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

ON

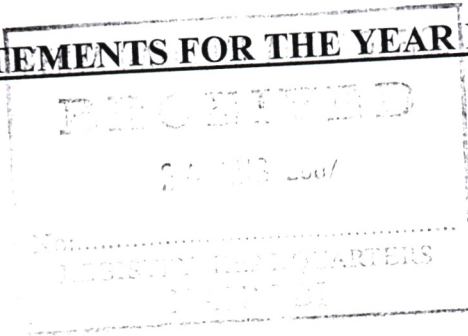
**THE FINANCIAL STATEMENTS OF
KENYA TOURIST DEVELOPMENT
CORPORATION FOR THE YEAR
ENDED 30 JUNE 2007**

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS

	<u>Page</u>
Board of Directors	1
Statement of Directors Responsibility	2
Balance Sheet	3
Profit and Loss Account	4
Statement of Changes in Equity	5
Cashflow Statement	6 - 7
Accounting Policies	8 - 9
Notes to the Financial Statements	10 - 20



KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

BOARD OF DIRECTORS

The Directors who served during the financial year are as shown below:

Mr. Richard Mbui Maina	Chairman upto 17 December 2006
Mr. Charles Wachira Ngundo	Chairman from 04 April 2007
Mr. Hamisi Omari Mboga	Vice Chairman upto 17 December 2006
Mr. Obondo Kajumbi	Ag. Managing Director from 13 March 2006
Mrs. Rebecca Mwikali Nabtola	Permanent Secretary, Ministry of Tourism and Wildlife
Mr. Joseph Kinyua	Permanent Secretary, Ministry of Finance
Prof. James L. Ole Kiyiapi	Permanent Secretary, Ministry of Environment and Natural Resources
Mr. Joash Olum	Member upto 17 December 2006
Ms. Patricia Awori	Member upto 17 December 2006
Mr. Anthony Kiilu Musau	Member upto 17 December 2006
Mr. Samuel Wamutu Waiganjo	Member upto 17 December 2006
Ms. Delila Kadzo	Member from 18 April 2007
Ms. Betty Mwenesi	Member from 18 April 2007
Mr. Gilbert Nyaki	Member from 18 April 2007
Mr. Kiplagat Kipkenda	Member from 18 April 2007
Ms Rosemary Wambui	Member from 18 April 2007
Dr. Pius Odunga	Member from 18 April 2007
Mr. George Kithi	Member from 18 April 2007

Ex- Officio

Hon Amos Wako - Attorney General
Mr. Peter Ondieki - Inspector General of State Corporations

CORPORATION SECRETARY

Mrs. Jane Ikiunga Kyaka

REGISTERED OFFICE

Utalii House
Uhuru Highway
P.o Box 42013
NAIROBI

AUDITORS

The Controller and Auditor General,
P.O Box 30084-00100

NAIROBI

BANKERS

Kenya Commercial Bank Limited
University Way
P.O Box 7206

NAIROBI

KENYA TOURIST DEVELOPMENT CORPORATION

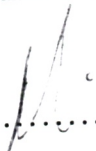
STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30TH JUNE 2007

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

The Directors accept the responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with the International Financial Reporting Standards and the requirements of the KTDC Act and the February 1991 Treasury guidelines on Investment.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The Directors further accept the responsibility for the maintenance of accounting records that may be relied upon in preparation of the financial statements, as well as adequate systems of internal financial control.

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

Director.....

Date.....24/8/007

Director.....

Date.....24/8/007



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA TOURIST DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Kenya Tourist Development Corporation set out on pages 3 to page 20 which comprise the balance sheet as at 30 June 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Director's Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the corporation's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Property, Plant and Equipment

The property, plant and equipment figure of Kshs.547,474,680.00 as at 30 June 2007 includes land valued at Kshs.15,838,675.00. As previously reported, the value of the land excludes undetermined value of the two parcels of land in Mombasa and Kitale whose certificates of lease were issued in 1992 and 2002 respectively. Available information indicates that, the land is included in investment balance of Kshs.332,047,847.00 as equity investments of Kshs.6,180,471.00 and Kshs.2,658,534.00 against Mombasa Island Hotel Project and Kitale Hotel Project respectively. However these investment projects have not been analysed or details given indicating the value of land and other costs for audit verification. In the circumstances, it has not been possible to verify the correctness of either Kshs.547,474,680.00 reflected under property, plant and equipment or Kshs.332,047,874.00 reflected under investments in the balance sheet.

2. Debtors and Prepayments

The debtors and prepayments net balance of Kshs.90,840,068.00 as at 30 June 2007 includes Kshs.50,391,675.00 owed by ex-tenants, Kshs.4,750,541.00 owed by ex-staff and a further sum of Kshs.49,902,709.30 owed by the Corporations subsidiary units. Available information indicates that these debts are being pursued by Corporation lawyers and correspondence with subsidiary units. However, until the recovery process is completed the chances of recoverability cannot be ascertained and the provision for bad debts amounting to Kshs.48,053,906.00 may not be adequate. Consequently it has not been possible to confirm the correctness of the net debtors and prepayments figure of Kshs.90,840,068.00 reflected in the accounts.

Opinion

Except for the foregoing reservations, 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 Corporation as at 30 June 2007 and of its profit and cash flows for the year then ended and comply with the Kenya Tourist Development Corporation Act Cap 382.


P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

27 November 2007

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

BALANCE SHEET

	Note	2007 KShs	2006 KShs
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	2	547,474,680	561,843,402
Investments	3	332,047,847	332,047,847
Loans	3	411,989,580	384,500,645
		<u>1,291,512,107</u>	<u>1,278,391,894</u>
Current Assets			
Debtors and Prepayments	4	90,840,068	114,733,920
Cash and Cash Equivalents	5	132,700,707	111,503,668
		<u>223,540,775</u>	<u>226,237,588</u>
TOTAL ASSETS		<u>1,515,052,882</u>	<u>1,504,629,482</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity Funds		106,000,000	106,000,000
Pre-Investment Studies Grant		281,212	281,212
GOK Grant	23	5,472,200	5,472,200
General Fund	6	1,085,814,432	1,079,979,010
Restructuring Reserve	7	88,580,842	88,580,842
		<u>1,286,148,686</u>	<u>1,280,313,264</u>
Non-Current Liabilities			
Irredeemable GOK Revolving Funds Loan		48,000,000	48,000,000
Employees Benefits Provision		15,369,503	20,554,286
Deferred Tax Liability	21	86,037,910	82,168,103
		<u>149,407,413</u>	<u>150,722,389</u>
Current Liabilities			
Creditors and Provisions	9	79,496,783	73,593,829
		<u>79,496,783</u>	<u>73,593,829</u>
TOTAL EQUITY AND LIABILITIES		<u>1,515,052,882</u>	<u>1,504,629,482</u>

The financial statements were approved by Board of Directors on 16/8/07 and signed on its behalf by:-

.....

