified	Sub-lease interest
15	25.02.2005	Not clear from copy but dated 21.03.2005	Kenya Tourism Development Corporation Ltd	Kshs.40,000,000	Details not availed

Consequently, the ownership of freehold land and accuracy of the balance of Kshs.360,000,000 for the year ended 30 June 2018 could not be ascertained.

3. Inventories

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.6,043,000 in respect to inventories as disclosed in Note 14 to the financial statements. However, included in the balance is Kshs.261,777, relating to obsolete stocks, contrary to International Accounting Standard No.1 which states that "financial statements must present fairly the financial position, financial performance and cash flows of an entity".

In the circumstances, the accuracy, validity and completeness of inventories balance of Kshs.6,043,000 as at 30 June 2018 could not be confirmed.

4. Trade and Other Receivables

4.1 Long Outstanding Trade Debtors

The statement of financial position as at 30 June 2018 reflects trade and other receivables balance of Kshs.144,850,000. Included in this balance is Kshs.129,474,000 in respect of trade debtors, out of which Kshs.87,643,652 had been outstanding for more than one(1) year. Further, the debtors balance is net of bad debts written off amounting to Kshs.38,636,527 and whose supporting Board resolution was not availed for audit review.

In the circumstances, the legality of bad debts written off of Kshs.38,636,527 and the recoverability of trade and other receivables balance of Kshs.87,643,652 as at 30 June 2018 could not be confirmed.

4.2 Other Debtors and Prepayments

Note 15 to the financial statements the year ended 30 June 2018 reflects other debtors and prepayments balance of Kshs.20,635,000. However, the balance has been arrived at after a setoff with credit balances amounting to Kshs.108,339,403. This is contrary to International Accounting Standard No.1 Section 32 which states that "assets and liabilities and income and expenses, shall not be offset unless required or permitted by International Financial Reporting Standard". Further, debtors totaling Kshs.568,500 have been outstanding since year the 2014.

Consequently, the accuracy, and recoverability of other debtors and prepayments balance of Kshs.20,635,000 as at 30 June 2018 could not be confirmed.

5. Trade and Other Payables

As reported previously, trade and other payables balance of Kshs.642,458,000 shown in the statement of financial position as at 30 June 2018 includes long outstanding amounts payable to various statutory bodies in respect of payroll deductions, value added tax and other levies amounting to Kshs.435,911,000. Further, no provision for penalties arising out of non-remittance of these statutory deductions have been provided for in these financial statements.

Consequently, it was not possible to ascertain the accuracy, completeness and validity of the trade and other payables balance of Kshs.642,458,000 as at 30 June 2018.

6. Share Capital

As reported in the previous year, the share capital of the Company was increased from Kshs.9,319,000 to Kshs.100,954,000 through creation of 4,581,785 share of Kshs.20. The additional shares were issued through rights issue to existing shareholders in October 2013 at a price of Kshs.20 per share based on par value. However, the net assets of the Company as at 30 June 2013 amounted to Kshs.667,399,000, resulting to an approximate value of Kshs.1,432 per share, clearly showing that the rights issue price of Kshs.20 per share was way below their value.

Further, a search from the Registrar of Companies indicated that Kenya Safari Lodges and Hotels Limited was incorporated under the Company's Act Cap 486 under certificate of incorporation No.6909 of 12 October,1966 and whose shareholding is as summarized below:

Share holder	Shares Held	Proportion holding	Investors/ Ownership
Tourism Finance Corporation	4,161,855	82.45	State Corporation
Mountain Lodges limited	884,853	17.53	Private Company
Kenya Wild Life Service (Kenya National Parks)	1,016	0.02	State Corporation

However, the Company's Articles of Association do not allow issuance of the Company's shares to private investors which in this case is Mountain Lodges Limited. It is therefore not clear how and why private enterprise acquired shares in a state corporation. Further, no disclosure of this information has been made in the financial statements.

Consequently, the accuracy, validity and legality of the share capital value of Kshs.100,954,000 as at 30 June 2018 could not be ascertained.

7. Staff Costs

Note 6 to the financial statements for the year ended 30 June 2018 reflects staff salaries and wages of Kshs.107,395,000, out of which Ksh.7,200,000 was paid to the General Manager, who was hired for a period of thirty(30) months from December 2016. In the year 2016/2017, Kshs.3,300,000 was also paid for the same to the General Manager. This is contrary to Office of the President Circular OP/CAB.9/21/2A/LII/43 of 23 November 2004, under PC 7(Commercial) General Manager which set entry basic salary as Kshs.180,000, house allowance of Kshs.60,000 and other remunerative allowances of Kshs.30,000 all totalling Kshs.270,000 per month. The officer was thus overpaid by Kshs.5,370,000 as detailed below:

Year	Period	No. of Months	Monthly Salary (Kshs.)	Total (Kshs.)
2016/2017	December 2016 to February 2017	3	300,000	900,000
2016/2017	March 2017 to June 2017	4	600,000	2,400,000
2017/2018	July 2017 to June 2018	12	600,000	7,200,000
	Total Paid	19	-	10,500,000
	Approved Salary	19	270,000	5,130,000
	Overpayment			5,370,000

Consequently, salary amounting to Kshs.5,370,000 paid to the General Manager is irregular.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Safari Lodges and Hotels 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 opinion.

