

REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY PARLIAMENT BUILDING NAIROBI	
DATE: 23 NOV 2022	DAY: Tuesday
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CLERK OF THE TABLE:	Moses Lemuna

PARLIAMENT
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OF

THE AUDITOR-GENERAL

ON

TOURISM FINANCE CORPORATION

FOR THE YEAR ENDED
30 JUNE, 2021

OFFICE OF THE AUDITOR GENERAL
P.O. Box 30084 - 00100, NAIROBI
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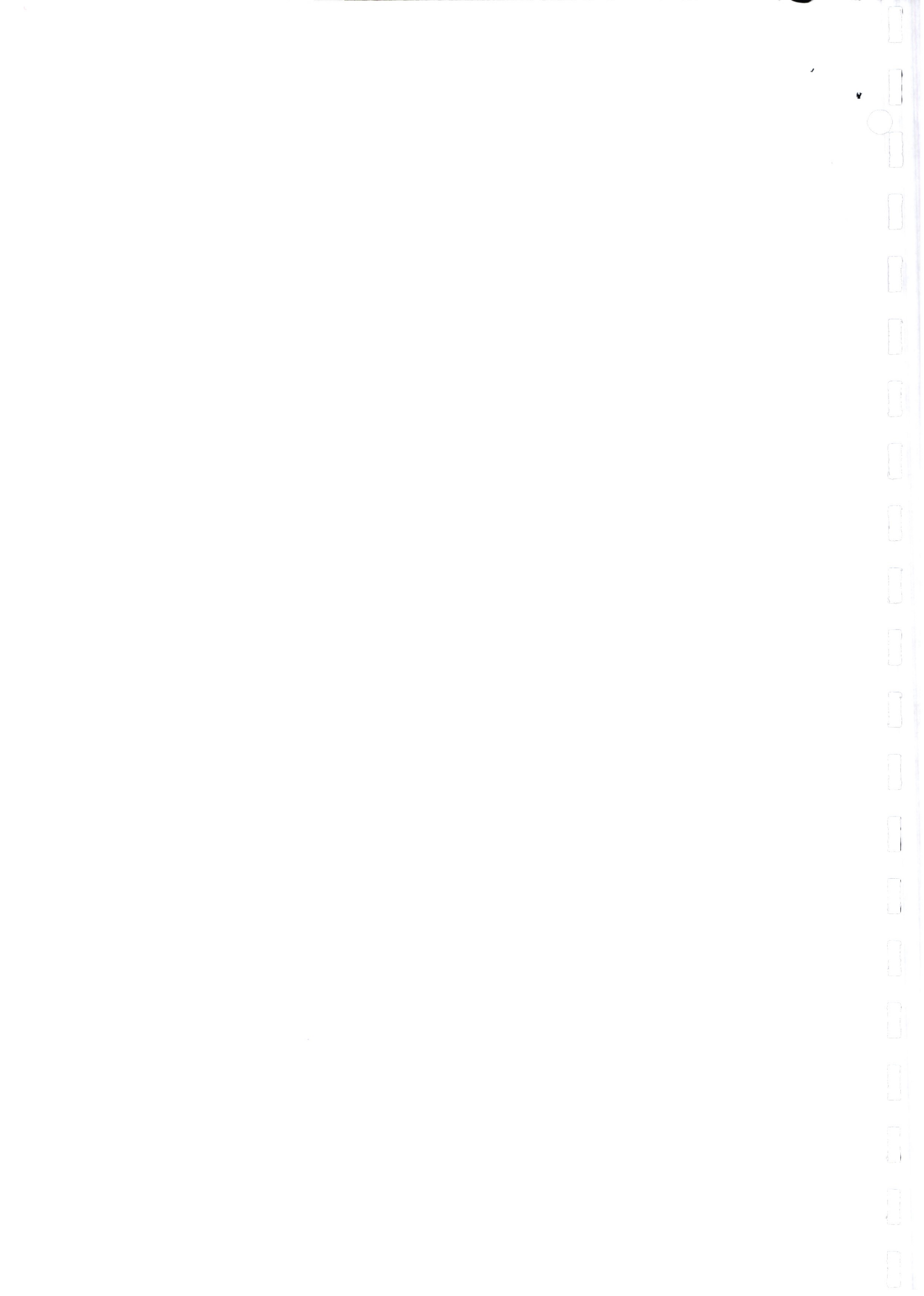
TOURISM FINANCE CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED

30th JUNE 2021

 THE NATIONAL ASSEMBLY P.O. BOX 55158 NAIROBI	
DATE: 23 NOV 2022	
DAY: Tuesday	
TABLED BY:	Lom
CLERK-AT THE TABLE:	Moses Lemuna

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



**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

TABLE OF CONTENTS

	<u>Page</u>
1. Key Corporate Information	ii-iii
2. Board of Directors	iv-xii
3. Management Team	xiii-xv
4. Chairman's Statement	xvi-xviii
5. Report of the Managing Director	xix-xx
6. Review of Tourism Finance Corporation's performance for 2020/2021 FY	xxi-xxiv
7. Corporate Governance Statement	xxv-xxxvii
8. Management discussion and Analysis	xxxviii-xxxix
9. Corporate Social Responsibility Statement	xl-vli
10. Report of The Directors	xlii-xliii
11. Statement of Directors' Responsibilities	xliv
12. Report of the Auditor General	xlv
13. Statement of Profit and Loss and other Comprehensive Income	1
14. Statement of Financial Position as at 30 th June 2021	2
15. Statement of Changes in Equity for the year ended 30 June 2021	3
16. Statement of Cash Flows for the year ended 30 June 2021	4
17. Statement of Comparison of Budget and Actual amounts	5 -7
18. Notes to the Financial Statements	8 - 50
Appendix 1: Progress on follow up on Auditor recommendations	51- 57

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

1. KEY CORPORATE INFORMATION

The main Corporate information of the Corporation is as follows;

BACKGROUND INFORMATION

The Corporation derives its operating mandate from section 75(1) of the Tourism Act No. 28 of 2011 which commenced on 1st of September 2012 and which replaced the KTDC Act Cap. 382. At cabinet level, the Corporation is represented by the Cabinet Secretary Ministry of Tourism who is responsible for the general policy and strategic direction of the Corporation.

However, following the Vesting Order contained in Legal Notice No. 113 dated 2nd of July 2021 TFC's assets and liabilities were transferred to Kenya Development Corporation Ltd (KDC). This is after the final execution of the Merger process that finally culminated into Tourism Finance Corporation (TFC), Industrial and Commercial Development Corporation (ICDC) and IDB Capital being merged together to form KDC. KDC is a 100% owned entity by The Government of Kenya.

PRINCIPAL ACTIVITY

The principal activity of the Corporation is to facilitate and finance development of tourism and tourism related facilities through advancement of Loans.

BOARD OF DIRECTORS

The current board members were appointed vide Kenya Gazette Notice No. 4361 While the non-executive chairman was appointed vide Kenya Gazette Notice No. 308, both Notices being dated 3rd of May, 2019. However, by a Kenya Gazette Notice No. 5463 dated 7th of August 2020 the appointments of two directors were revoked. The same Notice appointed two new directors in place of the revoked ones.

The appointed Board of Directors are listed in the Report of the Directors.

CORPORATION SECRETARY

The services of the Corporation Secretary are conducted in house by the Head of Legal Services and Corporation Secretary.

REGISTERED OFFICE

Utalii House,
Uhuru Highway,
P.O Box 42013,
NAIROBI, KENYA.
Telephone: +254 20 311474
Email: info@tourismfinance.go.ke

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

INDEPENDENT AUDITORS

The Auditor General,
Office of The Auditor General,
Anniversary Towers, University way,
P.O Box 30084-00100,
NAIROBI, KENYA.

CORPORATE BANKERS

Kenya Commercial Bank Limited,
University Way,
P.O Box 7206,
NAIROBI, KENYA.

PRINCIPAL LEGAL ADVISER

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

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

2. THE BOARD OF DIRECTORS



**RICHARD LANGAT
CHAIRMAN**

Mr. Richard Langat, Chairman of the Board of Directors of Tourism Finance Corporation is a highly skilled finance professional with solid grounding on matters audit, accounting, financial management, business processes and systems.

He is a holder of a Bachelor of Science Degree in International Business Administration (Finance) from the United States International University, is a registered Certified Public Accountant of Kenya (CPA-K) and a member of Institute of Certified Public Accountants of Kenya (ICPAK)

Mr. Langat has a wealth of experience in leadership and management particularly in the NGO sector where he has been instrumental in safeguarding donor funds across different projects in Ethiopia, DRC, Palestinian Territories, Sierra Leone, Jordan, South Sudan, Sudan, Central Africa Republic as well as Kenya.

He was appointed non-executive Chairman on 3rd May, 2019.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**



**HONORABLE SAFINA KWEKWE TSUNGU, CBS,
PRINCIPAL SECRETARY,
STATE DEPARTMENT OF TOURISM**

Hon. Tsungu has served in various organizations and institutions both in civil society and the Public sector. Notably, she served as the Principal Secretary for Gender in the Ministry of Public Service, Youth and Gender (March 2018- January 2020). She worked as the County Executive Committee Member for Trade and Co-operative Development in Kwale County, worked with Action Aid International –Kenya for more than 8 years as a women’s rights coordinator. Hon. Tsungu also served the East African Community as a legislator in the second East African Legislative Assembly (EALA) and chaired the Parliamentary Standing Committee on Agriculture, Tourism and Natural Resources for two and a half years. She pioneered the establishment of the EALA Women’s Parliamentarian’s Forum which she chaired for 5 years. She is a holder of a Master’s degree in International Trade Policy and Trade Law from Lund University, Sweden, and a Bachelor of Commerce degree from The University of Nairobi. She is an Alumni of Alliance Girls High School.