CHAIRMAN

.....

MANAGING DIRECTOR

The Balance Sheet, Profit and Loss account, Statement of changes in Equity and Cash Flow statement are to be read in conjunction with the accounting policies and notes to and forming part of the financial statements set out on pages 8 to 20.

The Statement of Directors Responsibilities is on Page 2.

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

PROFIT AND LOSS ACCOUNT

	Note	2007 KShs	2006 KShs
INCOME			
Interest From Commercial Fund Loans		33,399,104	41,322,300
Rental Income		86,225,593	78,941,054
Revolving Fund Loans Interest		5,976,357	7,158,009
Dividend Income	14	2,745,702	11,064,504
Bank Deposit Interest Income	15	6,409,156	6,476,705
Other Income	16	19,860,142	1,460,044
GOK Grant Income	23	0	2,027,800
TOTAL OPERATING INCOME BEFORE EXPENSES		154,616,054	148,450,416
EXPENSES			
Personnel Costs	22	56,442,130	66,619,996
Directors' Emoluments and Expenses		3,186,055	5,224,878
Entertainment		604,241	920,704
Travelling Costs		2,811,656	1,547,134
Motor Vehicle Expenses		2,723,167	1,690,686
Depreciation		16,001,564	16,018,047
Office Expenses	10	5,569,252	7,232,483
Property Maintenance & Security		11,189,865	8,213,692
Lifts Maintenance		1,656,690	1,190,439
Electricity		8,490,494	7,224,686
Water & Conservancy		2,214,465	2,229,846
Interest on Loans	13	4,080,000	4,141,721
Auditors Remuneration		462,000	350,000
Legal, Consultancy, Auctioneers & Valuation Fees	17	2,285,871	859,533
Bank Charges		139,273	162,725
Interest on Bank Overdraft	13	95,903	166,762
Rent and Rates		1,600,877	388,000
Bad Debts Written Off	11	1,753,768	109,220
Bad Debts Provision	12	19,505,552	10,819,770
GOK Grant Expenses	23	-	528,275
TOTAL EXPENSES ON ORDINARY ACTIVITIES		140,812,823	135,638,597
Operating profit/(Loss) before Tax		13,803,231	12,811,819
<u>Less:</u>			
Deferred tax	21	7,604,604	4,811,541
Withholding Tax paid	6 (c)	956,363	964,888
Net Profit/(Loss) after Tax		8,560,967	5,776,429
RETAINED EARNINGS/(LOSS) FOR THE YEAR		5,242,264	7,035,390

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007.

STATEMENT OF CHANGES IN EQUITY

	Equity Funds KShs	Pre-Investment Studies Grant KShs	GOK Grant KShs	General Fund KShs	Capital Reserve KShs	Retained Earnings KShs	Restructuring Reserve KShs	Total Equity KShs
As of 1 July 2005	106,000,000	281,212	-	20,506,020	352,315,809	700,112,625	88,580,842	1,267,796,508
Taxes Paid	-	-	-	-	-	(3,725,631)	-	(3,725,631)
GOK Grant Received	-	-	7,500,000	-	-	-	-	7,500,000
GOK Grant Realized to Income	-	-	(2,027,800)	-	-	-	-	(2,027,800)
Deferred Tax	-	-	-	-	3,734,797	-	-	3,734,797
Retained Profit for the year	-	-	-	-	-	7,035,390	-	7,035,390
As of 30 June 2006	106,000,000	281,212	5,472,200	20,506,020	356,050,606	703,422,384	88,580,842	1,280,313,264
Prior Period Rates Paid	-	-	-	-	-	(3,141,639)	-	(3,141,639)
Deferred Tax	-	-	-	-	3,734,797	-	-	3,734,797
Retained Profit for the year	-	-	-	-	-	5,242,264	-	5,242,264
As of 30 June 2007	106,000,000	281,212	5,472,200	20,506,020	359,785,403	705,523,009	88,580,842	1,286,148,686

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

CASH FLOW STATEMENT

	Note	2007 KShs	2006 KShs
Cash Flows From Operating Activities			
Net Income/(Loss) for the year before taxation and Exceptional Item		13,803,231	12,811,819
Adjustments:			
Depreciation		16,001,564	16,018,047
Increase/(Decrease) in Loans' Provision	12	2,702,032	3,281,275
Increase/(Decrease) in Employees Benefits Provision		(5,184,783)	(611,493)
(Gain)/Loss on Sale of Fixed Assets		(502,500)	-
(Gain)/Loss on Commercial Loans' Restructuring		(17,415,003)	-
Payment of Prior Period Council Rates	6(c)	(3,141,639)	-
Interest Expense	13	4,175,903	4,308,483
Income from Investment(Dividend)		(2,745,702)	(11,064,504)
Interest From Bank Deposits		(6,409,156)	(6,476,705)
Operating Income/(Loss) before working Capital changes		1,283,947	18,266,922
(Increase)/Decrease in Debtors		23,893,852	1,788,920
Increase/(Decrease) in Creditors		5,902,954	(7,062,132)
Cash generated from Operations		31,080,753	12,993,710
Corporation & Withholding Taxes Paid	6	(956,363)	(4,690,519)
Loans Interests' Recovered/(Capitalized)		(15,528,331)	(22,757,566)
Net Cash Inflow/(Outflow) From Operating Activities		14,596,059	(14,454,375)
Cash Flows From Investing Activities:			
GOK Grant	23	-	5,472,200
Dividends Received		2,745,702	11,064,504
Interest from Bank Deposits		6,409,156	6,476,705
Purchase of Fixed Assets		(31,088)	(450,016)
Capital Work In Progress	2(e)	(1,601,754)	-
Proceeds from sale of Fixed Assets		502,500	-
Land Rent paid for Kitale Hotel Project		-	(100,000)
Principal Loans Disbursed		(3,719,218)	(20,688,492)
Principal Loans Recovered		6,471,585	12,987,634
Net Cash Inflow/(Outflow) From Investing Activities		10,776,883	14,762,535

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

CASH FLOW STATEMENT - Continuation.