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 issues described in the basis for qualified opinion section of my report, there were no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

During the year under review, the Company had an approved budget of Kshs.353,896,000 for recurrent expenditure against actual expenditure of Kshs.263,428,000, resulting in under absorption of Kshs.90,468,000 or 25% as detailed below:

Expenditure Item	Final Budget (Kshs. '000)	Actual expenditure (Kshs. '000)	Over Absorption (Kshs.'000)	Under Absorption (Kshs.'000)	% Under / Over Absorption
Salaries & Wages	116,658	107,395		9,263	8
Staff Expenses	53,077	42,274		10,803	20
Staff Travel	9,442	10,097	655		6
Property Upkeep & Expenses	11,004	6,919		4,085	37
Repairs & Renewals	19,244	9,957		9,287	48
Operating Costs	84,360	53,294		31,066	36
Office Expenses	8,454	6,203		2,251	27
Administration Expenses	3,578	559		3,019	84
Directors Fees/Expenses	1,933	2,225	292		15
Advertising & Promotion	7,561	1,337		6,224	82
General Charges	13,665	8,820		4,845	35
Depreciation & Amortization	21,686	11,813		9,873	45
Interest & Other Charges	3,234	2,535		699	22
Total Operating Expenses	353,896	263,428	947	91,415	25

The management did not avail the Board's approval of the over expenditure of Kshs.947,000. Further, the under absorption may be as a result of poor revenue collection and unrealistic budget hence, the need for the management to review the budget preparation process with a view to making it more effective.

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 Qualified Opinion/Report on Lawfulness and Effectiveness in Use of Public Resources sections 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

1. Failure to Establish a Sinking fund

During the year ended 30 June 2018, the Board approved the Company's a budget without provision for the renewal of depreciating assets, contrary to Section 16 (1) of the State

Corporations Act, Cap 446 which provides that “every state corporation shall make provision for the renewal of depreciating assets by the establishment of sinking funds and for contributions to such reserve and stabilization funds as may be required”.

Consequently, Company is in breach of the Law.

2. Operations of the Trust Deed and Staff Retirement Benefits Scheme

Records availed for audit review indicated that during the year under review, the Company did not remit insurance premiums for staff death benefits, contrary to Rule 2(d) and Rule 4 of the scheme trust deed and rules which require the Company to pay a special contribution as premiums for death benefits for its staff. Further, no budgetary provision has been made in these financial statements for the scheme.

Consequently, the Company is in breach of its own trust deed and the intended family beneficiaries may not benefit in case of death of an employee.

3. Uncollected Service Charge

During the year ended 30 June 2018, the Company paid service charge amounting to Kshs.16,311,824.21 to its employees through the payroll. The service charge is levied in compliance with Clause 21 (i) of Collective Bargaining Agreement of 2016 which provides that ‘the employer will operate a service charge on accommodation sales arising from apartments and cottages serviced by the organization’s employees and on food sales covering all food outlets whether by cash or credit and distribute 10% to the Company and 90% to employees’. However, the expenditure was not provided for in the budget contrary to Section 12 of the State Corporation Act Cap 446 which provides that no state corporation shall without the prior approval in writing from the Minister and the Treasury, incur any expenditure for which provision has not been made in an annual estimate prepared and approved in accordance with provisions of the Act’. Further, the service charge paid was levied on credit sales which form part of debtors balance of Kshs.144,850,000 as at 30 June 2018, hence how the expenditure was financed could not be explained. In addition, collectability of all these debtors is uncertain given that management has made a provision for bad debts of Kshs.5,259,439.85.

Consequently, the Company is in breach of the Law and may be paying service charge expense from uncollectable credit sales thereby exposing the Company to liquidity problems.

4. Strategic Plan

The Company’s strategic plan for the period 2012-2018 was to expire in November 2018 yet none has been prepared for the next period 2018-2022. This is contrary to the Public Finance Management Act, 2012 Section 68(2) (g) which requires an accounting officer of a National Government entity to prepare a strategic plan in conformity with the medium term fiscal framework and fiscal policy objectives.

Consequently, the management is in breach of the Law.

5. Legal Fees

Note 7 to the financial statements for the year ended 30 June 2018 reflects legal fees of Kshs.274,000. However, no approval of the Attorney-General as required by Circular No.AG/CONF/6/E/247/ VOLII which requires State Corporations to get approval and authority from Attorney-General before incurring expenditure on legal fees.

Consequently, the propriety and completeness of legal fees of Kshs.274,000 for the year ended 30 June 2018 could not be confirmed.

6. Audit Fees

As previously reported, included in the trade and other payables balance of Kshs.642,458,000 as at 30 June 2018 is Kshs.2,008,000 as disclosed in Note 19 to the financial statements in respect to audit fees balance which has been outstanding for more than two years, contrary to Section 41 of the Public Audit Act, 2015 which provides that 'funds for the Auditor-General shall consist of audit fees charged at rates prescribed by the Auditor-General. Further, note 7 to the financial statements indicates provision for audit fees of Kshs.450,000 for the current year, which is contrary to costs incurred by the Auditor-General to audit the financial statements of the Company and whereby an invoice of Kshs.1,500,000 has been raised for the year ended 30 June 2018. The fee charged by the Office of the Auditor-General in year 2016/2017 was also Kshs.1,500,000.