Mr Koech was born on 21st April 1969. He holds an MBA in Strategic Management from Jomo Kenya University of Agriculture and Technology (JKUAT) and B.A Hons, Upper Second from University of Nairobi. He has wealth of experience in Policy and Financial Analysis. Project Management,

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

ABRAHAM KIPKORIR KOECH DIRECTOR, REPRESENTING THE NATIONAL TREASURY (TNT)	Strategic Management, Corporate Governance and Quality Management Systems. He has previously represented the National Treasury as an Alternate Director in the Boards of various State Corporations. He previously worked as AM/ Strategy and Change, Postbank after rising through the ranks. Mr. Koech was appointed to the TFC board in July 2020 following the retirement on 30th June 2020 of Alice Manyala who represented TNT.
FRANKLIN NDII DIRECTOR	Mr. Franklin Mbuba Ndi holds a Master of Business from the University of Free State, is a Certified Public Accountant (CPA-K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Mr. Ndi is a career accountant having worked in various organizations; the most recent being Kenya Utalii College (KUC) where he was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd. He brings a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management & Administration. Mr. Ndi was first appointed to the Corporation's Board of Directors on 2nd

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	October 2015. He was re-appointed as a member of the Board of Directors on 3rd May 2019. Mr. Ndii left the TFC board on 7th August 2020 following the publication of Gazette Notice No. 5463.
 YUNIS SHEIKH DIRECTOR	Mr. Sheikh is an Advocate of the High Court of Kenya and a Partner at Yunis, Oman & Mwiti Advocates. He holds a Bachelor of Laws Degree (LL.B) (Hons.) from the University of Nairobi and a Postgraduate Diploma in Law from the Kenya School of Law. He also holds a Master of Science Degree in Health Systems Management from the Kenya Methodist University, a Bachelor of Medical Science Laboratory Services Degree from the Jomo Kenyatta University of Agriculture & Technology and is certified in Monitoring and Evaluation, Strategic Management, and Applied Research. He has more than ten (10) years of professional experience mostly as a Senior Manager/ Director in private and non-profit organizations in Kenya. He has previously worked as the Country Director of Rural Heart Kenya where he oversaw financial and grant management, managed human resources, represented the agency in their dealings with donors, government, community and other stakeholders. He also previously worked as the Secretary for Wajir West Constituency Development Fund (CDF)

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	Committee he managed multi-sector programs, supervised the CDF committee members and acted as a legal and technical advisor to the committee. Mr. Sheikh is also actively involved in specific advocacy and lobbying of decision makers and continues to actively advocate and lobby at all levels for inclusion of marginalized groups into the local policy and is passionate about advocating for policy changes that can improve the livelihoods of Kenyans. He was appointed as a member of the Board of Directors on 3rd May 2019.
 FRIDAH NJERU DIRECTOR	Ms. Njeru is an Entrepreneur & Hospitality Professional with over ten (10) years' experience in the Hospitality industry during which period she was in charge of executing sales and marketing strategies to maximize the profitability of the hotels she worked for. Ms. Njeru has a track record of building and supporting key client relationships and driving sales revenue of some of the biggest city hotels, park lodges and beach properties in the country. She is currently the Managing Director of Kilimani Bakeries Ltd; one of the top bakeries in Nairobi, where she oversees the daily operations, distribution, delivery and the business development of the bakery. She is dedicated to professionalism and customer service and takes pride in providing a culture

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	of collaboration that is based on mutual respect and building long-term, trusting relationships. She was appointed as a member of the Board of Directors on 3rd May 2019.
 STEPHEN KINUTHIA DIRECTOR	Stephen N. Kinuthia is a Procurement and Supply Chain Professional. He holds a MBA in Procurement and Supply Chain Management from CEGOS Business School Paris France, Masters in Science Strategy and Management of International Business, and Diploma from Essec Business School in Stock Management from AFGD Paris. He has more than sixteen (16) years of extensive experiences in Procurement and Supply Chain, ICT and Asset Management and vast knowledge in humanitarian operations since 1992 both with the WHO/WHE, Medecins Sans Frontieres (MSF), Epiconcept, UN/WFP. Mr. Kinuthia is a also a Marketing and Communication Consultant. He is also a Director of Huria International & Investment Group Inc, a company registered and headquartered in Paris France, that deals in International investment and business service entity operating in different domains such as: ICT, Telecommunication, Security Equipment, Medical and Paramedical, Clean Energy and Environment, Agriculture equipment and technology, Transport, Construction and Civil Engineering. The

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	company has a branch in Kenya; H2i Group (EA) Limited. He was appointed as a member of the Board of Directors on 3rd May 2019. Mr. Kinuthia left the board on 7th August 2020 following the publication of Gazette Notice No. 5463.
 JUDITH KERICH DIRECTOR	Judith has extensive experience spanning over 23 years in senior leadership roles and has worked with large public, private organizations and multinational organizations. She has had a broad and successful career and has been instrumental in strategic and operational transformations through her expertise in public sector, strategy, business leadership and good governance. Judith has a wide range of board experience having served at board level in various organizations. She holds a Master's Degree in Public Policy and Management and a Master's Degree in Business Administration from Strathmore Business School among other professional certifications. She was appointed to the board on 3rd May 2019.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**



MARK OKEYO ODONGO
DIRECTOR

Mr. Okeyo is an Advocate of the High Court of Kenya with over thirty-one (31) years' experience in the Insurance sector and is a Life Member of the Institute of Certified Secretaries. Mr. Okeyo was previously the Senior Manager, Strategy and Business Development at Kenya Reinsurance Company Limited during which period he led the team and was in charge of the process that privatized Kenya Reinsurance Corporation. He is currently the Managing Partner of Odongo Okeyo & Co. Advocates and a Director at the CDF Board and of Tourism Finance Corporation.

Mr. Okeyo has a track record of service to the country and the local society and was the Lead Legal adviser for the CDF Board on the re-alignment of Act to the Constitution 2010, he chaired and led the CDF Board Management and Parliamentary Committee on the re-drafting of the CDF Act 2013 and has been involved in the water sector since 2004 by providing water to local communities and promoting free environment and consulting for Transparency International on Water Governance issues. Mr. Okeyo also serves as a Board Member of Migori Boys Secondary School and a Patron of Kaolika SDA Church Development and Construction Committee.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	Mr. Okeyo is dedicated to professionalism and Corporate Governance and during his career introduced Corporate Governance in the Insurance sector, has been among the team of consultants that assesses companies on Corporate Governance for the COG Award on behalf of Institute of Certified Secretaries. He has also carried out Civic Education and Governance on run up to the General Elections and has fought corruption consistently; both privately and publicly. Mr. Okeyo was appointed to TFC board on 7th of August 2020 following publication of Gazette Notice No. 5463.
 ANTHONY KINGI DIRECTOR	Mr. Kingi is a professional Language and Cultural Instructor with over twenty-six (26) years' experience in the profession. He has previously worked with the County Council of Kilifi as a Chairman to the Council and as the Councillor of Mtsangoni Ward and as a Director of Kilifi Mariakani Water and Sewerage Company Mr. Kingi is dedicated to public service and during his career has served as a Director and the Coastal Representative for Alliance for Counties against HIV/AIDS and a consultant for Water & Sanitation. Mr. Kingi was appointed to TFC board on 7th of August 2020 following publication of Gazette Notice No. 5463.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

3. MANAGEMENT TEAM



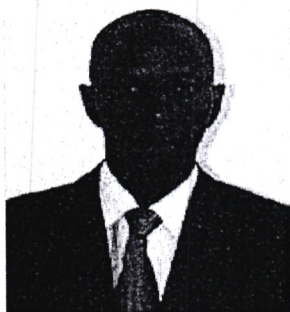
ORUMOI. T. JONAH
Managing Director

Mr. Orumoi holds a Master of Science in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He is a graduate of BA (Hons) in Accounting & Finance of the East London University, UK. He was the Head of Finance & ICT at the Kenya Tourism Board and has previously worked as Finance & Leasing Contracts Manager/ acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.



CAROLYNE MISOI
Head of Human Resources & Administration

Carolyn Misoi has an MBA from the University of Salford (UK), a Bachelor of Arts and a Diploma in PR and Personnel Management. She is a member of the IHRM and KIM. She has 28 years of experience in Human resources and joined TFC in January 2011. She has worked at K.C.A University and National Oil Corporation of Kenya.



DOMINIC NDEWA
Head of Investments

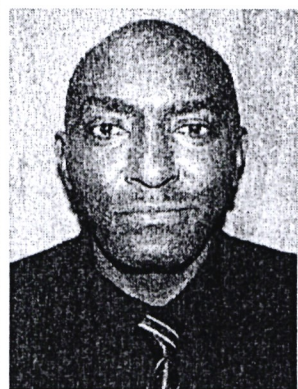
Dominic Ndewa holds a Masters in Economic Policy Management and a Bachelor of Economics. He is a CPA (K), and a Certified Investments and Securities Analyst. Mr. Ndewa joined TFC in December 2010 from the Ministry of Finance (Treasury) where he was a Principal Economist for over 15 years.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**



NORAH RATEMO
Head of Credit

Norah Ratemo holds a MBA Finance option and a Bachelor's degree in Commerce (Accounting). She is a CPA (K) and member of ICPAK and Association of Women Accountants in Kenya. She joined TFC in 2011 having worked in the banking industry in K-Rep and Eco Bank as a Credit Analyst.