	Note	2007 KShs	2006 KShs
<u>Cash Flows From Financing Activities:</u>			
Interest Expense Paid		(4,175,903)	(4,308,483)
Loans Repaid		-	(2,028,499)
Net Cash Inflow/(Outflow) From Financing Activities		(4,175,903)	(6,336,982)
Net Increase/ (Decrease) in Cash and Cash Equivalents		21,197,039	(6,028,822)
Cash & Cash Equivalents at beginning of the period		111,503,668	117,532,490
Cash & Cash Equivalents at end of the Period	5	132,700,707	111,503,668

NOTE: Cash & Cash Equivalents are reconciled below

Cash at Bank & in Hand	11,956,685	3,999,569
Fixed Deposits	-	90,404,099
Flexi Treasury Bills	120,744,022	17,100,000
Cash & Cash Equivalents at end of the period	132,700,707	111,503,668

KENYA TOURIST DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

ACCOUNTING POLICIES

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

a) BASIS OF PREPARATION

The Financial Statements are prepared in compliance with International Financial Reporting Standards (IFRS). They are presented in the functional currency Kenya shillings (KShs) and are prepared under the historical cost convention as modified by the revaluation of certain Property, Plant and Equipment. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies.

b) ACCOUNTING FOR SUBSIDIARY AND ASSOCIATED COMPANIES

Financial statements of subsidiary and associated companies have not been consolidated in the accounts. However, the corporation's investments in these companies are shown at cost in accordance with the February 1991 Investment Guidelines issued by Treasury.

c) CLASSIFICATION OF FUNDS

The Corporation's financing has been classified in accordance with the February 1991 Investment Guidelines as follows:

- i) **Equity:**
Irredeemable funds supplied by the Government to purchase equity interest in tourism related companies.
- ii) **Commercial Loan:**
Funds provided by the Government to lend on a commercial basis to tourism related companies and to be repaid to the Government over a period of fifteen years from January 1991. The Loan was fully repaid in the year 2000/2001.
- iii) **Revolving Fund:**
This fund was set up by the Government for the corporation to manage and provide loan finance to assist Kenyans to become established in the tourism industry.

d) ACCOUNTING FOR FEASIBILITY STUDIES GRANT

The Corporation was granted funds by the Government to carry out feasibility studies. Payments made or to be made on completed feasibility studies are charged fully against this fund at the time of payment or completion of the study, whichever is earlier.

e) PROVISION FOR DOUBTFUL DEBTS

The corporation is responsible for bad debts incurred on both Commercial and Revolving Fund Programmes in accordance with the February 1991 Investment Guidelines. The provisions made against possible losses are reduced from the Investments, Loans and Debtors to which they relate. The interest on non-performing loans (15 loanees) was suspended as from financial year 2003/04 and is not accrued in our accounts, however, the customer statements reflect full interest. (Special Board meeting of 20th Feb. 2003). Interest charges to five (5) more Loanees were suspended as from 01 July 2006 following Board approval of 22 June 2006.

KENYA TOURIST DEVELOPMENT CORPORATION

f) PROPERTY, PLANT AND EQUIPMENT

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives as follows:

Land	NIL
Buildings	2.5 %
Furniture & Fittings	12.5 %
Electronic Equipment	30.0%
Motor Vehicles	25.0 %

A full depreciation is provided for during the year of acquisition but no depreciation is provided for during the year of disposal. In case of a revalued asset, no depreciation is charged or provided for on the revaluation surplus during the year of valuation but full depreciation is provided for in subsequent years.

g) INCOME

Income is accounted for on the following basis:

i) Interest:

This consists of amounts received and accrued up to 30 June 2007

ii) Loan Interest Income:

Interest receivable in respect of administering the commercial and Revolving Funds in accordance with the Investments Guidelines.

iii) Rental Income:

Rent is accounted for on an accrual basis.

iv) Other Income:

Major items include Personnel Loan's interest, interest from Loan given to USICO Ltd to acquire shares in The Ark Ltd, Loan Application fees, proceeds received from sale of Tender documents and Directors fees received and receivable during the financial year.

h) DIVIDEND POLICY

The corporation policy is to recognise dividends as income when declared/recommended.

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007.

1. PRINCIPAL ACTIVITY

The principal activity of the Corporation is to facilitate and finance development of tourism and tourism related facilities through advancement of both Commercial and Revolving Fund loans.

2. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Furniture, Fittings and Equipment	Computer and Computer Accessories	Cutlery and Holloware	Motor Vehicles	Total
	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Year ended 30 June 2006							
Cost or Valuation							
At cost on 01 July 2005	15,838,675	73,673,241	10,358,200	8,465,647	119,684	17,877,090	126,332,537
Revaluation surplus	-	497,972,875	-	-	-	-	497,972,875
Additions for the year	-	-	24,000	426,016	-	-	450,016
As at 30 June 2006	15,838,675	571,646,116	10,382,200	8,891,663	119,684	17,877,090	624,755,428
Depreciation							
01 July 2005	-	55,196,223	9,078,912	7,946,537	-	14,301,278	86,522,950
Charge for the year	-	14,291,153	193,737	341,219	-	1,191,938	16,018,047
Elimination on revaluation	-	(39,628,971)	-	-	-	-	(39,628,971)
As at 30 June 2006	-	29,858,405	9,272,649	8,287,756	-	15,493,216	62,912,026
Net Book Value							
Balance as at 30 June 2006	15,838,675	541,787,711	1,109,551	603,907	119,684	2,383,874	561,843,402
Year ended 30 June 2007							
Cost or Valuation							
At cost on 01 July 2006	15,838,675	73,673,241	10,382,200	8,891,663	119,684	17,877,090	126,782,553
Revaluation Surplus	-	497,972,875	-	-	-	-	497,972,875
Additions for the year	-	-	31,088	-	-	-	31,088
Capital Work in Progress	-	-	-	1,601,754	-	-	1,601,754
Disposal during the year	-	-	-	-	-	(1,927,410)	(1,927,410)
As at 30 June 2007	15,838,675	571,646,116	10,413,288	10,493,417	119,684	15,949,680	624,460,860
Depreciation							
01 July 2006	-	69,487,376	9,272,649	8,287,756	-	15,493,216	102,540,997
Charge for the year	-	14,291,153	158,918	359,555	-	1,191,938	16,001,564
Elimination on revaluation	-	(39,628,971)	-	-	-	-	(39,628,971)
Elimination on disposal	-	-	-	-	-	(1,927,410)	(1,927,410)
As at 30 June 2007	-	44,149,558	9,431,567	8,647,311	-	14,757,744	76,986,180
Net Book Value							
Balance as at 30 June 2007	15,838,675	527,496,558	981,721	1,846,106	119,684	1,191,936	547,474,680

a) IAS 16 (revised 2003), has required the disclosure of comparative figures for movements in property, plant and equipment.

