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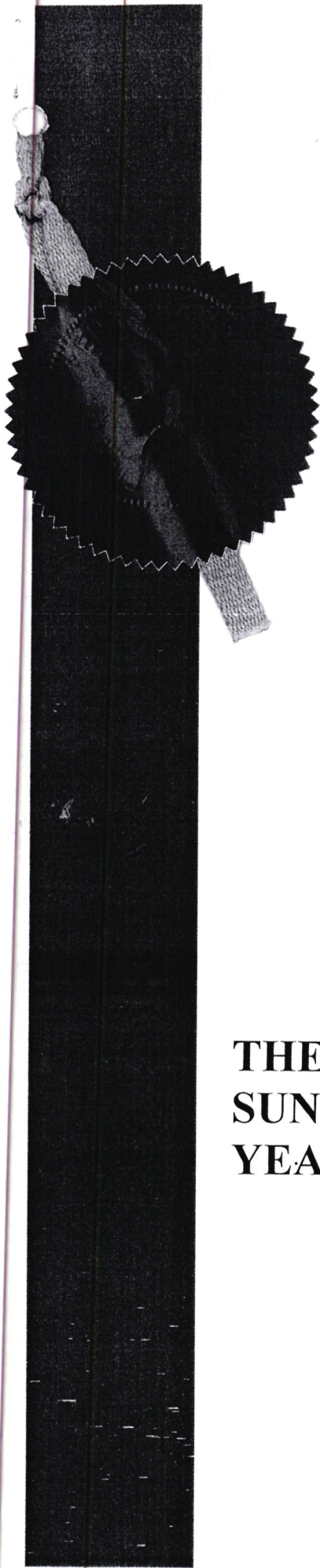
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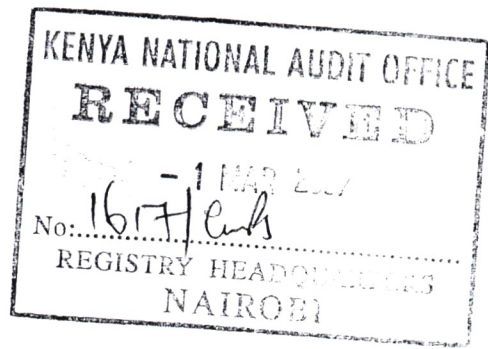
**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**



ON

**THE FINANCIAL STATEMENTS OF
SUNSET HOTEL LIMITED FOR THE
YEAR ENDED 30 JUNE 2006**





SUNSET HOTEL LIMITED



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2006

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2006

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SUNSET HOTEL LIMITED

COMPANY INFORMATION

REGISTERED OFFICE

SUNSET HOTEL LIMITED
APUT LANE
P.O. BOX 215-40100
KISUMU

LAWYERS/ADVOCATES

C.B.G OUMA & CO ADVOCATES

STANDARD BANK
2ND FLOOR
P.O.BOX
KISUMU

BANKERS

NATIONAL BANK OF KENYA LIMITED
P.O. BOX 1152-40100
KISUMU

CO-OPERATIVE BANK OF KENYA
P.O. BOX 1151-40100
KISUMU

KENYA COMMERCIAL BANK
P O BOX 17-40100
KISUMU

INDEPENDENT AUDITORS

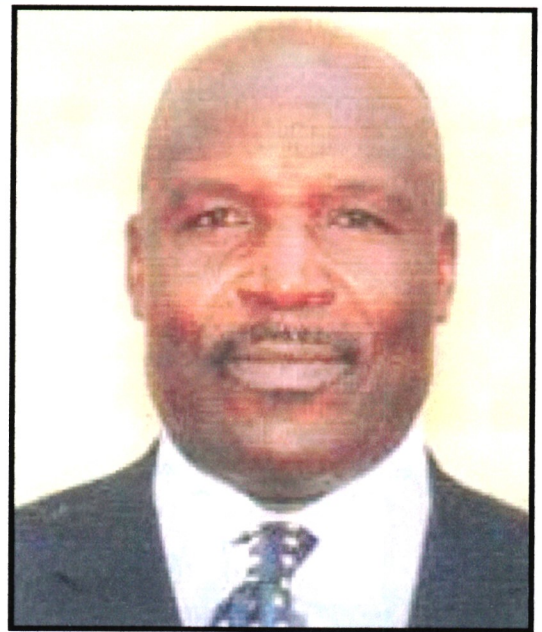
THE CONTROLLER AND AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE
P.O.BOX 30084-00100
NAIROBI