JOHN MUKUNA
Ag. Head of Finance

John Mukuna holds a Bachelor's degree in Commerce (Finance Option) from Kenyatta University. He is currently pursuing Master of Science degree in Finance from the same University and also pursuing being finalist in CPA.



JOHN SAITOTI KARIA
Head of Legal Services

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 a Member of 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.

John has previously worked for Kenindia Assurance Co. Ltd and the Lap trust/CPF Group where he was the Legal Services Manager. He joined the Corporation in September 2017.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**



PATRICIA GACHUNGI
Head of Procurement

Patricia Gachungi holds Master's degree in Science (Procurement and Logistics) and also Bachelor degree in Commerce (Business Administration). She also has a Graduate Diploma in Purchasing and Supply.

She is a Member of the Kenya Institute of Supplies Management and also of Chartered Institute of Purchasing and Supply.



EMILY SIMIYU
Head of Audit

Emily Simiyu holds a Master of Business Administration degree (Finance) as well as a Bachelor of Commerce degree (Finance). She is a Certified Information Systems Auditor, a CPA-K finalist, a member of the Institute of Certified Public Accountants of Kenya (ICPAK) as well as being a member of Information Systems Audit and Control Association

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

4. CHAIRMAN'S STATEMENT



World real GDP contracted by 4.2 per cent in 2020 compared to a growth of 2.7 per cent in 2019, a performance that was worse than the 2008/2009 global financial crisis period. The contraction was mainly attributed to slowdown in economic activities due to emergence of the Coronavirus Disease 2019 (COVID-19). There was a significant decline in oil prices, and uncertainty in financial markets after the outbreak of the COVID-19 pandemic. The pandemic caused unprecedented health and economic crisis during the review period, as activities were severely

affected by containment measures instituted to mitigate.

Real GDP in Advanced Economies is estimated to have contracted by 5.8 per cent in the period under review compared to 1.7 per cent growth in 2019. This was due to accelerated collapse in economic activity driven by sharp declines in demand and supply of services.

The global economy is set to expand 5.6 percent in 2021—its strongest post-recession pace in 80 years. This recovery is uneven and largely reflects sharp rebounds in some major economies. In many emerging market and developing economies (EMDEs), obstacles to vaccination continue to weigh on activity. By 2022, last year's per capita income losses will not be fully unwound in about two-thirds of EMDEs. The global outlook remains subject to significant downside risks, including the possibility of additional COVID-19 waves and financial stress amid high EMDE debt levels.

Kenya's economy was adversely affected by the Coronavirus Disease (COVID-19) and the consequent containment measures both domestically and Internationally. These significantly slowed down economic activities in 2020. During the review period, the government's priority was premised on the need to safeguard the lives of Kenyans and Kenyan residents while at the same time cushioning the economy from the effects of COVID-19 pandemic. The COVID-19 global pandemic is expected to have a large medium-term negative impact on the Kenyan economy. IMF estimates indicate that economic growth could slow to 1.0% in 2020 before rebounding to 6.1% in 2021.

It is in this context that I am pleased to report the performance of Tourism Finance Corporation during the financial year 2020/2021. The sector was adversely hit by the COVID -19 pandemic since its operations often depend on close contact between persons. During the period under review, international travels were restricted while domestic travel was negatively impacted on by restriction of movement to and from some counties and zones for some months during the review period. The number of international visitor arrivals declined sharply from 2,035.4 thousand in 2019 to 579.6 thousand in 2020. Most hotels and restaurants on the other hand, either closed or scaled down their operations due to public health measures taken to prevent the spread of the pandemic as well significant reduction in the number of patrons. The number of hotel night beds occupied declined by 58.0 per cent to stand at 3803.0 thousand in 2020 while the total number of conferences reduced from 4,961 in 2019 to 1,204 in 2020. As a result, the real value added for this sector contracted by 47.7 per cent in 2020 compared to 14.3 per cent growth in 2019.

To cushion and mitigate the sector from the adverse effect of Covid-19, the sector has implemented a raft of short-term measures which include; setting up a tourism (COVID-19) crisis recovery task force; developed protocol for management of restaurants and eateries and hotel accommodation. In

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

addition, the Government has; established a KSh 3 billion Stimulus Hotel Refurbishment and Operation Funds as a low-cost long-term credit facility to upgrade dilapidated hotel facilities; provided KSh 2 billion support to the wildlife conservation sector to support rangers and community conservancies.

Operating Environment:

During year under review, the Government in order to mitigate the adverse socio-economic and financial impact of COVID-19 pandemic, the Government instituted fiscal, monetary and financial measures. The fiscal policy measures included; reducing income tax rates for individuals and corporates, lowering turnover tax and Value Added Tax, immediate payment of suppliers and tax refunds, increase in tax relief, and increase in financial transfers to vulnerable groups. In addition, the Central Bank instituted accommodative monetary policy and financial measures, such as; reducing the policy rate, lowering the Cash Reserves Requirements and extended the maximum tenor of Repurchase Agreements from 28 to 91 days, worked with banks and payment services providers to waive charges on mobile money and mobile banking transactions, suspended the listing of defaulting borrowers with Credit Reference Bureaus and asked banks to renegotiate terms and restructure loans for borrowers, who face difficulties in servicing their loans as a result of the pandemic.

The TFC mandate of providing Credit facilities and undertaking strategic investments is premised on the need to generate value, creating jobs and supporting economic growth. Thus, advancing credit facilities to start up enterprises is a sensitive phenomenon to changes in macroeconomic environment and consequently, the challenges in the operating environment directly impact the nascent enterprises within the tourism sector, which is the TFC sector focus.

The year under review, the corporation was still under moratorium on lending and disposal of asset place by the Ministry of Tourism and Wildlife in 21st June 2018. This greatly affected the Corporation's lending function as part of its major mandate. It's also important to note that the Corporation did not receive the exchequer allocation for Financial Year 2020/21 for onward lending. This to a large extent affected the corporation's performance target in terms of reduced loan portfolio and subsequently posed a great challenge in the delivery of its mandate.

Furthermore, the industry faces uncertainty with a significant number of employees at the risk of redundancy, termination or salary change due to loss of business and incomes for these establishments. It is estimated that 81.3 per cent of the tourist establishments have reduced their staff complement while 85.5 per cent have effected pay cuts. Visitor numbers to the protected areas have dropped significantly resulting into a significant 90% drop in revenue leading to loss of jobs/livelihoods for Conservation workers and scaling down of parks operations. The various tourism recovery initiatives by the government in the last five years risk being eroded if timely interventions are not put in place.

The corporation continued implementation of the Government of Kenya Post Covid 19 Economic Stimulus Programme through the Presidential address on 8-Point Economic Stimulus Programme on 23rd May 2020 by injection of Kes.3 billion to the sector through the Tourism Finance Corporation (TFC) aimed at providing Soft Loans to hotels and related establishments to help restore the Tourism sector from COVID-19 Pandemic.

As I present this Financial Statement, I wish to recognize the role played by various entities in realizing the results reported in this Financial Statement FY 2020/21. I take cognizance of the continued commitments of the Corporation's staff to hard work, resilience and team spirit. I appreciate our esteemed customers, the parent Ministry of Tourism and Wildlife, The National Treasury, our business

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

partners, clients and other stakeholders for their support and contributions to the Corporation's success. Finally, I would like to sincerely thank my fellow Board members for their commitment to duty and support they have accorded me.



**MICHAEL NYACHAE,
CHAIRMAN,
KENYA DEVELOPMENT CORPORATION (KDC) BOARD OF DIRECTORS**

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

5. REPORT OF THE MANAGING DIRECTOR



Tourism is one of the major income earners in this country. The sector direct contribution to the economy is estimated to be over 10% of the Country's GDP and 9.2 per cent of the total employment. It also contributes indirectly to other sectors including agriculture, manufacturing, finance, transport, communication, and SMEs. In addition, the sector is regarded to be the 3rd largest contributor to foreign exchange earnings after agriculture (tea, coffee and horticulture) and diaspora remittances. To attain the Vision 2030 aspiration of achieving and sustaining more than 10 per cent economic growth annually, the sector plan to recover from Covid 19 pandemic, increase tourist arrivals and earnings as well as diversifying tourist products and source markets. This will be actualised through implementation of Stimulus Package, National Tourism blue print 2030 and the third medium term plan 2018-2022.

The outbreak of Coronavirus Disease 2019 (COVID-19) in late 2019 resulted in governments across the Globe introducing containment measures which included travel restrictions, social distancing measures, and isolation guidelines. These measures negatively affected all the tourism key performance indicators. During the period under review, international arrivals and domestic departures declined mainly due to travel restrictions put in place to contain the spread of the virus. The Kenyan Government suspended international passenger flights from 25th March to 31st July 2020 to contain the spread of COVID-19 which led to the number of international visitor arrivals declining by 71.5 per cent from 2,035.4 thousand in 2019 to 579.6 thousand in 2020.

Consequently, tourism earnings declined by 43.9 per cent from KSh 163.6 billion in 2019 to KSh 91.7 billion in 2020. Domestic tourism was equally constrained by restriction of movement of persons within Nairobi Metropolitan and Mombasa as well as suppression of most socio-economic activities during the second and third quarter of 2020. During 2020 hotel bed-nights occupancy contracted by 58.0 per cent to 3,803.0 thousand. The number of international and local conferences held declined by 87.0 per cent and 75.2 per cent to 28 and 1,176 respectively, in 2020. The number of visitors to national parks and game reserves declined by 65.1 per cent to 1,037.0 thousand in 2020. Similarly, the number of visitors to museums, snake parks and historical sites declined by 83.8 per cent from 990.2 thousand in 2019 to 160.7 thousand in 2020.