b) No depreciation is provided for Cutlery and Holloware since none of the items have been put into use.

c) A revaluation of Utalii House was carried out in June 2004 by Crystal Valuers Ltd, professional valuers, on an open market basis and gave the value as KShs. 570,000,000. The resulting revaluation surplus of KShs. 497,972,875 was transferred to capital reserve(note 6). As per IAS 16 we adopted the approach where the balance in the revaluation reserve in respect to an asset to be transferred to retained earnings when the asset is sold, as at that point it is a realised gain. As indicated under Accounting Policies in note 1(f), the first year of depreciating this revaluation surplus was the year 2004/2005.

d) As per IAS 16 the accumulated depreciation of Kshs.39,628,971 for Utalii House upto revaluation date that is June 2004, was eliminated during the financial year 2004/2005. This was done by restating the retained earnings brought forward in that year.

e) Capital Work In Progress refer to the approved installation of Local Area Network on 11th Floor, Utalii House and the Human Resource & Payroll Software. These were initiated during the year and had not been completed as at 30 June 2007. The amount KShs 1,601,754 has not been depreciated during the year and will form part of the cost in the Assets schedule during next year when the projects are expected to be completed and operational.

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS & LOANS

Project	% Held KShs	Equity Investment KShs	Commercial Fund		2007 KShs	2006 KShs
			Principal Loan KShs			
(i) Subsidiaries						
Meru Mulika Lodge Ltd	97.70	5,653,740	1,940,251		7,593,991	7,579,279
Kenya Safari Lodges & Hotels Ltd	63.40	6,407,553	76,268,214		82,675,767	63,400,241
Bomas of Kenya Ltd	100.00	5,080,000	11,058,239		16,138,239	16,138,239
Mt.Elgon Lodge Ltd	72.90	1,345,780	1,596,371		2,942,151	2,942,151
Sunset Hotel Ltd	95.40	11,450,000	26,533,893		37,983,893	34,925,979
KTDC Utalii Investments Ltd	100.00	2,000,000	-		2,000,000	2,000,000
Kabarnet Hotel Ltd	98.20	5,432,120	16,208,948		21,641,068	21,641,068
Kakamega Hotel Ltd	80.00	4,000,000	8,946,098		12,946,098	14,735,087
African Tours & Hotels Ltd	52.60	4,691,900	6,148,983		10,840,883	10,840,883
Subtotals		46,061,093	148,700,997		194,762,090	174,202,927
(ii) Associates						
Mountain Lodges Ltd	39.70	2,893,520	-		2,893,520	2,893,520
International Hotel (K) Ltd	33.10	119,574,692	-		119,574,692	119,574,692
Kenya Hotel Properties Ltd	33.80	114,189,360	-		114,189,360	114,189,360
Buffalo Springs Ltd	41.00	1,000,000	4,944,310		5,944,310	5,944,310
Subtotals		237,657,572	4,944,310		242,601,882	242,601,882
(iii) Others						
Marsabit Lodge Ltd	-	-	1,514,170		1,514,170	1,499,458
Maralal Safari Lodge Ltd	15.50	802,000	-		802,000	802,000
Mombasa Island Hotel project	-	6,180,471	-		6,180,471	6,180,471
Solar Hotel Ltd	-	-	400,082		400,082	400,082
Kitale Hotel project	-	2,658,534	-		2,658,534	2,658,534
African Tours & Hotels Preference Shares	-	29,100	-		29,100	29,100
Watalii Street Project	-	38,659,077	-		38,659,077	38,659,077
Kithyululu Farm Ltd	-	-	19,508,666		19,508,666	19,508,666
Garden Hotel Co. Ltd-Machakos	-	-	20,505,722		20,505,722	20,505,722
Church Road Development Co. Ltd	-	-	28,387,250		28,387,250	28,387,250
Jacaranda Hotel Ltd	-	-	95,365,143		95,365,143	98,591,755
Cross Culture Craft Ltd	-	-	2,141,934		2,141,934	2,519,856
Metro Enterprises Ltd	-	-	37,785,479		37,785,479	30,000,000
Subtotals		48,329,182	205,608,446		253,937,628	249,741,971
Grand Totals		332,047,847	359,253,753		691,301,600	666,546,780
Revolving Fund Principal Loan (see page 12)					65,034,661	68,846,604
Revolving Fund Interest Arrears (see page 12)					152,379,659	173,985,776
Commercial Fund Interest Arrears(see page 12)					98,714,555	102,434,173
Less: Provision For Bad Debts					1,007,430,475	1,011,813,333
					(263,393,048)	(295,264,841)
TOTAL INVESTMENTS AND LOANS					744,037,427	716,548,492

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS & LOANS (Continued)

The analysis as at 30 June 2007 of the Revolving fund principal and the interest arrears together with Commercial fund interest arrears is as follows;