Consequently, the Company is in breach of the Law and the total expenses for the year are understated by the difference of Kshs.1,050,0000.

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. A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance.

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 procedures performed, except for the matters noted in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan 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 Kenya Safari Lodges and Hotels Limited, so far as appears from the examination of those records; and,
- iii. Kenya Safari Lodges and Hotels Limited financial statements are in agreement with the accounting records.

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 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.

In preparing the financial statements, management is responsible for assessing the Kenya Safari Lodges and Hotels Limited's ability to continue to sustain services, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Kenya Safari Lodges and Hotels Limited 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Kenya Safari Lodges and Hotels Limited's 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 non compliance. 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.

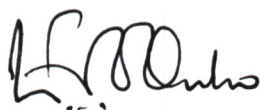
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 the Kenya Safari Lodges and Hotels Limited'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 Kenya Safari Lodges and Hotels Limited 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 Kenya Safari Lodges and Hotels Limited 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

07 January 2019



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018

	Notes	2017-2018	2016-2017
		Kshs'000	Kshs'000
Turnover	2	283,331	220,421
Cost Of Sales	4	(69,413)	(52,896)
Gross Profit		213,918	167,525
Other Income	3A	4,976	5,609
Total Income		218,894	173,134
Operating Costs	5	(51,381)	(45,642)
Staff Costs	6	(159,766)	(148,261)
Administrative Costs	7	(21,218)	(34,536)
Repairs And Maintenance	8	(12,216)	(6,664)
Advertising And Promotion	9	(1,337)	(376)
General Expenses	10	(6,919)	(4,551)
Depreciation	13	(11,947)	(13,565)
Amortization	13A		(113)
Total Expenses		(264,784)	(253,708)
Operating Profit/(Loss)		(45,890)	(80,574)
Finance Income	3B	12,644	9,658
Finance Costs	11	(2,535)	(3,021)
Earnings Before Extra Ordinary Items		(35,781)	(73,937)
Profit\ (Loss) Before Tax		(35,781)	(73,937)
Income Tax Expense/(Credit)			
Profit After Tax		(35,781)	(73,937)

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

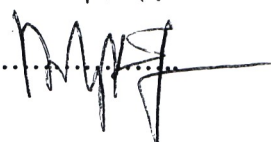
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2018

	Notes	2017-2018 Kshs'000	2016-2017 Kshs'000
Assets			
Non-Current Assets			
Properties, Plant and Equipment	13	676,419	704,029
Intangible assets	13A	0	0
Current Assets			
Inventories	14	6,043	5,247
Trade and other receivables	15	144,850	124,794
Cash and cash equivalent	20	24,588	20,635
Sub-total		175,481	150,676
Total Assets		851,900	854,705
Equity and Liabilities			
Capital And Reserves			
Share Capital	16A	100,954	100,954
Revaluation Reserve	17	527,415	546,958
Retained Earnings	16B	(453,493)	(417,710)
Shareholders' Funds		174,876	230,202
Liabilities			
Non-Current Liabilities			
Borrowings -long term	18	11,876	12,172
Contingent Liabilities	23	12,765	13,215
Sub-total		24,641	*25,387
Current Liabilities			
Borrowings-short term	21	5,800	9,981
TFC Loan	21	4,125	3,043
Trade and other payables	19	642,458	586,092
Total Liabilities		652,383	*599,116
Total Equity And Liabilities		851,900	854,705

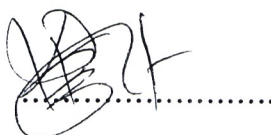
* Restated as per note 19 and 23

The financial statement were approved by the Board of directors on the 21st day Nov of 2018 and signed on its behalf by:

Head of Finance
 Bernard Chepkwony
 1CR4K 7192

.....


Chairman of the Board

.....


Director

.....


KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

	Ordinary Shares Kshs'000	Revaluation Reserve Kshs'000	Profit & Loss Account Kshs'000	Total Kshs'000
At July 1 2016	100,954	571,144	(344,284)	327,814
Rights Issue				-
Prior year adjustment			511	511
Revaluation surplus				-
Net Profit for The year			(73,937)	(73,937)
Prior year adjustment on revaluation				-
Transfer To Depreciation Equivalent		(24,186)		(24,186)
At June 30, 2017	100,954	546,958	(417,710)	230,202
At July 1 2017	100,954	546,958	(417,710)	230,202
Rights Issue				-
Prior year adjustment		(2)		(2)
Revaluation surplus				-
Net Profit for The year			(35,781)	(35,781)
Prior year adjustment on revaluation				-
Transfer To Depreciation Equivalent		(19,541)		(19,541)
At June 30, 2018	100,954	527,415	(453,493)	174,876