From the strategy perspective, the sector continued implementation of the National Tourism Blueprint 2030 which is the transformational framework for the Kenyan tourism sector. This sector policy-plan has the following key thrusts; (i) In the short term, the sector to focus on fixing and improving existing products and markets that give Kenya a competitive edge particularly beach and safari and re-launching in existing markets; (ii) In the medium term, the sector will focus on product diversification; whereas (iii) In the long term, the sector will focus on sustaining the existing and new products and source markets. The Corporation will continue to focus on tourism growth and sustainability. The

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

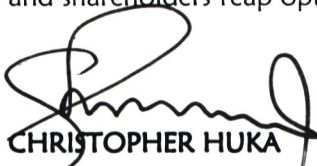
priority areas include Niche product development & diversification. Developmental Financial Institutions have traditionally been the chosen instruments by Governments worldwide to achieve economic growth and create employment. Entrepreneurial development in identified priority sectors have necessitated the creation of mechanisms to facilitate financing of specific sectors that largely contribute to a country's GDP. In Tourism, long term financing is the key issue. Owing to the capital-intensive nature of the industry, the volatility of the demand and most importantly the empowerment of the Kenyan entrepreneur. However, the COVID-19 outbreak has brought the world to a standstill with unparalleled and unforeseen impact in lives, economies, societies and livelihoods and there are growing risks of a global recession and a massive loss of jobs. The key risk areas likely to be impacted in Kenya's economy as a result of the Covid-19 pandemic include economic growth, export revenues, tourism earnings, diaspora remittances, port and transport sector and supply chain disruption.

During the fiscal year 2020-2021, the Corporation realized a profit before tax of Kshs 25.89m compared to a loss of Kshs. 45.16m realized during the previous year representing a year-on-year improvement of 274.47%. This improvement was as a result of KShs 86.402m recurrent grant received from the government to cushion TFC from adverse effects of Covid-19. The Corporation's financial performance was weighed down by non-performance of core revenue streams due to, government directives like the moratorium which was placed on 21st June 2018 stopping further lending and funding new investment as a result of the proposed merger of the corporation to form Kenya Development Bank (KDB), reduced Interest income from loans for lack of lending, borrowers affected by COVID-19 pandemic and not able to meet their debt obligations in time due to low or no business and thus in turn affects the Corporation business.

To cushion and mitigate the sector from the adverse effect of Covid-19, the government established **KSh.3bn** (later revised to KShs 2,204,264,050) Refurbishment Stimulus Package to support regulated tourism enterprises, activities and services through soft loans. The scheme shall provide financial support to these facilities for renovation and restructuring of their business operations in order to make them competitive and adaptive to the new operating environment. As such to support this important sector, TFC will ensure that the soft loans provided will adhere to the Tourism Sustainable Development Goals (SDG's) to ensure sector sustainability for the long term and also Re-opening of the Tourism Establishment and Businesses, Safeguarding of over 1.6 Million Tourism Jobs and Commencement of sector contribution to the economy by payment of taxes and cross contribution to different sectors.

The finalization of Stimulus Package Programme will be done by the Kenya Development Corporation Limited (KDC) which was established through merging three Development Financial Institutions namely, ICDC, IDB Capital and TFC. The merger of the three institutions were finalized and came into effect on the 1st July 2021 and now domiciled at The National Treasury.

I am persuaded that with the support of our dedicated Board Members and Management, the Corporation is capable of delivering the expectation of the industry and to ensure that our investors and shareholders reap optimal return on their investments.



CHRISTOPHER HUKA

INTERIM DIRECTOR GENERAL, KENYA DEVELOPMENT CORPORATION (KDC)

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

6. REVIEW OF TOURISM FINANCE CORPORATION'S PERFORMANCE FOR FY 2020/2021

The Corporation has realigned its strategic direction to be in tandem with the development of tourism industry agenda and carried out an in-depth analysis of the current mandate in respect to the industry dynamics. The strategies being implemented have focused on the growth areas, market forces, emerging technologies, and entrepreneurship trends, internal capabilities and competencies and opportunities for growth for the corporation.

Tourism Finance Corporation has Six (6) strategic pillars and objectives within its strategic plan for the FY 2018/19 - 2022/2023.

These Strategic pillars are as follows:

1. To achieve KES. 2billion annual revenue and maintain 10% return on assets
2. To mobilize a total of KES 6billion for on lending over 5 years;
3. To enhance the corporations brand visibility by 60% and maintain 95% Customer Satisfaction Index
4. To enhance the corporation's socio-economic impact by creating 8000 jobs and supporting 200 entities
5. To achieve 90% of service standards (SLAs), maintain Non Performing Loans, (NPL) of less than 10% in 3 years and 5% in 5 years and sustain a compliance rating of 85%, and
6. To improve employee productivity to KES. 50M in five years and maintain employee engagement (and productivity) at 85% annually.

The Corporation develops its annual workplans based on the above Six (6) pillars. The assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Corporation achieved its performance targets set for the FY 2020/2021 period or its Six(6) Strategic pillars, as indicated in the diagram below:

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Strategic pillar	Objective	Key Performance indicator	Activity	Achievement	
Pillar 1:	To achieve KES. 2billion annual revenue and maintain 10% return on assets	Interest income from loans	Loans applications, processing and dispersal.	38,759,404.00	
		Rental income	Rental collections and recoveries	182,496,598.00	
		Interest on treasury bills and bank deposit interest	Investments in Near cash options	37,214,152.00	
		Miscellaneous income		531,515.00	
		Total	197,085,226.00		
		Development of Watalii Street plot	Ground breaking ceremony for Watalii street project	Expression of interest for Watalii street plot done.	
Pillar 2:	To mobilize a total of KES 6billion for on lending over 5 years	GoK allocations to the institution	Lobbying for funds in government agencies and NGOs. Review the strategic plan.	GoK Allocated Kes.3B stimulus package to the institution which began utilization in the current 2020/21FY. This was later reduced through supplementary budgets and	

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

				received at KShs 2,204,264,050.	
Pillar 3:	To enhance the corporations brand visibility by 60% and maintain 95% Customer Satisfaction Index	Citizen service charter and Resolution of public complaints. Application of service delivery innovation Ease of doing business	Develop citizen service charter and display it prominently in the organization offices. Resolving customer complaints when they arise Reviewing of credit policy. Timely resolution of legal cases on loan defaulters.	Citizen service charter is in place both in English and Swahili. Loan application forms, requirement and online application on the website. Mechanism for public complaints resolution in place Three (3) cases on Alternative Dispute Resolution mechanism	
Pillar 4:	To enhance the corporation's socio-economic impact by creating 8000 jobs and supporting 200 entities	No. of jobs created and retained Business advisory services to the tourism sector provided.	Disburse new loans to the sector. Provide business advisory services to clients.	No jobs were created as no new loans were disbursed due to moratorium placed. However new projects that need international partnering are under review and financial implementation framework were facilitated between the private investors and funders. We expect two projects to be implemented in 2021/22 that will bring jobs in the excess of 2000 in the sector.	

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

		Internships provided	Engage youth interns and attaches	271 potential clients 16 internships and attachments were provided to the youth.	
Pillar 5:	To achieve 90% of service standards (SLAs), maintain Non-Performing Loans, (NPL) of less than 10% in 3 years and 5% in 5 years and sustain a compliance rating of 85%	Non-performing loans portfolio AADFI compliance score rating	Develop service level agreement with service providers Develop internal business process level agreements	Achieved AADFI compliance rating of 83% NPL 64% External & Internal SLAs in place	
Pillar 6:	To improve employee productivity to KES. 50M in five years and maintain employee engagement (and productivity) at 85% annually.	Data and knowledge management Carry out staff needs assessment Performance appraisal. Capacity building	Carry out staff performance appraisal Staff training	Over 70% staff trained on skills development Staff Performance appraisal done.	

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

7. CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which the Corporation is directed and controlled. It also provides the framework for attaining our objectives. The Board of Directors has embraced Governance as the mode of engagement and interaction between the Corporation's Board, Management, Stakeholders and Regulators for the sustainable benefit of the country.

The Corporation continues to operate under tenets of the Constitution of Kenya, and in compliance with the governing law being the Tourism Act 28 of 2011 of the Laws of Kenya. It also complies with the provisions of other statutes such as the State Corporation's Act CAP 446 of the Laws of Kenya, Public Finance Management Act, Employment Act, Lands Act amongst others.

The Corporation is also in compliance with the governance tenets of the Code of Governance for State Corporations (Mwongozo Code of Governance) which offers a corporate governance code for all state corporations. The Corporation being a Development Financial Institution (DFI) and a member of the Association of Africa Development Institutions (AADFI) has also endeavored to incorporate the governance standards set by the Association wherever possible. In addition to the foregoing, the Corporation continues to participate in the association's peer reviews to gauge its level of compliance with the association's governance and compliance standards.

Role of the Board

The Board of Directors of the Corporation is collectively responsible for long-term success of the Corporation and for ensuring leadership within a framework of effective controls. The Board has embraced the responsibility to set the strategic direction of the Corporation, approve the Corporation's strategy and to be held accountable by the government and the people of Kenya to ensure the Corporation undertakes its mandate in full compliance with the law, regulations, the highest standards of Corporate Governance and business ethics

Board Charter

The Board Charter is a critical Corporate Governance tool of the Corporation that defines the respective roles, responsibilities and authorities of the board of directors (both individually and collectively) and management in setting the direction, the management and the control of the organization. It ensures effectiveness of the Board in the governance of the Corporation.