SUNSET HOTEL LIMITED

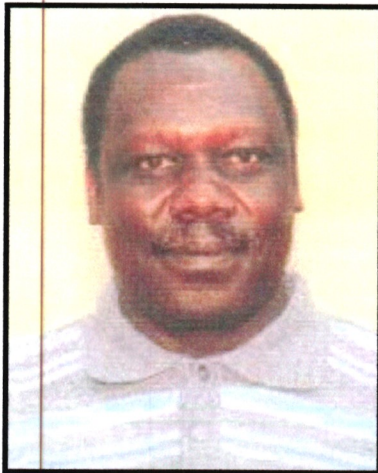
BOARD OF DIRECTORS



MR. JOASH OLUM
CHAIRMAN



MR. EVANS OGUNYO
VICE CHAIRMAN



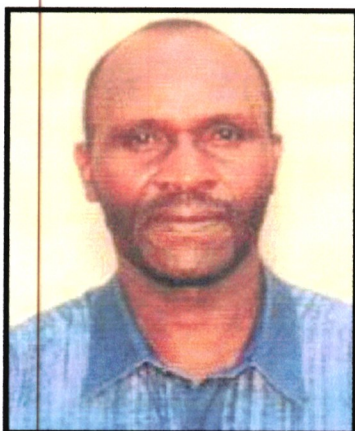
MR. OBONDO KAJUMBI
AG. MANAGING DIRECTOR
KTDC