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2018

	Notes	2017-2018	2016-2017
		<u>Kshs'000</u>	<u>Kshs'000</u>
Cash flows from Operating activities			
Profit/(Loss) before tax		(35,781)	(73,937)
Adjustments for:-			
Gain on sale of fixed assets	3A	-	(21)
Depreciation	13	11,947	13,565
Amortization	13A	-	113
Prior year adjustment		148	511
Interest income (from KCB fixed deposit)	3B	-	(998)
Finance cost	11	2,535	3,021
Cash flow from/(used in) operations before		(21,151)	(57,746)
Working capital changes:			
(Increase)/Decrease in inventories	14	(796)	1,131
(Increase)/Decrease in Trade and receivables	15	(20,056)	(5,024)
Increase/(Decrease) in Payables and accruals	19	56,366	53,487
Sub-Total		35,514	49,594
Net cash flow from operating activities		14,363	(8,076)
Cash flows from Investing activities			
Purchase of fixed assets	13	(4,029)	(7,152)
Proceed from sale of Fixed Assets	13	-	21
Interest received	3B	-	998
Net cash flow from investing activities		(4,029)	(6,133)
Cash Flows From Financing Activities			
Rights Issue proceeds		0	0
Loan repayment	21	786	4833
Service Gratuity settlement	18	(450)	21539
Bank overdraft	21	(4,181)	(9,509)
Payment of Finance cost	11	(2,535)	(3,021)
Net cash flow from financing activities		6,380	13,842
Net Cash Flow from the year 2018		3,953	(443)
Cash and cash equivalents at the beginning of the year		20,635	21,078
Cash and Cash Equivalents at the End of the Year		24,588	20,635



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2018

	Original Budget	Adjustments	Final Budget	Actual On Comparable Basis	Performance Difference	% Variance
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	
Sales	441,000	0	441,000	300,951	140,049	32%
Cost Of Sales	101,640	0	101,640	69,413	32,227	32%
	0	0	0	0	0	
Gross Profit	339,360	0	339,360	231,538	107,822	2%
	0	0	0	0	0	
Expenditure	0	0	0	0	0	
Salaries Wages	116,658	0	116,658	107,395	9,263	8%
Staff Expenses	53,077	0	53,077	42,274	10,803	20%
Staff Travel	9,442	0	9,442	10,097	(655)	(7%)
Property Upkeep & Expenses	11,004	0	11,004	6,919	4,085	37%
Repairs & Renewals	19,244	0	19,244	10,303	9,287	48%
Operating Costs	84,360	0	84,360	53,294	31,066	37%
Office Expenses	8,454	0	8,454	6,203	2,251	27%
Administration Expenses	3,578	0	3,578	724	3,019	84%
Directors Fees/Expenses	1,933	0	1,933	2,225	(292)	(15%)
Advertising & Promotion	7,561	0	7,561	1,337	6,225	82%
General Charges	13,665	0	13,665	12,066	4,845	35%
Depreciation & Amortisation	21,686	0	21,686	11,947	9,873	46%
Interest & Other Charges	3,234	0	3,234	2,535	699	22%
Total Operating Expenses	353,896	0	353,896	263,428	90,468	26%
	0	0	0	0	0	
Operating Profit	(14,536)	0	(14,536)	(35,781)	17,355	(12%)

Notes to budget variances

The under achievement of sales was caused by the low business volumes realized from international markets and the Kenya elections period which was associated with political uncertainty which had a negative impact on occupancy levels across the company.

The management put in effort to manage cost to the lowest level possible and to match the level of revenue generated. The cost management strategies put in place resulted into over 10% expenditure under the budget of the operating expenses. The under expenditure was also occasioned by the cash flow constraints which limited the number of activities undertaken under advertising and promotion within the year.



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

Turnover represents billings to guests and casual customers for accommodation, food and other services provided net of Value Added Tax, returns and rebates. Interest income is recognized when it accrues, by reference to the principal outstanding and the interest rate applicable. All other revenues are recognized at the time goods are supplied or services are provided.

b) Property, Plant and Equipment

All Property, Plant and Equipment are stated at cost or revaluation less depreciation. The Mombasa Beach Lease is for a term of 99 years while Leases for Voi and Ngulia Safari

Lodges are for a term of 50 years up to 2018 and 2019 respectively. Property, Plant and Equipment acquired under finance lease agreement are capitalized at the date of the agreement. Depreciation on assets other than land is calculated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. While the value of land for Voi Safari Lodge & Ngulia Safari Lodge is amortized over the lease period.

The annual rates used are as follows: -

Buildings	30 years or the unexpired lease
Plant, Machinery, Furniture & Fittings	8 years
Vehicles	4 years
Computers	3 years
Intangible assets (soft ware's)	3 years

c) Intangible Assets

Intangible assets represent computer software which is stated at cost less amortization. Amortization is calculated to write off the cost of the assets on a straight line basis over their estimated useful life of 3 years.

d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Foreign Currency

Transactions during the year are converted into Kenya currency at the rate ruling at transaction dates. Assets and Liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya currency at rates ruling at that date.

The resulting differences from conversion and translations are dealt with in the profit and loss account in the year in which they arise.

f) Trade Receivables

Trade receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the end of the year. Bad debts are written off when all reasonable steps to recover them have failed.

g) Loans/Bank Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise. Interest and other finance charges are recognized as an expense in the period which they are incurred.

h) Trade Payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether billed or not.

i) Taxation

Current taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognized for all deductible **temporary** differences, carry forward of unusual tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilized.\

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Employee Benefit Costs

The company operates a pension scheme which commenced 1st January 1975 (Certificate of Registration: Ref. No RBA/SC/01044) and is funded by payments from both the employee and the company. Benefits are paid to retiring staff in accordance with the Scheme's Trust Deed and Rules.

Being a Defined Contributions Scheme, liability is limited to the contribution and the Company has no obligation if the fund does not have sufficient funds to pay members retirement funds. Employer and Employee contribution rate is 10% and 5% respectively.