The Corporation's Board Charter has defined the role of the Board as hereunder;

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

- (a) Determine the corporation's mission, vision, purpose and core values.
- (b) Set, Oversee, and Review, on a regular basis, the overall strategy for the corporation ensuring that the strategy is aligned with the mandate of the corporation and long-term goals of the organization on stability.
- (c) Review, evaluate and approve the corporation's budget and financial forecasts.
- (d) Review, evaluate and approve major resource allocations and capital investments.
- (e) Ensure that the procurement process is cost-effective and delivers value for money.
- (f) Review and approve the operating and financial results of the corporation and.
- (g) Ensure that the Financial Statements are a true reflection of the corporation's affairs and conform to the law.
- (h) Ensure effective, accurate, timely and transparent disclosure of pertinent information on the corporation's operations and performance.
- (i) Ensure that effective processes and systems of risk management and internal controls are in place.
- (j) Monitor performance of management

The Charter does not replace or supersede any statutory laws and regulations that govern the Corporation.

Board Structure

The composition of the Corporation's Board is outlined in Section 77 of the Tourism Act CAP 383 of the Laws of Kenya. The current Board is made up of nine (9) members led by a non-executive and independent Chairman, one executive Managing Director, one director representing the Cabinet Secretary; National Treasury, one director representing the Principal Secretary; Parent Ministry of Tourism & Wildlife and six independent and non-executive directors. The independent directors serve a three-year term service from the date they are appointed into office but are eligible for re-appointment for one and final term of three years.

The current independent and non-executive Board Members were appointed on 3rd May 2019 for a three year term until 2nd May 2022. Appointments of two of the independent directors were revoked on 7th August 2020 by a Gazette Notice No. 5463 which also appointed two new directors in place of the revoked ones. The Directors who held office during the year under review to the date of this report are listed under the Board of Directors section in this report.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The Board is solely responsible for its agenda. It is however the responsibility of the Chairman and Corporation Secretary working closely with the Managing Director to come up with the Annual Board Work Plan and the agendas of the Board Meetings.

The Board meets at least once every quarter. Comprehensive Board papers are prepared and circulated to all directors for all substantive agenda at least one week before the meeting to allow time for the directors to undertake review of the Board Papers to facilitate full and effective discussions at the meeting.

Board Diversity

The Board's appointing authorities recognize the importance of bringing different perspectives into board debates. The Corporation's Board comprises of members with diverse and appropriate skills, knowledge and experience to perform its role effectively.

The current Board Members areas of expertise include Financial Engineering, Procurement, Accounting, Law, Tourism, and Public Policy.

The Corporation complies with the 1/3 gender rule parity and board currently has five (5) male members and three (3) female members as at 30th June 2021.

Board and Directors Effectiveness

The effectiveness of the Board in its oversight and leadership role is enhanced through the following;

➤ Board Induction and Training

All Board Members, upon appointment, undergo an induction. This provides an overview of the Corporation's activities and its operating environment. The Board Members are also inducted by the State Corporations Advisory Committee.

Board Members undergo regular training to enable them fulfill their responsibilities. The training includes training on Corporate Governance issues and Continuous Professional Development for Directors who are members of professional bodies.

➤ Board Evaluation

In line with the Mwongozo Code of Governance, the Board undertakes an annual evaluation of its performance, of the Board as an entity, of all individual Board Members, the Chairman, and the Chief

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Executive Officer. This enables the Board members gauge their performance and identify areas of improvement.

The Board undertook its annual evaluation for the financial year 2019/2020 on 27th August 2020 and the results were shared with the Corporation's stakeholders in particular the State Corporations Advisory Committee and the Parent Ministry. However, the board was not able to conduct its annual evaluation exercise for the 2020/2021FY after 30th of June 2021. This is since the Vesting Order contained in Legal Notice No. 113 dated 2nd of July 2021 transferred TFC's assets and liabilities to Kenya Development Corporation Ltd (KDC). This is after the final execution of the Merger process that finally culminated into Tourism Finance Corporation (TFC), Industrial and Commercial Development Corporation (ICDC) and IDB Capital being merged together to form KDC. KDC is a 100% owned entity by The Government of Kenya. The TFC board therefore ceased to exist from 2nd of July 2021 before the evaluation exercise was carried out.

➤ Conflict of Interest and Declaration of Interest

Board Members are required to disclose any real or potential conflict of interest. An agenda item exists at all meetings which requires members to make a declaration of any interest they may have in the business under discussion. Directors are obligated to declare any interest they may have and exclude themselves from any discussion or discussion on the matter in which they have a conflict of interest.

➤ Board Committees

The Board undertakes its functions through committees which report to and make recommendations to the Board. The Board has four (4) standing committees which meet on a quarterly basis or more frequently as is deemed necessary. Each committee has approved terms of references.

The committees are provided with all the necessary resources to enable them undertake their duties effectively.

The four (4) standing committees are;

- **Finance, Human Resource & Administration Committee:** The committee is responsible for the Corporation's Finance, Human Resource & Administration issues. The committee provides financial strategy and oversight for the Corporation, monitors the policies and practices of the Corporation in relation to human resources and offers advice and recommendations of the Corporation's human resource strategies and policies. It also

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

provides oversight to the legal, ICT, Procurement and Public Relations departments. It consists of five members chaired by a non-executive director.

- **Credit Committee** The committee is responsible for the Corporation's Credit issues. The committee determines the Credit Policy of the Corporation. The Credit Committee has the authority to make decision on approval or rejection of credit facilities. It consists of five members chaired by a non-executive director.
- **Investment Committee:** The committee is responsible for the Corporation's Investment's issues. The role of the committee is to maintain the prudent and effective investment of the Corporation's resources and to formulate and oversee the investment policies and management of the Corporation Investments. It consists of five members chaired by a non-executive director.
- **Audit Committee:** The committee is responsible for the Corporation's Internal Audit & Risk Management function. It assesses the effectiveness of the Corporation's internal control and risk management framework, reviews the impact of significant accounting and reporting issues, meets the management, external and auditors to review the financial statements and results of the audit process by ensuring management acts on audit and risk management reports issues. It consists of four members chaired by a non-executive director.

Special Committees

The Board is entitled to form adhoc or special committees to deal with specific matters for a defined period.

Board Remuneration

All Board members are paid sitting and lunch allowance for every meeting attended. They are also entitled to claim mileage, transport, travel and subsistence allowances incurred when attending board meetings and other official Corporation business including training outside their regular areas of residence.

The non-executive Chairman, in addition to the aforementioned allowances, receives a fixed remuneration and phone allowances paid through payroll on a monthly basis.

The Directors' remuneration rates are as prescribed by the State Corporations Advisory Committee and the Salaries & remuneration Commission. The Board Members are not entitled to any of the Corporation's remuneration or pension schemes. The prescribed rates are as hereunder;

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Title	Fixed Remuneration Per Month	Monthly Fixed Line & Cell Phone Allowance	Director's Sitting Allowance Per Sitting	Director's Lunch Allowance Per Sitting	Mileage Claim per Director	Subsistence Claim per Director per night
	KShs	KShs	KShs	KShs	KShs	KShs
Board Chairman	80,000	7,000	20,000	2,000	As per AA rates pegged on engine CC, car age & distance.	18,200
Directors	-	-	20,000	2,000	As per AA rates pegged on engine CC, car age & distance.	18,200

Details of the remuneration paid to the Board members in the financial year under review are set out hereunder;

1. TFC Directors' Allowances Paid During the year ended 30th June 2021 for attending Board Meetings.

a) Full Board Meetings

Name	No of meetings Attended	Sitting Allowance Kshs.	Subsistence Allowance Kshs.	Lunch Allowance Kshs.	Mileage Allowance Kshs,	Total Amount Kshs.
Richard Lang'at	6 of 6	120,000	-	4,000	-	124,000
Abraham K. Koech Rep. CS Treasury	5 of 6	100,000	-	4,000	-	104,000
Hon. Safina Kwekwe - PS Tourism	1 of 5	20,000	-	-	-	20,000
Dr. Peter Chemwile – Rep PS Tourism	3 of 6	60,000	-	4,000	-	64,000
Fridah K. Njeru	6 of 6	120,000	-	4,000	-	124,000
Yunis Ibrahim Sheikh	4 of 6	80,000	-	2,000	-	82,000
Chisologus Makokha Rep. Inspectorate	1 of 6	20,000	-	-	-	20,000
Judith Kerich	5 of 6	100,000	-	4,000	-	104,000

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Mark O. Odongo	6 of 6	120,000	-	6,000	-	126,000
Anthony Kingi	6 of 6	120,000	182,000	6,000	-	308,000
David Jakaiti Rep. PS Tourism	1 of 6	20,000	-	-	-	20,000
Isaac Odek - Rep SCAC	1 of 6	20,000	-	-	-	20,000
Jane Gachimu - Rep SCAC	1 of 6	20,000	-	-	-	20,000
TOTALS		920,000	182,000	34,000	-	1,136,000

b) Special Board Meetings

Name	No of meeting attended	Sitting Allowance Kshs.	Subsistence Allowance Kshs.	Lunch allowance Kshs.	Mileage Allowance Kshs.	Total amount
Richard Lang'at	12 of 12	240,000	-	4,000	-	244,000
Abraham K. Koech Rep. CS Treasury	9 of 12	180,000	-	2,000	-	182,000
Dr. Peter Chemwile – Rep PS Tourism	8 of 12	160,000	-	2,000	-	162,000
David Jakaiti Rep. PS Tourism	2 of 12	40,000	-	-	-	40,000
Fridah K. Njeru	11 of 12	220,000	-	4,000	-	224,000
Yunis Ibrahim Sheikh	10 of 12	200,000	-	2,000	-	202,000
Judith Kerich	8 of 12	160,000	-	4,000	-	164,000
Stephen Kinuthia	1 of 12	20,000	-	-	-	20,000
Franklin Ndii	1 of 12	20,000	-	-	-	20,000
Mark O. Odongo	11 of 12	220,000	-	4,000	-	224,000
Anthony Kingi	11 of 12	220,000	347,800	4,000	-	571,800
Chrisologus Makhoha - Rep SCAC	5 of 12	1,00,000	-	-	-	100,000
TOTALS		1,780,000	347,800	26,000	-	2,153,800