Project	Revolving Fund Principal Loan KShs	Revolving Fund Interest Arrears KShs	Commercial Fund Interest Arrears KShs	2007 Total KShs	2006 Total KShs
Ikolomani Enterprises Ltd.	-	-	-	-	9,111,520
New Milimani Inn Ltd, Meru	2,010,722	956,061	-	2,966,783	2,966,783
Kokonya Investments Ltd	(61,414)	-	-	(61,414)	-
Diani Tourist Enterprises Ltd	2,585,220	29,820,052	-	32,405,272	32,638,548
Jomima Tours & Travel Ltd	773,515	8,566,707	-	9,340,222	10,069,622
Lake Turkana El-Molo Lodge Ltd	-	-	-	-	20,489,696
Bush Bar Ltd	4,171,945	14,146,018	-	18,317,963	17,805,463
Naivasha Hillpark Ltd	3,267,268	14,568,916	-	17,836,184	17,836,184
Delight Dreamland Hotel Ltd	3,947,125	12,658,775	-	16,605,900	16,581,800
Wajir Tourist Hotel Ltd	3,563,303	8,015,570	-	11,578,873	11,578,873
New Garden Hotel Ltd, Bondo	935,050	41,463	-	976,513	936,875
Mona Lisa Ltd	1,466,273	1,927,574	-	3,393,847	3,393,847
Solar Hotel Ltd	1,856,748	1,704,860	-	3,561,608	3,561,608
Githuku Investments Ltd	6,432,234	9,162,003	-	15,594,237	15,594,237
Kenya Agro Business Ltd	3,003,725	8,386,609	-	11,390,334	11,376,114
Mt Elgon Agencies Ltd	4,020,337	9,046,866	-	13,067,203	11,257,508
Gasden Company Ltd.	3,221,567	11,940,662	-	15,162,229	15,162,229
Narokville Enterprises Ltd	1,966,717	1,082,495	-	3,049,212	3,189,212
Kitui Tourist Hotel Ltd	3,408,808	9,148,965	-	12,557,773	11,113,580
Farmview Hotel Ltd	4,322,952	7,108,969	-	11,431,921	11,581,921
Kendu Bay Country Hotel Ltd	500,000	960,581	-	1,460,581	1,460,581
Maruka Enterprises Ltd.	2,997,242	447,615	-	3,444,857	2,997,242
Mosiara Trading Co. Ltd.	845,341	9,862	-	855,203	926,466
Golf Hotel Ltd., Kakamega	-	-	-	-	174,852
Hotel Big Five Ltd.	8,460,460	2,599,052	-	11,059,512	9,510,119
Malindi Hadicraft Co-op. Ltd.	1,339,523	79,984	-	1,419,507	1,517,500
African Tours & Hotels Ltd	-	-	-	-	4,972,608
Solar Hotel Ltd	-	-	4,062,538	4,062,538	4,062,538
Kithyululu Farm Ltd	-	-	27,700,561	27,700,561	27,700,561
Garden Hotel Co. Ltd, Machakos	-	-	20,925,938	20,925,938	20,925,938
Church Road Development Co. Ltd	-	-	33,043,960	33,043,960	37,043,960
Golf Hotel Ltd, Kakamega	-	-	-	-	653,650
Sunset Hotel Ltd, Kisumu	-	-	477,488	477,488	1,659,358
Jacaranda Hotel (Msa) Ltd	-	-	2,708,371	2,708,371	-
Kenya Safari Lodges & Hotels	-	-	5,429,552	5,429,552	157,639
Metro Enterprises Ltd.	-	-	1,434,740	1,434,740	5,257,921
Kabarnet Hotel Ltd	-	-	1,520,511	1,520,511	-
Bomas Of Kenya Ltd	-	-	1,037,341	1,037,341	-
Mt Elgon Lodge Ltd	-	-	149,752	149,752	-
Cross Culture Craft Ltd	-	-	223,803	223,803	-
TOTALS	65,034,661	152,379,659	98,714,555	316,128,875	345,266,553

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007 KShs	2006 KShs
4. DEBTORS AND PREPAYMENTS		
These Comprise:		
Debtors (Note (a) below)	138,852,704	145,639,650
Deposit and Prepayments	41,270	344,656
	138,893,974	145,984,306
Less: Provision For Bad Debts	(48,053,906)	(31,250,386)
	<u>90,840,068</u>	<u>114,733,920</u>
Note (a) Debtors comprise of:		
Tenants debtors	19,681,425	19,147,637
Unit debtors	60,051,991	59,882,288
Ex-Tenants debtors	50,391,675	50,626,675
Staff debtors	3,924,665	11,169,702
Ex-Staff debtors	4,750,541	4,750,541
Other debtors	52,407	62,807
	<u>138,852,704</u>	<u>145,639,650</u>
Staff debtors relate to amounts owed by staff members in form of car loans, car overhaul loans, salary advances and travel imprests. These are less compared to what was reported in the previous year mainly due to recoveries from payroll and from benefits and also the approved write off of former employees' debts per note 11.		
5. CASH AND CASH EQUIVALENTS		
These are:		
Cash at Bank and in Hand	11,956,685	3,999,569
Fixed Deposits	51,569,761	141,973,860
Treasury Bills	120,744,022	17,100,000
	184,270,468	163,073,429
Less: Provision For Bad Debt-Deposit in Euro Bank Ltd	(51,569,761)	(51,569,761)
	<u>132,700,707</u>	<u>111,503,668</u>
For the purpose of Cash Flow Statement, the year end Cash and Cash equivalents shown above have been offset and reduced, where applicable, by Bank Overdraft. During the year Loans amounting to KShs. 3.72 million were disbursed causing a slight reduction in Cash. The reduction was compensated by the interest earned of KShs. 6.41 million and the principal loans recovered KShs. 6.47 million and interest recovered KShs. 23.84 million during the year. The reduction was further affected by the financing of expenses from ordinary activities.		
6. GENERAL FUND		
This Comprises:		
a) GENERAL FUND CAPITALIZED		
Invested in equity portfolio	4,741,000	4,741,000
Invested in commercial advances	2,000,000	2,000,000
	6,741,000	6,741,000
Surplus on revaluation	13,765,020	13,765,020
	<u>20,506,020</u>	<u>20,506,020</u>
b) CAPITAL RESERVE		
Surplus on revaluation of Utalii House	356,050,606	352,315,809
Deferred Tax (Note 21)	3,734,797	3,734,797
	<u>359,785,403</u>	<u>356,050,606</u>
c) RETAINED EARNINGS		
Balance brought forward	703,422,384	700,112,625
<u>Prior period adjustment</u>		
Payment of Rates on Moi Avenue Plot	(3,141,639)	-
Taxes paid for prior period	-	(3,725,631)
Restated balance	700,280,745	696,386,994
Retained Earnings/(Loss) for the year	5,242,264	7,035,390
Retained Earnings/(Loss) Carried Forward	705,523,009	703,422,384
TOTAL GENERAL FUND	<u>1,085,814,432</u>	<u>1,079,979,010</u>



KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. GENERAL FUND-(continuation)

The payment of Rates during the year referred to previous periods and was made to the City Council of Nairobi. This is in respect to the Corporation's Plot along Moi Avenue in Nairobi and the amount paid KShs 3,141,639 was charged to Retained Earnings.

No provision for Corporation Tax for this financial year as any tax payable will be offset against the losses made in the years 2001/2002 and 2002/2003 in the Income Tax Return forms. Withholding tax paid during current year of KShs. 956,363 was on Bank Deposit interest (2006- Kshs.964,888)

The tax paid during the previous year of Ksh 3,725,631 was in relation to the request by Kenya Revenue Authority (KRA) to enable them resubmit our appeal for the waiver of 50% balance for the penalties and interest for the years 1993 to 1999. This payment was charged to Retained Earnings then as it did not relate to that year.

7. RESTRUCTURING RESERVE

	2007 KShs	2006 KShs
Revolving Fund Programme	27,005,775	27,005,775
Commercial Fund Programme	109,315,303	109,315,303
	136,321,078	136,321,078
Less: Deferred Loans' Interests	(47,740,236)	(47,740,236)
	88,580,842	88,580,842

The Revolving and Commercial Loans' Restructuring Reserve fund was provided out of profits to cover possible losses on loans and Investments.