The company also contributes to the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently at Kshs. 200 per employee per month.

Contributions by the company in respect of retirement benefit costs are charged to the Income Statement in the year to which they relate.

Provision for staff leave and service pay

Employees' entitled to annual leave are charged to the Income Statement as they fall due.

Employees on contract are entitled to gratuity at the end of the contract or employment, whichever ever comes earlier. The estimated monetary liability for such entitlement at the end of the balance sheet date is recognized as an expense accrual.

k) Dividends

Dividends on Ordinary shares (when earned) are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

l) Cash & Cash Equivalents

The company's Cash and Cash equivalents consist of Cash in Hand, Demand Deposits and Short-term investments with original maturities of three months or less from date of acquisition.

Cash in Hand and in banks and short term deposits which are held to maturity are carried at cost plus interest earned but not yet received at the balance sheet date.



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Safari Lodges and Hotel Ltd was incorporated under the Kenya Companies Act (Cap 486) KSLH is classified as a State Corporation by virtue of being a subsidiary of Tourism Finance Corporation (TFC,) which has a direct controlling stake of 82.45% of shares its domiciled in Kenya. The entity's principal activity is ownership and operation of hotel and lodge facilities in Kenya.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is equivalent to the statement of financial position and the profit and loss account is included in the statement of profit or loss and other comprehensive income.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*.

The financial statements have been prepared in compliance with the PFM Act, the state Corporation Act, and International Financial Reporting standards (IFRS) issued by the International Accounting Standards Board (IASB). The financial statements have been prepared and presented in Kenya shillings (Kshs) rounded to the nearest thousand.

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

	2017-2018	2016-2017
	Kshs'000	Kshs'000
2. Turnover		
Accommodation	79,874	78,636
Food	155,434	106,828
Beverage	25,410	19,073
Tobacco	175	141
Telephone	0	0
Laundry	195	145
Business Center	487	235
Functions	19,737	12,961
Petrol and oil	7	11
Sporting Facilities	2,012	2,391
	283,331	220,421
3A. Other Income		
Rent	1,286	1,429
Sales of Fixed Assets	0	21
Other income	3,690	4,159
	4,976	5,609
3B. Finance Income		
Foreign Exchange Gain	12,644	8,660
Interest Income	0	998
	12,644	9,658
4. Cost Of Sales		
Food	58,793	42,654
Drinks	6,735	5,920
Tobacco	137	124
Telephone	0	0
Functions	3,412	3,892
Laundry	5	21
Business Center	133	99
Petrol and Oil	4	5
Sporting Facilities	194	181
	69,413	52,896



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017-2018	2016-2017
	Kshs'000	Kshs'000
5. Operating Costs		
Electricity	15,457	14,387
Fuel and gas	13,700	11,828
Water	4,307	5,193
Laundry & cleaning	6,303	5,493
Vehicle operating costs	3,464	3,060
Guest entertainment	3,357	3,500
Others	4,793	2,181
	51,381	45,642
6. Staff Costs		
Salaries and Wages	107,395	96,039
Staff Expenses	42,274	41,876
Staff Travel	10,097	10,346
	159,766	148,261
7 Administrative Costs		
Audit Fees	450	450
Professional Fees	0	0
Directors Expenses	2,225	3,321
Bad Debts provision	370	-4,999
Service pay provision	2,726	24,467
Legal Fees	274	306
Office Expenses	6,203	5,057
General Expenses	8,971	5,934
	21,218	34,536
8. Repairs & Maintenance		
Building	3,635	1,557
Plant & Machinery	4,673	2,847
Motor Vehicles	1,914	982
Others	1,994	1,278
	12,216	6,664

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017-2018	2016-2017
	Kshs'000	Kshs'000
9. Advertising & Promotion		
Advertising Expenses	322	0
Sales Promotion	1,015	376
	1,337	376
10. General Expenses		
Rent & rates	2,851	2,415
Insurance	3,201	219
Gardens & Grounds	78	5
Maintenance Contracts	789	1,912
Service Pay Provision	0	0
	6,919	4,551
11. Finance Costs		
Long/Short -term interest	709	795
Bank charges including overdraft	1,826	2,226
	2,535	3,021

12. TAXATION

a) Current Tax

Tax charge for year

Deferred tax

There was no tax charge for the year due to

Accumulated tax losses

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

	LAND & BUILDING GS Kshs'000	PLANT & MACHINERY Kshs '000	FURNITURE & FITTINGS Kshs '000	MOTOR VEHICLE Kshs '000	COMPUTER S Kshs '000	SOFT WARES Kshs '000'	WIP Kshs '000	TOTAL Kshs '000
COST/VALUATION								
At July 1,2017	1,057,493	70,894	46,032	14,621	17,711	3,845	150	1,210,746
Revaluation increase	-	-	-	-	-	-	-	-
Revaluation decrease	-	-	-	-	-	-	-	-
Prior year adjustment	-	-	-	-	-	-	(150)	(150)
Disposal	-	-	-	-	-	-	-	-
Additions	320	2,886	-	-	823	-	-	4,029
At June 30,2018	1,057,813	73,780	46,032	14,621	18,534	3,845	-	1,214,625
Comprising								
Cost	169,014	19,429	6,921	14,621	18,534	3,845	-	232,364
Valuation	390,140	31,022	15,781	-	-	-	-	436,943
Valuation 2010	498,659	23,329	23,330	-	-	-	-	545,318
DEPRECIATION	-	-	-	-	-	-	-	-
At July 1,2017	370,288	55,347	45,450	14,621	17,167	3,845	-	506,718
Adjustment	-	-	-	-	-	-	-	-
Revaluation prior year	-	-	-	-	-	-	-	-
Charge for the year								
Comprising of Cost	6,417	4,662	231		637	-	-	11,947
Valuation	19,541	-	-	0	-	-	-	19,541
Total	25,958	4,662	231	0	637	-	-	31,488
At June 30,2018	396,246	60,009	45,681	14,621	17,804	3,845	-	538,206
NET BOOK VALUE 30/06/18	661,567	13,771	351	-	730	-	-	676,419