CLLR. PRISCA AUMA
MAYOR KISUMU MUN. COUNCIL
MEMBER



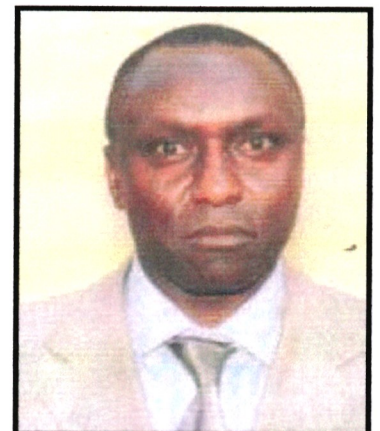
WISDOM K. MWAMBURI
TOWN CLERK
KISUMU MUN. COUNCIL - MEMBER



DR. JOSEPH OCHOLA
MEMBER



MRS. JANE KYAKA
COMPANY SECRETARY - KTDC
MEMBER

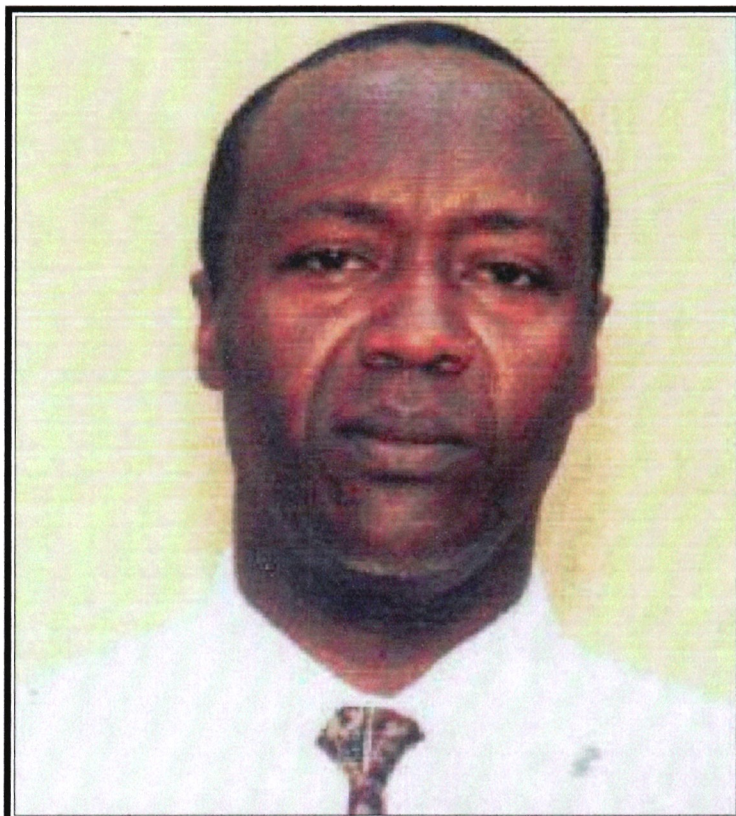


MR. HASSAN KIAGE
FINANCE MANAGER - KTDC
MEMBER

SUNSET HOTEL LIMITED
SENIOR MANAGEMENT STAFF



MR. JAMES NYAUNDI
HOTEL MANAGER



MR. PATRICK MADANJI
HOTEL ACCOUNTANT

SUNSET HOTEL LIMITED

DIRECTORS REPORT

The Directors submit their report and statement of account for the Year ended 30th June 2006

1. PRINCIPAL ACTIVITY

The principal activity of the company is that of carrying out hotel business.

2. RESULTS

The results of the year are shown in details on pages 7 to 22

3. DIVIDEND

The directors do not recommend payment of a dividend.

4. RESERVES

The Directors propose to carry forward the balance of accumulated Losses amounting to Kshs 19,816,996

5. DIRECTORS

Mr. Joash Olum Chairman

Mr Evans Ogunyo Vice Chairman

Mr. Obondo Kajumbi (Ag Managing Director KTDC)

Mr. Joseph Ochola -Director

Ms Patricia Awuori - Director

Mrs .Prisca Auma (Mayor -Kisumu City Council)

Mr. Wisdom K Mwamburi (Town Clerk- Kisumu City Council)

6. AUDITORS

The Controller and Auditor General continues in office in accordance with Section 14 of the Public Audit Act 2003

BY ORDER OF THE BOARD

Mr Carry Francis

SECRETARY

SUNSET HOTEL LIMITED

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company that year. It also requires the Directors to ensure that the company keeps proper accounting records, which also disclose with reasonable accuracy the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the 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 and in the manner required by the Kenya Companies Act. The directors are of the opinion that the financial statement gives a true and a fair view of the state of the financial affairs of the company and of its operating results.

The directors further accepts responsibility for the maintenance of the accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial controls.

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

Approval of financial statement

The financial statements are set out on pages 6 to 13 approved at a meeting of Directors as below.

JAMES NYAUMDI) Director Date 5th JAN. 2007
EVANS OGUNYO) Director Date 5th JAN 2007



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SUNSET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2006

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

Respective Responsibilities of the Directors and the Controller and Auditor General

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

Basis of opinion

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

1. Financial Position

During the year ended 30 June 2006, the Hotel realized a loss of Kshs.846,019 (2005 – a profit of Kshs.2,039,359) thereby bringing accumulated losses to Kshs.19,816,996 as at the same date. In addition the balance sheet reflects a negative working capital of Kshs.9,177,335. The Hotel was, therefore, technically insolvent and was not able to meet its financial obligations as and when they fell due and in particular, it was unable to pay its creditors and accruals of Kshs.18,970,795 which included trade creditors of Kshs.8,158,966.52, Value Added Tax of Kshs.4,973,987.61 and accrued expenses of Kshs.1,632,076.00. Evidently, the Hotel was facing financial problems and the financial statements have been prepared on a going concern basis on the assumption that the Hotel

will continue to receive the necessary financial support from related parties, creditors and bankers.