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

2. TFC Directors' Allowances Paid During the year ended 30th June 2021 for attending Committee Meetings;

a) Audit Committee meetings

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Mark O. Odongo	4 of 4	80,000	-	-	-	80,000
Abraham K. Koech Rep. CS Treasury	4 of 4	80,000	-	-	-	80,000
David Jakaiti Rep. PS Tourism	1 of 4	20,000	-	-	-	20,000
Fridah K. Njeru	4 of 4	80,000	-	-	-	80,000
TOTALS		260,000	-	-	-	260,000

c) Credit committee meetings

Name	No of meeting Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Judith Kerich	2 of 2	40,000	-	2,000	-	42,000
David Jakaiti Rep. PS Tourism	1 of 2	20,000	-	-	-	20,000
Mark O. Odongo	2 of 2	40,000	-	2,000	-	42,000
Anthony Kingi	2 of 2	40,000	74,080	2,000	-	116,080
TOTALS		140,000	74,080	6,000	-	220,080

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

c) Investments Committee meetings

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Fridah K. Njeru	4 of 4	80,000	-	-	-	80,000
Dr. Peter Chemwile - Rep. PS Tourism	2 of 4	40,000	-	-	-	40,000
David Jakaiti Rep. PS Tourism	2 of 4	40,000	-	-	-	40,000
Stephen Kinuthia	2 of 4	40,000	-	-	-	40,000
Yunis Ibrahim Sheikh	4 of 4	80,000	-	-	-	80,000
Anthony Kingi	3 of 4	60,000	18,200	-	-	78,200
TOTALS		340,000	18,200	-	-	358,200

d) Fin, HR & Administration committee meetings

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Yunis Ibrahim Sheikh	4 of 4	80,000	-	2,000	-	82,000
Abraham K. Koech Rep. CS Treasury	3 of 4	60,000	-	2,000	-	62,000
Dr Peter Chemwile Rep. PS Tourism	3 of 4	60,000	-	2,000	-	62,000
David Jakaiti Rep. PS Tourism	1 of 4	20,000	-	-	-	20,000
Judith Kerich	4 of 4	80,000	-	2,000	-	82,000
TOTALS		300,000	-	8,000	-	308,000

**3. TFC Directors' Allowances Paid During the year ended 30th June 2021 for attending
Other TFC's Official Functions**

These official functions include Board Session with PS Tourism, New Board members induction, Board Evaluation, Visits to Subsidiary Companies, Strategic Training, etc. The payments to Directors for attending to such official functions are as follows;

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

i) Meeting with PS Tourism on 7th of July 2020

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Richard Lang'at	1 of 1	20,000	-	-	-	20,000
Abraham K. Koech Rep. CS Treasury	1 of 1	20,000	-	-	-	20,000
David Jakaiti Rep. PS Tourism	1 of 1	20,000	-	-	-	20,000
Judith Kerich	1 of 1	20,000	-	-	-	20,000
TOTALS		80,000	-	-	-	80,000

**ii) Board Induction In Naivasha for New Members
from 20/08/2020 to 22/08/2020**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Abraham K. Koech Rep. CS Treasury	4 of 4	80,000	54,600	-	-	134,600
Mark O. Odongo	4 of 4	80,000	54,600	-	-	134,600
Anthony Kingi	4 of 4	80,000	72,800	-	-	152,800
TOTALS		240,000	182,000	-	-	422,000

**iii) Board Evaluation Meeting held on 27th of
August 2020**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Richard Lang'at	1 of 1	20,000	-	-	-	20,000
Abraham K. Koech Rep. CS Treasury	1 of 1	20,000	-	-	-	20,000
David Jakaiti – Rep PS Tourism	1 of 1	20,000	-	-	-	20,000
Chrisologus Makhoha – Rep SCAC	1 of 1	20,000	-	-	-	20,000
Mark O. Odongo	1 of 1	20,000	-	-	-	20,000
Anthony Kingi	1 of 1	20,000	36,200	-	-	56,200
Yunis Ibrahim Sheikh	1 of 1	20,000	-	-	-	20,000
Judith Kerich	1 of 1	20,000	-	-	-	20,000
Fridah K. Njeru	1 of 1	20,000	-	-	-	20,000
TOTALS		180,000	36,200	-	-	216,200

TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

**iv) New Board Members' Visit to TFC Subsidiaries
from 26/10/2020 to 30/10/2020**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Taxi Claim	Total amount
Abraham K. Koech Rep. CS Treasury	4 of 4	80,000	72,800	-	-	152,800
Mark O. Odongo	4 of 4	80,000	72,800	-	2,400	155,200
Anthony Kingi	4 of 4	80,000	109,200	-	-	189,200
TOTALS		240,000	254,800	-	2,400	497,200

**v) New Board Members' Induction Training by
SCAC in Mombasa from 01/11/2020 to 04/11/2020**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Dr Peter Chemwile Rep. PS Tourism	3 of 3	60,000	72,800	-	-	132,800
Mark O. Odongo	3 of 3	60,000	72,800	-	-	132,800
Anthony Kingi	3 of 3	60,000	72,800	-	-	132,800
TOTALS		180,000	218,400	-	-	398,400

**vi) New Board Members' Visit to KSLH Units from
05/11/2020 to 07/11/2020**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Abraham K. Koech Rep. CS Treasury	3 of 3	60,000	36,400	-	-	96,400
Dr Peter Chemwile Rep. PS Tourism	3 of 3	60,000	36,400	-	-	96,400
Mark O. Odongo	3 of 3	60,000	36,400	-	-	96,400
Anthony Kingi	3 of 3	60,000	72,800	-	-	132,800
TOTALS		240,000	182,000	-	-	422,000

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

**vii) Board Attendance to Coast Stimulus Forum on
18th of December 2020**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Yunis Ibrahim Sheikh	1 of 1	20,000	-	-	-	20,000
Judith Kerich	1 of 1	20,000	-	-	-	20,000
Mark O. Odongo	1 of 1	20,000	-	-	-	20,000
Anthony Kingi	1 of 1	20,000	-	-	-	20,000
TOTALS		80,000	-	-	-	80,000

**viii) Board in Attendance at ESP Steering
Committee Meeting on 1st February 2021**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Yunis Ibrahim Sheikh	1 of 1	20,000	-	2,000	-	22,000
Mark O. Odongo	1 of 1	20,000	-	2,000	-	22,000
TOTALS		40,000	-	4,000	-	44,000

**ix) Board Attendance to Tourism Policy Validation
Workshop on 17th of February 2021**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Richard Lang'at	1 of 1	20,000	-	-	-	20,000
Mark O. Odongo	1 of 1	20,000	-	-	-	20,000
Anthony Kingi	1 of 1	20,000	-	-	-	20,200
Judith Kerich	1 of 1	20,000	-	-	-	20,000
Fridah K. Njeru	1 of 1	20,000	-	-	-	20,000
TOTALS		100,000	-	-	-	100,000

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

**x) Board Strategic Finance Management Course
from 1st to 5th of March 2021**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Richard Lang'at	5 of 5	100,000	109,200	-	-	209,200
Dr Peter Chemwile – Rep PS Tourism	5 of 5	100,000	109,200	-	-	209,200
Mark O. Odongo	5 of 5	100,000	109,200	-	-	209,200
Anthony Kingi	5 of 5	100,000	109,200	-	-	209,200
Yunis Ibrahim Sheikh	5 of 5	100,000	109,200	-	-	209,200
Judith Kerich	5 of 5	100,000	109,200	-	-	209,200
Fridah K. Njeru	5 of 5	100,000	109,200	-	-	209,200
TOTALS		700,000	764,400	-	-	1,464,400

**xi) Board Visit to TFC Subsidiaries Kabarnet Hotel
Ltd & Mt Elgon Lodge Ltd from 17th to 20th of May
2021**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Mark O. Odongo	4 of 4	80,000	54,600	-	3,000	137,600
Anthony Kingi	4 of 4	80,000	72,800	-	3,000	155,800
Yunis Ibrahim Sheikh	4 of 4	80,000	54,600	-	3,000	137,600
Fridah K. Njeru	4 of 4	80,000	54,600	-	3,000	209,200
TOTALS		320,000	236,600	-	12,000	568,600

**xii) Board Visit to Kwale County from 15th to 19th of
June 2021**

Name	No of meetings Attended	Sitting Allowance	Subsistence allowance	Lunch allowance	Mileage allowance	Total amount
Mark O. Odongo	5 of 5	100,000	-	-	-	100,000
Anthony Kingi	5 of 5	100,000	-	-	-	100,000
Yunis Ibrahim Sheikh	5 of 5	100,000	-	-	-	100,000
Fridah K. Njeru	4 of 5	80,000	-	-	-	100,000
TOTALS		380,000	-	-	-	380,000

8. MANAGEMENT DISCUSSION AND ANALYSIS

Tourism Finance Corporation's role in national development is significant in the financing of the tourism industry having been recognized in the Tourism Act No. 28 of 2011 as the lead development financier for the sector. TFC has re-aligned its investment strategies to contribute to the development of the tourism sub-sectors in the 47 counties through diversified lending to areas and products with untapped potential and creation of tourism investment opportunities.