NB	Fully depreciated	depreciating	rate	charge
Leasehold	-	40,000	2%	800
Building	-	345,425	3.30%	11,399
Building	-57,598	254,790	5.40%	13,759
Plant & Mach	36,511	37,269	12.50%	4,662
Furniture & Fit	44,182	1,850	12.50%	231
Computers	20,642	1,737	33.30%	637
MV	14,621	-	25%	-
S-Total	173,554	681,071		31,488
Freehold		360,000		
G-Total		1,041,071		

The intended drilling of borehole brought forward as work in progress of ksh 150,000 was expensed off since capitalization of the same will not materialize.

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

PROPERTIES, PLANT AND EQUIPMENT
AS AT 30TH JUNE 2017

	LAND & BUILDINGS Kshs'000	PLANT & MACHINERY Kshs '000	FURNITURE & FITTINGS Kshs '000	MOTOR VEHICLE Kshs '000	COMPUTERS Kshs '000	WIP Kshs '000	TOTAL Kshs '000
COST/VALUATION							
At July 1, 2016	1,057,492	64,671	46,537	14,621	16,783	150	1,200,254
Disposal	-	-	(505)	-	-	-	(505)
Additions	-	6,340	-	-	812	-	7,152
At June 30, 2017	1,057,492	71,011	46,032	14,621	17,595	150	1,206,901
Comprising							
Cost	168,693	16,660	6,921	14,621	17,595	150	224,640
Valuation	390,140	31,022	39,111	-	-	-	460,273
Valuation 2010	498,659	23,329	-	-	-	-	521,988
DEPRECIATION							
At July 1, 2016	341,231	50,506	42,485	14,621	16,783	-	465,626
Revaluation prior year	-	-	-	-	-	-	-
Prior year adj	-	-	-	-	-	-	-
Disposal	-	-	(505)	-	-	-	(505)
Charge for the year							
Comprising of Cost	7,230	4,841	1,111		383		13,565
- Valuation	21,826	116	2,360		(116)		24,186
Total	29,056	4,957	2,966	-	267	-	37,751
Total accumulated depreciation	370,287	55,463	45,451	14,621	17,050	-	502,872
At June 30, 2017	716,261	14,166	4,051	-	-	150	734,628
NET BOOK VALUE							
30/06/17	687,205	15,548	581	-	545	150	704,029

NOTES TO THE FINANCIAL STATEMENTS (Continued)



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13A. INTANGIBLE ASSETS
AS AT 30TH JUNE 2018

	SOFT WARES Kshs '000'
COST/VALUATION	
TOTAL as at 01/07/2017	3,845
Revaluation increase	-
Revaluation decrease	-
Prior year adjustment	-
Disposal	-
Additions	-
depreciating	
fully depreciated	
TOTAL as at 30/06/2018	3,845
Comprising	
Cost	3,845
Valuation	-
Valuation 2010	-
DEPRECIATION	
Balance as at 01/07/2017	3,845
Adjustment revaluation	-
Revaluation prior year	-
Prior year adj	
Disposal	
Charge for the year	
Comprising of Cost	-
- Valuation	-
Total	-
Total accumulated depreciation	3,845
NET BOOK VALUE 30/06/17	-
NET BOOK VALUE 30/06/18	-

NB

	Fully depreciated	depreciating	rate	charge
Software	3,845	0	33.30%	0

The figure relates to computer software and licenses for our front office Fidelio, Sun system and materials controls system that are currently in use.

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

INTANGIBLE ASSETS
AS AT 30TH JUNE 2017

	SOFT WARES Kshs '000'
COST/VALUATION	
TOTAL as at 30/06/2016	3,845
Disposal	
Additions	
Amortization	
fully amortized	
TOTAL as at 30/06/2017	3,845
Comprising	
Cost	3,845
Valuation	-
Valuation 2010	-
AMORTISATION	
Balance as at 01/07/2016	3,732
Disposal	
Charge for the year	
Comprising of Cost	113
- Valuation	0
Total	
Total accumulated	3,845
NET BOOK VALUE 30/06/16	113
NET BOOK VALUE 30/06/17	0



KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2017-2018	2016-2017
		Kshs'000	Kshs'000
14. Inventories			
Food		1,021	358
Beverage		879	689
Tobacco		4	9
Stationary		722	131
Others		3,417	4,060
Total		6,043	5,247
15. Trade And Other Receivables			
Trade debtors,		129,474	108,476
Bad debts provisions		(5,259)	(4,889)
Other debtors and prepayments		20,635	21,207
		144,850	124,794
16A. Share Capital			
Authorized, issued and fully paid 5,047,724 Ordinary shares of Kshs. 20/= each.		100,954	100,954
16B. Retained Earnings			
		(453,493)	(417,710)
Shareholders			
Tourism Finance Corporation.	82.45%		
Mountain Lodge	17.53%		
Kenya Wildlife Service Trustees	0.02%		
17. Revaluation Reserve			
Balance b/f		546,956	571,144
Depreciation transferred to retained earnings relates to revaluation gain on assets (crystal valuers 2010)		(19,541)	(24,186)
Balance C/F		527,415	546,956
18. Borrowing Long Term			
Loan TFC		11,876	12,172
Total		11,876	12,172
19. Trade And Other Payables			
Trade creditors		128,153	116,888
Unearned income		10,520	12,329
Accruals		12,761	14,091
Other Payables including VAT & CLT		435,911	368,298
Audit Fee		2,088	1,566
Service Gratuity		53,025	72,920
		642,458	586,092

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

*The draft report of Auditor General for the year ended 30 June 2017, pointed out the error in classification of long term liabilities where inclusion of service gratuity as long term liability was misleading. Due to this therefore we have re-classified last year service gratuity of Ksh 72,920,000 from Non-Current liabilities to Current Liabilities.

	2017-2018	2016-2017
	Kshs'000	Kshs'000
<u>20.Cash And Cash Equivalent</u>		
Cash investments(FD at KCB TRY SQ Acc No	18,786	18,786
Cash in hand (float)	647	942
Dollar equivalent KCB \$ A/C	3,707	878
Cash in Bank BBKA/C	1,448	29
Cash in KCB KSH A/C	0	0
Total	24,588	20,635
Cash Equivalent include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when Acquired.		
<u>21. Borrowing Short Term</u>		
Bank Overdraft	5,800	9,981
BBK A/C	-	
TFC Loan	-	
12 months @ 343,778	4,125	3,043
The Bank overdraft is secured by cash investments in form of Fixed deposit	9,925	13,024
TFC Loan relates to amount payable within the next one Year		
<u>22.Dividends</u>		
No dividends were declared during the year.		

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	2017-2018	2016-2017
23. Contingent Liabilities	Kshs'000	Kshs'000
Legal Fee	12,765	13,215
	12,765	13,215

*The draft report of Auditor General for the year ended 30 June 2017, pointed out the error in presentation of other payables on the financial statements under two different note as misleading. Due to this therefore we have re-classified Contingent liabilities (legal fee) ksh 13,215 from current liabilities to non-current liabilities.

The legal case H.C petition No. 64 of 2015-Mombasa, Kenya Safari Lodges & Hotels Limited-Vs. Kenya Revenue Authority is yet to be concluded. In relation to the same the company submitted a written request for arbitration to the registrar of the Nairobi Centre for International Arbitration (N.C.I.A) to commence the arbitration process. This was done to comply with the directive of the office of the Attorney General to having all disputes involving inter-governmental agencies court be referred to the (N.C.I.A). Due to this risk exposure of Kshs 12,765,000 on all legal matters pending in courts as been provided.

The company is likely to also incur liability relating to penalty for non submission of staff Saccos amounting to Kshs 11,096,000, VAT, CLT and PAYE amounting to Kshs 321,908,000 and long outstanding trade creditors' balances amounting to ksh.128,153,000 No loans were guaranteed by the company to its staff, directors or any other entity in the year.

24. SUBSEQUENT EVENTS

We note that leasehold land for Voi and Ngulia Safari Lodges will expire in November 2018 and March 2019 respectively. The company has applied to Kenya Wildlife Service for the renewal of the leases.

No other events have become known or occurred that may lead to significant changes to these financial statements. These would be like court judgments or regulatory decisions that may affect reported assets/liabilities or adversely reflect upon the integrity of the decision-maker.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RELATED PARTY TRANSACTIONS

During the year the following transactions were executed with related parties: -

1. Kenya National Parks (KNP) which owns 0.02% of KSLH had leased Voi and Ngulia lodges to KSLH. The company has been paying monthly lease rents for both Ngulia and Voi Safari Lodge.
2. Tourism Funds Corporation (TFC) which owns 82.45% of KSLH had allocated office space to KSLH at Utalii House, Nairobi.

During the year TFC came in and gave a hand to KSLH in form of an interest free loan to cater for fifty (50) Air condition units for Mombasa Beach Hotel amounting to Ksh 1.5m.

Also through TFC, KCB continued holding a bank guarantee to Judiciary of Kenya, Mombasa law courts in respect to KRA TAX CASE (H.C PETITION No. 64 of 2015 Kshs 38m)

3. During the year KSLH was able to attract and transact business with a number of county governments and central government ministries in terms of seminars and conferences, these included among others;

Organisation	Amount Kshs.
Ministry Of health	30,344,630.00
National Treasury	14,190,385.00
Kenya Medical Training College	2,142,545.00
Makueni County	985,056.00
Kenya National Highways Authority	6,785,560.00
Taita Taveta County	1,562,440.00
Kenya Rural Road Authority	1,280,755.00
Kenya National Bureau of Statistics	3,223,500.00
Ethics and Anti-Corruption Commission	2,252,000.00
Pharmacy and Poisons Board	1,917,950.00
Uasin Gishu County	1,229,850.00
Kilifi County	2,450,000.00
Office of Auditor General	3,476,500.00

All the above transactions were done at arm's-length and no other transactions were done with related parties or their agents.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. RISK MANAGEMENT

Going Concern

The company is facing a liquidity risk due to the negative working capital of ksh (466,977,000) with current assets of Kshs 175,481,000 as compared to current liabilities of Kshs 642,458,000. This state of affair is attributed mainly by the company decreasing revenues and profitability experienced in the last five years.