2. KTDC Long Term Advance

The Hotel negotiated a long term loan of Kshs.28,200,000 for renovation and refurbishment of the Hotel with KTDC whose balance stood at Kshs.22,544,737.80 as at 30 June 2006. However, the loan agreement specifying the terms and conditions of this loan was not produced for audit review. Consequently, it was not possible to confirm the accuracy and completeness of the advance balance of Kshs.22,544,737 as at the balance sheet date.

3. Leased Land – Kshs.15,000,000

Included in the property, plant and equipment as at 30 June 2006 is leasehold land valued at Kshs.15,000,000. Information available indicates that the Hotel held leasehold title for Block 11/78 dated 18 March 1985 and a letter of offer dated 28 August 1981 for unsurveyed plot B adjacent to Block 11/78. The two parcels were consolidated to form Block 11/87 which was subsequently subdivided into Block, 11/89 and Block 11/90. The records also indicate that certificate of lease for Block 11/90 was issued to two individuals on 17 June 1998. There was no record to show how the decision was made to allocate Block 11/90 to the two individuals or the consideration for it. In view of the unexplained hiving off of block 11/90 and its allocation to two individuals and the fact that the Hotel did not produce the title for Block 11/89 for audit verification, it was not possible to confirm ownership of the land on which the Hotel stands valued at Kshs. 15,000,000.

Opinion

Except for the reservations referred to in the preceding paragraphs, in my opinion proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Hotel as at 30 June 2006 and of its loss and cash flows for the year then ended in accordance with Kenya Companies Act Cap 486 of the Laws of Kenya.



P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

28 February 2007

SUNSET HOTEL LIMITED
TRADING PROFIT AND LOSS
ACCOUNT
FOR THE YEAR ENDED 30TH JUNE
2006

	2006	2005
	Kshs	Kshs
Sales	48,910,368	53,603,442
Cost of Sales	11,907,845	13,709,319
GROSS PROFIT	37,002,524	39,894,123
EXPENDITURE		
Salary & Wages	9,607,141	9,352,109
Staff Expenses	4,301,411	3,752,528
Staff Travel	880,069	858,275
Property Upkeep & Expenses	636,028	1,166,473
Repairs & Renewals	2,257,463	1,365,706
Operating Costs	10,545,174	10,428,418
Office Expenses	2,091,599	1,975,141
Administration Expenses	1,523,272	1,078,021
Advertising & Promotion	2,122,224	2,277,800
General Charges	732,832	1,426,153
Interest & Other Charges	1,277,350	2,930,560
Depreciation	1,873,981	1,243,580
Total Expenditure	37,848,543	37,854,764
Net Profit/(Loss) for the year	(846,019)	2,039,359

SUNSET HOTEL LIMITED
TRADING PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 2006

	2,006	2005
	Kshs	Kshs
TURNOVER	<u>48,910,368</u>	<u>53,603,442</u>
Profit/(Loss) before Taxation	(846,019)	2,039,359
AFTER CHARGING		
Depreciation	1,873,981	1,243,580
Auditors Fees	150,000	150,000
Interest on Loan		332,516
Directors Emoluments	1,144,230	1,561,228
Land Rent & Rates	236,775	236,775
TAXATION		
Loss after taxation	(846,019)	2,039,359
Retained Loss b/f	(18,970,977)	(32,475,688)
	<u>(19,816,996)</u>	<u>(30,436,329)</u>
loan waived(extra-ordinary item)	-	11,465,352
Retained Loss c/f	<u>(19,816,996)</u>	<u>(18,970,977)</u>

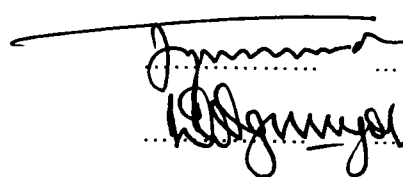
**SUNSET HOTEL LIMITED
BALANCE SHEET
AS AT 30TH JUNE 2006**