FINANCIAL PERFORMANCE

The corporation reported a profit before tax of Kshs.25.89m an improvement from a loss before tax of Kshs.45.16m last year. This was achieved mainly as a result of a recurrent grant allocated by GOK of KShs 86.402m to cushion TFC from adverse effects of Covid-19 pandemic. Total Revenue reported a rise from Kshs.220.048m in 2019/2020FY to Kshs.345.403m in 2020/2021FY again mainly as a result of the allocated recurrent grant. Operating expenses were on an upward trend from Kshs.265.212m in 2019/2020FY to Kshs 319.508m in 2020/2021FY. This is mainly due to the expenditure on administration of the stimulus package of KShs 14.99 and a TFC recurrent grant of KShs 8.50 to its subsidiary KSLH during the current FY, the expenditures that were not incurred during the previous FY. Also, during the current FY, expenditure on Loans Provisions was higher at KShs 41.685m as it was based on 30% whereas that for 2019/2020FY was KShs 37.119 based on 20%.

Comparison of each income and expenditure items between the current and the previous financial year are provided on the face of the income statement on page 1 as well as in the detailed notes to the financial statements.

The comparative actual against budget of item by item as regards the various descriptions of income and expenditure items reported during the year compared to the revised budget for the same year is reflected on page 5 & 6 of the financial statements. A brief description of the causes of variances from the budget is also given therein.

OVERALL PERFORMANCE

The Corporation has been experiencing challenges that have limited its functions and contributions in tourism industry such as inadequate loan funds to meet loan demands. This is due to non-allocation by the Government of development funds for onward transmission to borrowers for development of tourist facilities under the lending mandate, Moratorium placed by the Government on the Corporation's activities and core mandate and slow pace of disposal of the Corporation's idle assets.

Due to the COVID-19 pandemic, leisure and conference tourism, both external and domestic face possible collapse owing to low international travel that has come with restrictions thus affecting international tourist arrivals, while social distancing measures have affected domestic tourism and conferencing. Given the tourism sector's strong linkages with the wider economy, reduced tourist arrivals will impede consumption of various goods and services and the incomes of workers in related sectors.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Despite the challenges, the Corporation continues delivering its core mandate of capital lending to hoteliers in Kenya. The Corporation received KShs 2,204,264,050 GOK Development Grant under the Post Covid Economic Stimulus Programme (PC-ESP) for onward disbursement to hoteliers to refurbish and renovate their existing hotel properties.

Out of this, KShs 228,787,551 had been disbursed as at 30th June 2021 to qualifying borrowers. The undisbursed balance KShs 1,975,476,499 is expected to be entirely disbursed as it had fully committed as at the same date. The features of this stimulus programme is that the loans disbursed carry an interest of 5% p.a, with interest and principal repayment moratorium of twelve (12) months.

The disbursement of loans under the PC-ESP programme brought the loan portfolio to KShs 1,482,587,075 as at 30th June 2021 up 1,164,314,967 reported on the same date the previous year. This portfolio is expected to grow as the mentioned undisbursed amount is finally disbursed in the next 2020/2021FY.

As a way forward, the corporation needs Business Process Re-engineering in the following direction:

- Re-focusing on the corporate mandate to strengthen the Corporation core business which is lending and investment and seek alternative sources of finance which is separate and avoid reliance on treasury allocations
- Internal mobilize resources for tourism recovery through the divesture from the mature investments (Kenya Hotel Properties Limited, International Hotels Kenya Limited, Mountain Lodges Limited and the Ark Limited). The MOT&W to ensure the privatization proceeds are channeled to the Corporation to support the recovery of the sector.
- MOT&W to support the Corporation to secure Treasury authority and guarantee to borrow externally. As a DFI and a member of AADFI, the corporation will have a strong resource mobilization platform from Multilateral Development Banks (MDB, s) which always happen after pandemics and catastrophes.
- TFC's balance sheet to be restructured to enable the corporation be attractive to financiers and international DFI's for partnerships.
- Increase the revenue base by;
 - Strengthening the business advisory arm of the corporation,
 - Outsourcing management of the improved subsidiaries.
 - Renovation of Utalii house
 - Develop the vacant assets (KNTB and Mombasa Island plots)

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Tourism Finance Corporation is committed at all times to conducting its business in a responsible and sustainable way, as it is integral to the way that the Corporation does business. The Corporation is committed to behaving in a way that is beneficial to all stakeholders, our environment and the wider community.

The Corporation has a functional Corporate Social Responsibility (CSR) Policy. The Policy ensures that the Corporate Responsibility is a key aspect that is embedded in the Corporation's business practices. The CSR policy is set to achieve the following:

- i. To support activities which help cleaner, greener and healthier environment and thereby enhancing TFC's perception as a socially responsible entity.
- ii. To build TFC's Corporate image and reputation
- iii. To interact with members of the community and improve their welfare and
- iv. To cultivate a better understanding of the company, its plans, achievements and policies by different publics.

Focus Areas: SMEs, Environment, Sports, Cultural Festivals, Disaster & Emergency Situations, Health and Community based organizations (CBOs)

During the previous 2019/2020FY, The Corporation carried out the following CSR activities.

1. TFC sponsored the tree planting event with Kshs. 100,000. This event was held in Mau forest due to the diminishing portion of indigenous trees within the forest and its government owned land thus increasing the forest cover. The event was held on 1st November 2020.
2. TFC participated at the Amboseli Community forum on Covid-19 awareness as requested by the Ministry of Tourism & Wildlife and witnessed the launch of Management Plan Agreement on 9th January 2020 in Amboseli
3. Tree planting in commemoration of the Africa Public Service week organized by the state department of Tourism at Kwale County on 20th – 25th June 2020 where 6000 trees were planted during the event



TFC staff at Amboseli in January 2020, led by MD

During the current 2020/2021FY, TFC carried the following Corporate

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Social Responsibility activities;

1. Tourism Finance Corporation participated in planting of trees in Base Titanium rehabilitated areas, Kwale County in conjunction with the Ministry of Tourism team.
2. Tourism Finance Corporation participated in Tree planting at Lunga Lunga border post, program organized by Ministry of Tourism & Wildlife. Planted 800 trees to help conserve the environment.



Tree Planting by TFC Directors in Kwale County

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Tourism Finance Corporation's affairs.

PRINCIPAL ACTIVITY

The Core mandate of the Corporation is to provide financial assistance to investors or entrepreneurs in the Tourism sector as provided for under Section 77 of the Tourism Act CAP 383.

RESULTS

The results of the Corporation for the year ended June 30, 2021 are set out on page 1.

DIVIDENDS

The Director's do not recommend payment of dividend.

DIRECTORS

The TFC Board of Directors that served during the current 2020/2021FY were appointed as follows;

- a) As Non-Executive Chairman vide Kenya Gazette Notice No. 4308 of 3rd of May, 2019;
 - 1. Richard K. Lang'at
- b) As Directors vide Kenya Gazette Notice No. 4361 of 3rd of May, 2019;
 - 1. Stephen N. Kinuthia
 - 2. Yunis Ibrahim Sheikh
 - 3. Judith C. Kerich
 - 4. Fridah K. Njeru
 - 5. Franklin Ndii
- c) As Directors vide Kenya Gazette Notice No. 5463 of 7th August, 2020;
 - 1. Mark Okeyo Odongo
 - 2. Anthony Kingi

During the current 2020/2021FY appointments for two Directors who had been appointed in (b) above were revoked vide Kenya Gazette No. 5463 of 7th August, 2020 as follows;

- 1. Stephen N. Kinuthia, and
- 2. Franklin Ndii

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

AUDITORS

The Auditor General is responsible for the statutory audit of Tourism Finance Corporation.

VESTING ORDER MERGING TFC

Following the Vesting Order contained in Legal Notice No. 113 dated 2nd of July 2021 TFC's assets and liabilities were transferred to Kenya Development Corporation Ltd (KDC). This is after the final execution of the long-awaited Merger process that finally culminated into Tourism Finance Corporation (TFC), Industrial and Commercial Development Corporation (ICDC) and IDB Capital being merged together to form KDC. KDC is a 100% owned entity by The Government of Kenya. TFC, as an entity ceased to exist from that date.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's Board sitting on September 2021.

By Order of the Board

.....

John Karia

Corporation Secretary

Date: 29/07/2022

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

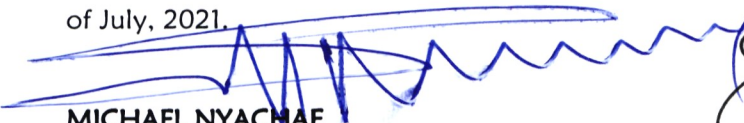
The Tourism Finance Corporation's Board of Directors was duly constituted within the 2018/2019 financial year as provided for under section 77 of the Tourism Act 2011, CAP 383 of the Laws of Kenya. The current board members were appointed vide Kenya Gazette Notice No. 4361 while the non-executive chairman was appointed vide Kenya Gazette Notice No. 4308, both Notices being dated 3rd of May, 2019. However, during the current 2020/2021FY, appointments of two directors were revoked through Kenya Gazette Notice No. 5463 of 7th August 2020. By the same Gazette Notice, two directors were appointed in place of the revoked ones.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2021. 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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

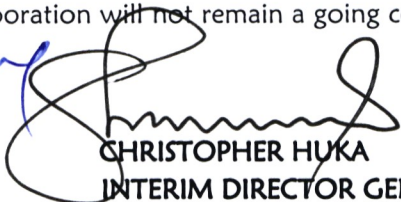
The Directors accept the responsibility for the Corporation's Financial Statements for the financial year ended 30th June 2021. These have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards, in the manner required by the PFM Act, the requirements of the Tourism 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 its operating results. The Directors further confirm the completeness of the accounting records maintained by the Corporation, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

Following the Vesting Order contained in Legal Notice No. 113 dated 2nd of July 2021 TFC's assets and liabilities were transferred to Kenya Development Corporation Ltd (KDC). This is after the final execution of the long-awaited Merger process that finally culminated into Tourism Finance Corporation (TFC), Industrial and Commercial Development Corporation (ICDC) and IDB Capital being merged together to form KDC. KDC is a 100% owned entity by The Government of Kenya. TFC, as an entity ceased to exist from that date.