Restructuring in subsidiary companies resulted in deferment of outstanding loans interests which were then separated from the loans to retain them at principal loan balances. The subsequent interest charges on these loans were suspended.

The deferred interest before the suspension of the interest so far forms the possible loss on these loans and has been offset from the Reserve as shown above..

The February 1991 Investment Guidelines provided for the restructuring of the subsidiary companies through the above referred Capital Restructuring Reserve.

8. LONG TERM LOAN

The Corporation had Loan due to Catering Levy Trustees that was given to the corporation to assist in the construction of hotels in 1984 at an interest rate of 12% p.a.repayable in thirty two quarterly instalments.

The loan was later rescheduled in 1991 and was for 15 years at an interest rate of 12% p.a. effective 1st July 1991. This was fully repaid during the last year 2005/2006.

The current maturity balance for this loan last year was made up of the following:

	2007 KShs	2006 KShs
Outstanding Current Maturity on 01 July	-	2,028,499
Current maturity due for next year	-	2,028,499
	-	(2,028,499)
	-	-

Less: Current maturity repaid during the year:

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. CREDITORS AND PROVISIONS

	2007 KShs	2006 KShs
These Comprise:		
(a) Creditors (Note (a) below)	78,443,944	69,123,440
(b) Provisions:		
(i) Gratuity for Employees on Contract Terms	618,559	3,313,363
(ii) Employees Leave and Off days Benefits	434,280	1,011,191
(iii) Flexi Treasury Bills Interest accrual	-	145,835
	79,496,783	73,593,829

Note (a) creditors comprise of:

Creditors for Accrued Expenses	9,893,099	7,805,254
Pension Arrears	1,511,371	3,511,371
KTDC Utalii Investment	23,837,580	23,171,461
GOK Revolving Loan Interest arrears	16,320,000	12,240,000
Payroll recoveries	8,672,226	7,780,686
VAT	7,321,897	6,806,966
Unit booking deposit	850,515	914,795
Audit Fees	1,456,000	1,750,000
Tenants for rent deposit and payment in advance	6,312,435	5,038,116
Ex- staff and current staff	2,268,821	104,791
	78,443,944	69,123,440

Creditors

Creditors include, among others, creditors for expenses, amount received from KTDC Utalii Investments ahead of its formal winding up to set up KTDC Staff Housing scheme, GOK Revolving loan interest accrued for four years to 30 June 2007 and Tenants who had paid in advance as at 30 June 2007.

Gratuity for employees on contract

Employees entitlements to gratuity are recognised when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

Employees Leave and Off days Benefits

This refers to monetary liability for employee's accrued annual leave and off days at the balance sheet date.

Flexi Treasury Bills Interest Accrual

Flexi Treasury Bills investment for 2005/2006 indicated in note 5 had been stated after accrual of interest upto maturity date on 28 August 2006. Interest accrued upto 30 June 2006 had been included in the Profit & Loss account for that year.

However, interest to be earned from balance date to maturity date was held under creditors as at 30 June 2006 to be realized to income in the year 2006/2007. But interest for current year has been calculated and included only upto 30 June 2007 and no portion of interest is held under creditors as at this date.

10. OFFICE EXPENSES

	2007 KShs	2006 KShs
These Comprise:		
Publicity and Advertising	1,120,301 -	3,478,130
Printing and Stationery	810,951 -	756,492
Telephone and Postages	1,745,530 -	1,046,461
Subscriptions and Donations	592,673 -	429,907
General Office Expenses	783,310	627,287
Repairs and Maintenance of Office Equipment	367,137 -	496,131
Insurances of Office Equipment	85,900	68,746
Ask Shows	63,450 -	329,329
	5,569,252	7,232,483

11. BAD DEBTS WRITTEN OFF

Two employees Tom Maigo and Anita Kotut who were under KTDC Staff Medical Scheme, passed away in 2005/2006 and 2006/2007 respectively. The Board sitting on 7th December 2006 approved management recommendation to write off on ex-gratia basis the excess bills, net of benefits, of KShs 1,753,768 as shown below compared to last year's KShs. 109,220.

	2007 KShs	2006 KShs
Retired employee A. Mbuvi's Late Wife	-	109,220
Tom Maigo	155,412	-
Anita Kotut	1,598,356	-
	1,753,768	109,220

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. BAD DEBTS PROVISION

	2007 KShs	2006 KShs
(a) Revolving Fund Loans		
(i) Diani Enterprises Ltd.	(233,276)	(233,276)
(ii) Jomima Tours & Travels Ltd	(729,400)	-
(iii) Delight Dreamland Hotel Ltd	24,100	-
(iv) Githuku Investments Ltd.	-	(11,750)
(v) Narokville Enterprises Ltd.	(140,000)	(220,000)
(vi) Kenya Agro Business Ltd	14,220	-
(vii) Mt. Elgon Agencies Ltd.	1,809,695	1,479,419
(viii) Kitui Tourist Hotel Ltd.	1,444,193	1,271,643
(ix) Solar Hotel Ltd.	-	895,019
(x) Bush Bar Ltd.	512,500	24,840
(xi) Gasden Company Ltd.	-	75,380
Sub Total on Revolving Loans	2,702,032	3,281,275
(b) Former Tenants		
(i) Barkam Agencies(Parking)	-	105,485
(ii) Central Management Services(Parking)	-	185,850
(iii) Diatom Properties(Parking)	-	53,215
(iv) Silicon Bazaar(Parking)	-	66,862
(v) Transimex International(Parking)	-	191,160
(vi) Texcal Service Station(Shop)	-	307,352
(vii) Peacock Beauty Salon(Shop)	-	606,616
(viii) Shree Rajal Grains(Office)	-	166,616
(ix) Scientific Media Services(Office)	-	386,490
(x) Integrated Management Resources(Office)	-	1,126,278
(xi) Mucchekehu & Company(Parking)	-	41,760
(xii) Wabari Fisheries(Shop)	-	94,693
(xiii) Australian Unitech(Shop)	-	317,612
(xiv) Fredrick Tantuo(Lavington House)	-	350,000
(xv) A.S. Haile(Parking)	-	121,998
(xvi) Aka Europ(Parking)	-	4,246
(xvii) Technical Systems International(Office)	-	1,572,698
(xviii) UNDP(Parking)	-	104,770
(xix) Njeri Kimingi(Parking)	-	20,700
(xx) Peter Andere(Parking)	-	573,480
(xxi) Simeon Shitemi(Parking)	-	94,865
(xxii) Dalago Tours & Travels(Parking)	-	10,620
(xxiii) Silicon Bazaar(Office)	-	380,120
(xxiv) Special Olympics(Office)	-	502,623
(xxv) Novartis Pharmacy(Parking)	-	105,197
(xxvi) Nairobi Kenya(Parking)	-	47,189
(xxvii) Linea Quattro (Office)	751,412	-
(xxviii) Kimble Securical (Office)	462,288	-
(xxix) Kimble Securical (Parking)	172,560	-
(xxx) Thabiti Insurance (Office)	3,670,099	-
(xxxi) Carene International (Office)	1,192,347	-
(xxxii) Triple M. Enterprises (Office & Parking)	1,197,412	-
(xxxiii) Kenya Blooms (Shop)	1,140,630	-
(xxxiv) Barkam Agencies (Office)	411,985	-
(xxxv) Overall Security (Office)	969,055	-
(xxxvi) Central Management Services(Office)	2,232,247	-
(xxxvii) Abdilahi Warsame (Office)	299,235	-
(xxxviii) Transimex International (Office)	386,880	-
(xxxix) Kenjam Caterers (Cafeteria)	652,420	-
(xl) Everma Styleup (Parking)	63,720	-
(xli) Ministry of Public Works (Office)	91,456	-
(xlii) Ministry of Public Works (Parking)	57,669	-
(xliii) Ministry of Public Works (Lavington H/se)	410,000	-
(xliv) Thabiti Insurance (Parking)	147,370	-
(xlv) Handman Kenya Ltd (Office)	309,673	-
(xlvi) Official Receiver-AT&H Ltd (Office & Parking)	565,216	-
(xlvii) John Gikandi (Office)	269,846	-
(xlviii) Jada Africa (Restaurant)	1,350,000	-
Sub Total on Former Tenants	16,803,520	7,538,495
Grand Total of Provisions (written back)/made	19,505,552	10,819,770