	NOTES	2006 Kshs	2005 kshs
NON CURRENT ASSETS			
PROPERTY, PLANT & EQUIPMENT	2	103,167,551	84,542,456
CURRENT ASSETS			
Stocks	3	1,543,262	1,891,212
Debtors	4	10,860,171	8,118,289
Cash and Bank Balances	5	418,556	229,390
Total current assets		12,821,989	10,238,891
CURRENT LIABILITIES			
Creditors and Accruals	6	18,970,795	18,062,439
Bank Overdraft	7	3,028,529	2,965,155
Total current liabilities		21,999,324	21,027,594
NET WORKING CAPITAL		(9,177,335)	(10,788,703)
NET ASSETS		93,990,216	73,753,753
FINANCED BY:			
Share Capital	8	12,000,000	12,000,000
Revaluation reserves	9	79,262,476	79,262,476
Accumulated Losses	10	(19,816,996)	(30,436,329)
Owners equity		71,445,480	60,826,147
Long term loans			
Shareholders loan	11	1,431,286	-
KTDC Long Term Advance	11	21,113,451	1,462,254
KTDC Long Term Loan	11	-	11,465,352
Total long term liabilities		22,544,737	12,927,606
Net capital		93,990,216	73,753,753

DIRECTOR (Name)

JAMES NYAUNDI
EVANS OGUNYO

SIGNATURE



DATE

5TH JAN. 2007
5TH JAN 2007.

SUNSET HOTEL LIMITED

9 Statement of changes in Equity and loans
For the year ended June 30th 2006

	Share Capital	Capital Reserves	Retained Earnings	Total Ksh
As at 1st July 2003	12,000,000	-	(32,136,125)	(20,136,125)
Additional shares/loans		-		-
Profit for the year			(339,563)	(339,563)
Bal as at 30th June 2004	12,000,000	-	(32,475,688)	(20,475,688)
As at 1st July 2004	12,000,000	-	(32,475,688)	(20,475,688)
Additional shares/loans				
Revaluation		79,262,476		79,262,476
Profit for the year			2,039,359	2,039,359
Bal as at 30th June 2005	12,000,000	79,262,476	(30,436,329)	60,826,147
As at 1st July 2005	12,000,000	79,292,476	(18,970,977)	72,321,499
Additional shares/loans		-		-
Revaluation				
Profit for the year			(846,019)	(846,019)
Bal as at 30th June 2006	12,000,000	79,292,476	(19,816,996)	71,475,480

SUNSET HOTEL LIMITED
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30TH JUNE 2006

	2006 Ksh	2005 Kshs
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Net Profit/(Loss) before tax	(846,019)	2,039,359
<u>Adjustments for :</u>		
Depreciation	1,873,981	1,243,580
loss on disposal of fixed assets	21,400	
Interest	-	1,092,860
Adjusted profit before working capital adjustments	<u>1,049,362</u>	<u>4,375,799</u>
<u>ANALYSIS OF WORKING CAPITAL</u>		
(Increase)/Decrease in Debtors	(2,741,882)	(1,390,617)
(Increase)/Decrease in Stocks	347,950	(190,816)
Increase/(Decrease) in Creditors	908,356	(1,258,235)
Profit before tax	<u>(436,215)</u>	<u>1,536,131</u>
Tax Paid	-	-
NET CASH FLOW FROM OPERATING ACTIVITIES	(436,215)	1,536,131
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Fixed Assets	(20,555,326)	(10,490)
Proceeds on disposal	10,850	-
Proceeds on disposal(TRADE-IN)	24,000	
NET CASH FLOWS FROM INVESTING ACTIVITIES	(20,520,476)	(10,490)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Interest	-	(1,092,860)
shareholders loan	1,431,286	-
Advance from KTDC	21,113,450	-
KTDC Loan Repayment	(1,462,254)	(1,007,138)
NET CASH FLOW FROM FINANCING ACTIVITIES	21,082,482	(2,099,998)
Net Increase / (Decrease) Cash and Cash Equivalent	125,792	(574,357)
Opening balance of Cash & Cash equivalent	<u>(2,735,765)</u>	<u>(2,161,408)</u>
Closing balance of Cash & Cash equivalent	<u>(2,609,973)</u>	<u>(2,735,765)</u>
CASH BALANCES		
Bank Overdraft	(3,028,529)	(2,965,155)
Cash and Bank Balances	418,556	229,390
	<u>(2,609,973)</u>	<u>(2,735,765)</u>