Performance analysis

Kshs '000	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Revenue	388,053	245,378	259,822	235,689	300,951
Profit/Loss	(126,272.00)	(137,243.00)	(87,097.00)	(73,937.00)	(35,781)

The company is currently depending on the trade creditors whose payment has remained a challenge as well as other payable.

The Management is hopeful that the company is going to move to profitability as indicate by the reduced loss compared to previous year, given that the insecurity problem in the coastal region has been minimized and also the travel advisory have been lifted. Meanwhile the Management has reviewed its marketing strategies, putting more focus to the lodges to ensure revenues from the lodges start rising to enable the company reduce its trade creditors and other liabilities. Out of court settlement and negotiations on payment modalities have also been undertaken between trade creditors and KSLH, the company having been issued with demand letters.

	Principal	Interest	Totals	Remarks
VAT	184,224,000			Negotiation on going
WITHOLDING TAX	9,967,000			"
PAYE	127,717,000			"
CLT	38,335,000			"
PENSION	41,687,000	4,452,493.93		"
SACCO	11,096,000			"
TRADE CREDITORS	128,152,000			"



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. MANAGEMENT FRAUD

In the year no fraud or suspected abuse of office, misuse of assets or falsifying of statements by those with decision-making authorities or not, was noted in the company.

28. DISCLOSURE ON LONG TERM BORROWING

We have disclosed the following information in relation to the long term loan indicated on note 18.

Lender: Tourism Finance Corporation

Repayment Terms: 36Months

Collateral: None (Shareholders loan)

Interest Rate: 0%

Purpose of Loan: - To settle staff liabilities, purchase of generator and Air conditioners

Currency:-Kenya Shillings



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APPENDIX 1. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATION

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
1.1	Omission of company secretary and dates of birth of board of directors	Correction done and missing information provided.	FM	Resolved	
1.2	Error in cross-referencing of financial statement items to respective disclosure notes	Correction done	FM	Resolved	
1.3	Disclosure information on long term borrowing	All information relating to long term borrowing provided.	FM	Resolved	
1.4	Error in classifying service gratuity as long term borrowing	The service gratuity reclassified under trade and other payables	FM	Resolved	
1.5	Separate presentation of other payables under two different notes	Recommendation adopted and trade and other payable classified under one note	FM	Resolved	
1.6	Missing statement of comparison of budget and actual amounts	The statement included	FM	Resolved	
2.1	Failure to recognize the economic value of fully depreciated asset but still in use	Management to undertake the revaluation exercise	FM	Not resolved	June 2019
2.2	Fixed asset does not have asset codes and quantities nor tagging of fixed assets is done	The coding of assets exercise to be undertaken	FM	Not resolved	June 2019
3.0	Trade of other receivables outstanding for more than one year	Some of the trade and other payables are payable relating to government	FM	Not resolved	Continuous

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
		institutions who are slow payers.			
4.1	Cash investment	The bank reconciliation, certificate of balance and fixed deposit certificate provided	FM	Resolved	
4.2	Accuracy and completeness of cash in hand balance could not be confirmed	The board of survey certificates were provided	FM	Resolved	
4.3	Accuracy and completeness of Barclays bank account could not be confirmed.	The certificate of balance and bank reconciliation of Barclays Bank account provided	FM	Resolved	
5.0	Accuracy and validity of the trade and other payables and that the same is fairly stated could not be ascertained.	The provisions of penalties in respect to statutory deductions have not been included in the books. The company is in negotiations with the bodies for a waiver.	FM	Not Resolved	Continuous
6.0	Accuracy and validity of share capital value could not be confirmed	We have requested TFC to provide documents on evidence on how share valuation was determined on the rights issue on 8 th November 2013	Accounting Officer	Not resolved	Continuous
7.0	Supporting schedules in respect to finance income of ksh 9,568,000 were not availed for audit review	The schedule provided	FM	Resolved	
8.0	Outstanding audit fee over one year	Management met with officers from OAG and agreed on the modalities of payment. The non payment was occasioned by low business volumes for the last five years.	Accounting Officer	Not resolved	Ongoing



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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
9.0	Going concern	The company is facing liquidity risk but due to support from committed staff, creditors, government through supply of conference business and shareholders who plan to refurbish the hotels, the company will continue to operate smoothly	Accounting officer	Not Resolved	Continuous
10	Current portion of the TFC loan was not show and loan statement was not availed for audit	The bank statement to confirm the receipts of the loan from TFC has availed	FM	Resolved	
11	Propriety and completeness of legal fees balance of ksh 306,000 could not be confirmed	The legal fees incurred were related to cases that were taken to court by third parties and the company had to defend itself.	Accounting officer	Resolved	
12	Under Trade and other receivable, Other receivable balance of ksh 237,152 with credit balance was offset contrary to IPSAS' 1	Error Corrected	FM	Resolved	