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. BAD DEBTS PROVISION - (continuation)**

The Corporation continued with its recovery strategy during the current year and this saw a few of non-performing Loans making a positive change in their loan repayments. These recoveries were written back during the year. But these write backs were offset by disbursements made affecting a number of the loans and then resulted into a net provision of Ksh. 2,702,032 as opposed to last year's Ksh 3,281,275 .

As reported in last year's Financial statements the Corporation continued to pursue the recovery of the current debts including the Euro Bank Ltd (in liquidation) Fixed Deposit of Ksh. 61,692,978(including interest).However no recovery from Euro Bank was realized during the current year(2006-KShs.Nil). As at 30 June 2007 the Liquidating Agent had not paid off the Depositors who included the Corporation.

A further provision was made for Ksh. 16,803,520 to cover possible losses on debts from Ex-tenants for Utalii & Lavington Houses.Total provision KSh.19,505,552 has been made during the current year as opposed to last year's KShs. 10,819,770.

13. INTEREST EXPENSE

This refers to the amount incurred and paid on borrowings by the Corporation as shown below:

	2007	2006
	<u>KShs</u>	<u>KShs</u>
Redeemable CLT Loan Interest	-	61,721
Irredeemable GOK Revolving Fund Loan Interest	4,080,000	4,080,000
	<u>4,080,000</u>	<u>4,141,721</u>
KCB Bank Overdraft Interest	95,903	166,762
	<u>4,175,903</u>	<u>4,308,483</u>

14. DIVIDEND INCOME

This refers to dividends declared/recommended which were accrued having been earned from shares held in the following Companies.

	2007	2006
	<u>KShs</u>	<u>KShs</u>
Mountain Lodges Ltd.		
- for year ending 31st December 2006	1,220,312	915,234
- interim for year ending 31st December 2007	1,525,390	-
Kenya Hotel Properties Ltd		
- for year ending 31st December 2005	-	10,149,270
	<u>2,745,702</u>	<u>11,064,504</u>

The dividends are recorded as gross. This is since the Corporation is automatically exempted from withholding tax on dividends received under the provisions of the Income Tax Act as it holds more than 12.5% shareholding in both companies separately.

15. BANK DEPOSIT INTEREST INCOME

This is interest earned during the year from Fixed Deposit accounts & Flexi Treasury Bills held by the Corporation at Kenya Commercial Bank Ltd and at the Kenya Commercial Bank.The interest rates for the current year were relatively the same as with last year on average.

However,there was an overall increase in Deposit Funds as at the year end resulting from the Corporation's policy of reinvesting the already earned interest(see note 5).

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. OTHER INCOME

	2007 <u>KShs</u>	2006 <u>KShs</u>
Personnel Loans Interest	319,710	281,163
Msafiri Inns Commission	3,214	22,156
Directors Fees	120,750	251,525
Application Fees	42,000	64,000
Appraisal Fees	-	295,000
USICO Ltd Loan Interest	86,938	86,938
Other Income	19,287,530	459,262
	<u>19,860,142</u>	<u>1,460,044</u>

The corporation didn't receive Appraisal fees from applicants for Commercial and Revolving Loan programmes. However, there were Director fees and Loan Application fees receivable during the year which were less than was reported the previous year.

Other Income KShs 19,287,530 relate to Miscellaneous Income (Shs 440,497), Gain on Sale of two Cars (Shs 502,500), Loan recoveries after write offs (Shs 929,530 and Gain on Loans Restructured approved by Board on 7 December 2006 (Shs 17,415,003).

17. LEGAL AND CONSULTANCY FEES

	2007 <u>KShs</u>	2006 <u>KShs</u>
Legal fees	1,831,288	834,533
Consultancy fees	-	25,000
Auctioneers Fees	421,838	-
Valuation Fees	32,745	-
	<u>2,285,871</u>	<u>859,533</u>

Legal Fees

The Corporation involved its legal section to deal with most of its legal issues and contracted Lawyers' fees especially on Tenants and Loans were to be recovered from the clients. Legal fees were only expensed in exceptional cases where it was considered impossible to recover from the client or debtor.

For current year, these legal costs mainly related to ex-tenants in the recovery efforts..

Consultancy Fees

During the previous year, the Corporation contracted a Building Consultant for the proposed Corporation assisted Road side convenience sites. The amount paid during that year of KShs. 25,000 was on the Artist impression of the necessary facilities to be erected on such sites. No Consultancy agreement was entered into during current year.

Auctioneers Fees

Auctioneers fees were paid in respect of distress for Rent for Tenants at Utalii House. Proceeds from auction sale of Tenants' property were credited to the Tenants Debtors accounts.