SUNSET HOTEL LIMITED

ANNUAL NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2006

Accounting Policies

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

a) **Basis of Preparation**

The Financial statements are prepared under the historical cost conventions as modified by the evaluation of certain property, plant and equipment.

b) **Revenue Recognition**

Sales are recognized upon performance of services and are stated Net of VAT and discounts.

c) **Translation of Foreign Currencies**

Foreign currency translation during the Year has been converted at the approximate rate of exchange ruling at the time of transaction. Any gains or losses resulting there from have been taken direct to the profit and loss account.

d) **Property Plant and Equipment**

Property Plant and Equipment are initially recorded at cost. Land and Buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent Depreciation for Buildings. All other Property Plant and Equipment is stated at historical cost less Depreciation.

Depreciation is calculated on the straight-line basis to write down the cost of each asset or valued amount to their residual values over the expected useful life as follows.

- No depreciation is charged on the Leasehold Land.
- Building depreciation rate is based on the lease term of 99 years or estimated useful life of 90 years.
- Property, Plant & Machinery - 12.5%
- Furniture, Fittings and Equipment - 12,5%
- Motor Vehicle - 25.0%

SUNSET HOTEL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2006

e) **Stock**

Stocks are valued at the lower of cost and net realizable value.

The cost is determined by the first in, first out (FIFO) method. Stocks are held for sale and as raw materials for kitchen production and supplies.

f) **Turnover**

Turnover represents amounts received and receivable for services provided net of government taxes and levies.

g) **Comparatives**

Where necessary comparative figures have been adjusted to conform to the changes in the presentation in the current year.

SUNSET HOTEL LIMITED
2. PROPERTY PLANT & EQUIPMENT SCHEDULE
FOR THE YEAR ENDED 30TH JUNE 2006

	LAND	BUILDING	PROPERTY PLANT & EQUIPMENT	FURNITURE & FITTING	MOTOR VEHICLE	TOTAL
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1.7.2005	15,000,000.00	75,000,000.00	4,456,652.00	4,731,719.65	528,700.00	99,717,071.65
Additions		16,522,544.90	3,217,500.00	815,281.00	-	20,555,325.90
Disposals				(108,857.00)		(108,857.00)
Trade in Account				(60,000.00)		(60,000.00)
As at 30-6-2006	15,000,000.00	91,522,544.90	7,674,152.00	5,378,143.65	528,700.00	120,103,540.55
DEPRECIATION						
As at 1.7.2004	-	7,449,117.35	3,902,594.50	3,294,203.65	528,700.00	15,174,615.50
Charge for the year	-	915,225.45	554,685.10	404,070.45		1,873,981.00
Depreciation on disposal				(97,607.00)		(97,607.00)
Depreciation on Trade in Account				(15,000.00)		(15,000.00)
As at 30-6-2005	NIL	8,364,342.80	4,457,279.60	3,585,667.10	528,700.00	16,935,989.50
NET BOOK VALUE						
As at 30-6-2005	15,000,000.00	67,550,882.65	554,057.50	1,437,516.00	-	84,542,456.15
As at 30-6-2006	15,000,000.00	83,158,202.10	3,216,872.40	1,792,476.55	-	103,167,551.05

**SUNSET HOTEL LIMITED ANNUAL
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30TH JUNE 2006**

3. STOCKS & STORES	2006	2005
	Ksh.	Ksh.
Food Stores	83,913.50	114,366.90
Cellar Stores	110,253.35	142,488.75
Bar Stocks	160,000.68	181,350.19
Tobacco Store	17,995.50	32,166.60
Empties Stock	87,126.00	111,926.00
Operating Equipment Store	250,765.20	70,154.49
Consumable Stores	437,630.38	180,384.73
Stationary Stock	461,952.59	511,780.55
Fuel & Gas		551,435.32
Misc. Electrical Tools Store	117,724.64	179,258.96
	1,727,361.84	2,075,312.49
Less: Provision for Obsolete stock	(184,100.00)	(184,100.00)
	1,543,261.84	1,891,212.49