Valuation Fees

Valuation Fees were paid to Gimco Ltd for valuation of Naivasha Hillpark Motel property. This amount was expensed as this non-performing loan already has a Board approval for write off of balance against the specific provision.

18. RETIREMENT BENEFIT OBLIGATION

The company operates a defined contribution staff retirement benefits scheme for its employees who are on permanent & Pensionable terms. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions (Employer 15% and Employee 5%). The company's contributions to the scheme are charged to profit and loss account in the year in which they relate.

19. CONTINGENT LIABILITY - TAX LIABILITY

As at 30th June 2006, there was a contingent liability resulting from penalties and interest on outstanding tax for the years 1993 to 1999 charged by the Kenya Revenue Authority. The Corporation has been in negotiations for a 100% waiver with the Kenya Revenue Authority (KRA).

The Minister of Finance through a letter dated 21st January 2005, granted the Corporation a 50% Tax waiver. Negotiations for waiver of the balance 50% are on-going and were not through as at 30 June 2007.

On 10 August 2005, KRA wrote a letter to the Corporation advising it to pay KShs 3,725,631 which is about 30% of total section 72(D) penalties less 50% waiver already granted to enable KRA facilitate a resubmission of the case to the Minister of Finance. The payment has been done. The Corporation is now waiting for the response.

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. NUMBER OF EMPLOYEES

The number of employees as at 30th June of each comparative financial year are as follows:

	<u>2007</u>	<u>2006</u>
Beginning of the year	67	81
Less: Death in service	-	(1)
resignation	(2)	(1)
retirement	(5)	(6)
contract not renewed	-	(4)
termination	(1)	(5)
Add: recruitment	1	3
End of the year	<u>60</u>	<u>67</u>

21. TAXATION

The Corporation had not been recognising the deferred Tax in its books which is against the IAS 12 (International Accounting standard 12). The corporation opted to comply with this as from 2004/2005 year. To do this any prior year adjustments were done in that financial year through Retained Earnings account and the Deferred Tax account. The workings for current financial year resulted to a taxable loss of kshs 7,604,604 as compared to last year's KShs. 4,811,541.

The computations of the Deferred Tax is as below:

	<u>2007</u> <u>KShs</u>	<u>2006</u> <u>KShs</u>
The net deferred tax liability is made up of:		
Accelerated Capital Allowance	(765,123)	(846,394)
Tax Losses	(46,457,736)	(51,444,121)
Provision for terminal dues	(4,610,851)	(6,166,285)
Provision for gratuity	(185,568)	(303,357)
Provision for leave pay	(130,284)	(994,009)
Revaluation Surplus	138,187,472	141,922,269
	<u>86,037,910</u>	<u>82,168,103</u>

	<u>2007</u> <u>KShs</u>	<u>2006</u> <u>KShs</u>
Deferred tax	7,604,604	4,811,541
	<u>7,604,604</u>	<u>4,811,541</u>

There is no current tax charge due to accumulated tax losses.

Reconciliation of expected tax based on accounting loss to tax charge.

	<u>2007</u> <u>Kshs.</u>	<u>2006</u> <u>Kshs.</u>
Accounting profit/(loss) before taxation	13,803,231	12,811,819
Tax at applicable rate (30%)	4,140,969	3,843,546
Expenses not subject to tax(Ineligible depreciation)	4,287,346	4,287,346
Income not subject to tax(Dividend income)	(823,711)	(3,319,351)
	<u>7,604,604</u>	<u>4,811,541</u>

Movement in deferred tax account

	<u>2007</u> <u>Kshs.</u>	<u>2006</u> <u>Kshs.</u>
Balance b/f	82,168,103	81,091,359
Revaluation surplus	(3,734,797)	(3,734,797)
Charge to Income Statement	7,604,604	4,811,541
Closing balance	<u>86,037,910</u>	<u>82,168,103</u>

KENYA TOURIST DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. PERSONNEL COSTS

The analysis of the various items forming the personnel costs are shown below:

	2007 KShs	2006 KShs
Salaries and Wages	27,287,662	31,016,393
House allowance	10,466,254	12,056,049
Employer's pension contribution	3,004,715	2,659,684
Employers NSSF contribution	151,600	177,000
Medical aid and Surgical scheme	4,429,346	4,703,201
Staff recruitment	233,084	131,544
Staff Training	480,090	318,630
Staff gratuity	424,437	1,588,611
Leave and off days provision	2,003,806	2,438,393
Staff uniforms and uniforms cleaning	91,592	26,822
Terminal benefits	1,573,179	5,003,798
Staff welfare	618,565	283,446
Staff insurance cover	977,188	1,046,669
Commuting allowance	3,559,497	4,106,378
Staff telephone allowance	1,131,115	645,378
Staff security allowance	-	418,000
	56,442,130	66,619,996

23. G.O.K. GRANT

The treatment of GOK Grant is as provided under the International Accounting Standard No. 20 which provides for recognition of costs or expenses related to a Government Grant as income in the same period as the relevant expense/disbursements.

During the year 2004/2005, the Government of Kenya through the Ministry of Tourism and Wildlife gave the Corporation a grant of KShs. 7,500,000 under the Revolving Fund Programme.

The amount was going to be utilized towards the Beach Operators Relocation Programme.

Out of this grant, KShs. 527,800 was spent in buying five tents which were erected along the Public Beaches in Mombasa and KShs.425 was incurred as Bank Charges as at 30th June 2005.

The balance KShs. 6,971,775 was held under creditors and in Bank Current account as at 30th June 2005.

During the last financial year 2005/2006, KShs. 1,500,000 was disbursed out of the grant as a Revolving Fund loan to Malindi Handicraft Cooperative Society Ltd. This disbursement together with the cost of the Tents KShs. 527,800 totalled to KShs. 2,027,800 which was realized from the Fund and credited to Income during that year. The cost of the Tents KShs. 527,800 together with the Bank charges upto 30 June 2005 KShs. 425 and for July 2005 KShs. 50 all which totalled to KShs. 528,275 were also included in the Profit and Loss account as an expense during the 2005/2006 year.

The balance of the grant after the above realization came to KShs. 5,472,200 (i.e. KShs. 7,500,000 less KShs. 2,027,800) and is now shown as Government Grant(GOK Grant) in the Balance Sheet and its Cash equivalent is in Treasury Bills at KShs. 5,850,000 as at 30th June 2007.

No Project Benefited from these Grant Funds during the Current Financial Year 2006/2007.