4. DEBTORS

	2006	2005
	Kshs.	Kshs.
Debtors & Prepayments	11,871,960.45	9,130,077.60
Less: Provision for bad and doubtful debt	(1,011,789.00)	(1,011,789.00)
	10,860,171.45	8,118,288.60

5. CASH & BANK BALANCES

	2006	2005
	Kshs.	Kshs.
KCB	125,106.10	
Cash control	79,170.00	14,390.00
PettyCash Control	179,279.60	180,000.00
Cash Float	35,000.00	35,000.00
	418,555.70	229,390.00

**SUNSET HOTEL LIMITED ANNUAL
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30TH JUNE 2006**

6. CREDITORS & ACCRUALS

TRADE CREDITORS & OTHER PAYABLES	2006 Kshs.	2005 Kshs.
Trade Creditors	8,158,965.52	7,554,208.80
Sundry Creditors	987,968.80	987,968.80
Vale Added Tax	4,973,987.61	4,594,582.35
Service Charge	261,927.03	341,053.08
Catering Levy Training Trustee	276,688.66	118,703.41
Deposits Payable	570,413.25	465,929.90
Payroll Control	8,350.20	34,946.20
P.A.Y.E	750,690.70	969,518.70
N.S.S.F	86,528.00	97,728.00
N.H.IF.	140,007.00	147,527.00
COTU	30,388.00	47,418.00
Other Payroll Deductions	12,133.25	26,462.00
Local Authority Service Charge	66,700.00	66,700.00
Sunset Sacco	10,496.05	22,097.55
Staff Insurance Deductions	1,003,475.00	8,013.90
Accrued Expenses	1,632,076.00	947,505.00
VAT Penalty		1,632,076.00
	18,970,795.07	18,062,438.69

7. BANK OVERDRAFT

Main Bank Account -NBK
Main Bank Account -CO-OP
Cash Control
Main Bank Account - KCB

	2006 Kshs.	2005 Kshs.
Main Bank Account -NBK	71,576.40	199,646.70
Main Bank Account -CO-OP	2,956,952.55	2,745,198.10
Cash Control		
Main Bank Account - KCB		20,311.35
	3,028,528.95	2,965,156.15

**SUNSET HOTEL LIMITED ANNUAL
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30TH JUNE 2006**

8. SHARE CAPITAL

	2006 Kshs.	2005 Kshs.
Authorised , issued and fully paid 572,500 Ordinary Shares @ Kshs.20/= (KTDC)	11,450,000.00	11,450,000.00
27500 Ordinary Shares @ Kshs 20/= (Municipal Council of Kisumu)	550,000.00	550,000.00
	12,000,000.00	12,000,000.00

9. REVALUATION RESERVES

	2006 Kshs.	2005 Kshs.
Revaluation reserve	79,262,476.00	79,262,476.00
	79,262,476.00	79,262,476.00

10. ACCUMULATED LOSSES

	2006 Kshs.	2005 Kshs.
Profit /(Loss) for the year	(846,019.38)	2,039,359.00
Retained Loss b/f	(18,970,977.00)	(32,475,688.00)
	(19,816,996.38)	(30,436,329.00)
Loan waived (Extraordinary item)		11,465,352.00
	(19,816,996.38)	(18,970,977.00)

11. K.T.D.C LONG TERM LOAN

	2006 Kshs.	2005 Kshs.
Shareholders Loan	1,431,286.00	-
KTDC Long Term Loan		11,465,352.00
KTDC Long Term Advance	21,113,450.80	1,462,254
	22,544,736.80	12,927,606.00

The KTDC Long term loan (ksh. 11465352) was waived by KTDC Management and has been adjusted (retrogressively) backwards to Retained Earnings for 2004/2005. The interest accruing on KTDC Long term advance (ksh.2590600) was also waived by KTDC Management .

12. TAXATION

No provision has been made for Corporation Tax in the current year due to loss brought forward.