The Directors therefore wish to indicate that the Corporation will not remain a going concern from 2nd of July, 2021.


MICHAEL NYACHWAYA
CHAIRMAN, KDC BOARD OF DIRECTORS

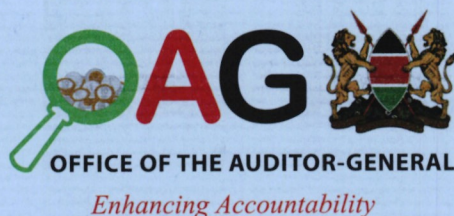
Date: 29/07/2022


CHRISTOPHER HUKA
INTERIM DIRECTOR GENERAL, KDC

Date: 29/07/2022

REPUBLIC OF KENYA

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Anniversary Towers
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON TOURISM FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tourism Finance Corporation set out on pages 1 to 57 which comprise the statement of financial position as at 30 June, 2021, and the statement of profit and loss and other comprehensive income, statement of changes in equity, and the statement of cash flows and the

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 effect 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 the Tourism Finance Corporation as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Tourism Act, 2011 and the Public Finance Management Act, 2012.

Basis of Qualified Opinion

1.0 Inaccuracies in the Trial Balance

The trial balance provided for audit review had various items which ought to be treated as adjusting items such as the opening balances for cash and cash equivalents. The trial balance also reported net book values for non-current assets and depreciation separately. Further, the surplus for the year was included in the trial balance and the credit and debit column did not balance.

Consequently, the inaccuracies in the trial balance casts doubts on the accuracy of the balances in the financial statements.

2.0 Non-Performing Loans

The statement of financial position reflects loans balance of Kshs.1,023,433,852 which as disclosed in Note 20 to the financial statements is net of provisions for bad debts of Kshs.214,365,769. The balance includes an amount of Kshs.1,170,637,452 which has been dormant for a period of more than one (1) year. Although the recovery process is in progress, the Management of the Corporation has not employed adequate efforts towards recovery of the loans since some cases relating to auctioning property held as security have been in court for more than five (5) years.

In the circumstance, the recoverability of the loans is doubtful.

3.0 Unsupported Insurance Cover

As disclosed in Note 11 to the financial statements, the statement of profit or loss and other comprehensive income reflects personnel costs amounting to Kshs.159,122,405 which includes staff group life and personal accident cover of Kshs.8,473,644. However, contract documents and insurance policy documents were not provided.

Consequently, the accuracy and validity of the insurance expenditure of Kshs.8,473,644 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tourism Finance Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical

responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised in the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board and the National Treasury Circular Ref. AG.4/16/2 Vo.3(72) dated 30 June, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Unauthorized Bank Overdraft

The statement of financial position and as disclosed in Note 22 to the financial statements reflects cash and cash equivalents balance of Kshs.1,574,112,075. Included in this amount is Kshs.1,574,083,395 being amount for cash at bank and Kshs.28,680 being amount for petty cash account. However, the administration account was overdrawn by Kshs.705,447 without the requisite authority contrary to Section 28 (4) of the Public Finance Management Act, 2012 which states that, an Accounting Officer of a national government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury or a board of a national government entity.

Consequently, Management was in breach of the law.

2.0 Over Expenditure on Directors' Emoluments and Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflects Kshs.13,111,774 in respect of directors' emoluments and expenses. However, this expenditure was 17% of the operations and maintenance budget contrary to the Office of the President Circular Ref. No. OP/CAB.9/1A of 11 March, 2020, part D which states that a Board expenditure for the financial year shall be capped at 30 Million or 5% of the operations and maintenance budget whichever is less and that any exceeding budgets shall require approval of the Cabinet Secretary for the National Treasury.

Consequently, Management was in breach of the referenced Circular.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis of Conclusion

Long Outstanding Debts

The statement of financial position reflects trade and other receivables amount of Kshs.1,055,856,671 which as disclosed in Note 21 to the financial statements includes debtors totalling to Kshs.228,650,735 which relate to financial year 2019/2020 and prior years. However, no recovery has been made from the debtors, an indication that the Management has not put in place adequate mechanisms to recover the debts. Further, review of sampled files for ex-tenants revealed that furniture and equipment held as security were auctioned but the proceeds were not sufficient to offset the rental debts.

In the circumstances, the existence of a vibrant mechanism and an effective debt policy to ensure recovery of the debts could not be established.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance

were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Corporation or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation'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 Corporation 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 Corporation 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 August, 2022

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

1. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 <u>KShs</u>	2020 <u>KShs</u>
REVENUES			
Interest from Loans	6	38,759,404	34,838,753
Rental Income	7	182,496,598	161,558,098
Dividend Income	8	-	2,000,000
Other Income	9	531,515	18,207
TOTAL REVENUES		221,787,517	198,415,058
OPERATING EXPENSES			
Administration Costs	10	141,712,436	106,913,646
Personnel Costs	11	159,122,405	146,621,726
Directors' Emoluments and Expenses	12	13,111,774	7,064,291
Depreciation	13,14 &15	5,561,484	4,612,612
TOTAL OPERATING EXPENSES		319,508,099	265,212,275
OPERATING PROFIT/ (LOSS)		(97,720,582)	(66,797,217)
Finance Income (Bank Deposit Interest Income)	16(a)	37,214,152	21,633,387
Recurrent Grant From Government of Kenya-GOK	16(b)	86,402,000	-
Finance costs (Withholding Tax)	17	(5,582,123)	(1,603,651)
Profit/(Loss) Before Taxation		20,313,447	(46,767,481)
Profit/(Loss) After Taxation		20,313,447	(46,767,481)
RETAINED PROFIT/(LOSS) FOR THE YEAR		20,313,447	(46,767,481)

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

		2019-2021	2019-2020
	Note	KShs	KShs
ASSETS			
Non-Current Assets			
Investment Property	13	3,144,843,261	3,144,843,261
Property, Plant and Equipment	14	11,379,415	8,836,875
Intangible Assets	15	-	-
Investments	19	406,285,081	406,285,081
Loans	20	1,023,433,852	806,267,316
Deferred Tax Asset	18	-	62,352,816
		4,585,941,609	4,428,585,349
Current Assets			
Trade and other receivables	21	1,055,856,671	290,190,725
Cash and Cash Equivalents	22	1,574,112,075	373,404,346
		2,629,968,746	663,595,071
TOTAL ASSETS		7,215,910,355	5,092,180,420
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity Funds	23	106,000,000	106,000,000
Pre-Investment Studies Grant	24	281,212	281,212
Loan Fund	25(c)	3,511,986,250	1,307,722,200
Capital Reserve	26(a)	20,506,020	20,506,020
Retained Earnings	26(b)	3,230,581,459	3,248,216,743
Restructuring Reserve	27	88,580,842	88,580,842
		6,957,935,783	4,771,307,017
Non-Current Liabilities			
Irredeemable GOK Revolving Fund Loan	28	48,000,000	48,000,000
Employees Benefits Provision	29(b)	-	73,968,364
		48,000,000	121,968,364
Current Liabilities			
Trade and other Payables	30	209,974,572	198,905,039
		209,974,572	198,905,039
TOTAL EQUITY AND LIABILITIES		7,215,910,355	5,092,180,420

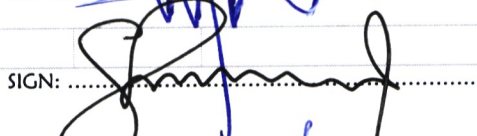
These financial statements were approved by the KDC Board on 07/10/2021 2021 and signed on their behalf by

MICHAEL NYACHAE,
BOARD CHAIRMAN, KDC

SIGN: 

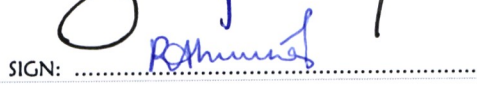
DATE: 29/07/2022

CHRISTOPHER HUKA
INTERIM DIRECTOR GENERAL, KDC

SIGN: 

DATE: 29/07/2022

JOHN N. MUKUNA
Ag. HEAD OF FINANCE, TFC

SIGN: 

DATE: 29/07/2022

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

3. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Equity	Pre-investment	Capital	Retained	Restructuring	Total
	Funds	Studies-Grant	GOK Grant Fund	Earnings	Reserve	Equity
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As at 1 st July 2019	106,000,000	281,212	1,307,722,200	20,506,020	88,580,842	4,882,328,498
Dividend To The National Treasury (TNT) - Note 26(b)	-	-	-	(64,254,000)	-	(64,254,000)
Retained Profit/(Loss) For the Year- page 1	-	-	-	(46,767,481)	-	(46,767,481)
As at 30 th June 2020	106,000,000	281,212	1,307,722,200	20,506,020	88,580,842	4,771,307,017
Merger Expenses Paid In April 2019 - Note 26(b)	-	-	-	(12,500,000)	-	(12,500,000)
Merger Expenses Paid In December 2020 - Note 26(b)	-	-	-	(12,500,000)	-	(12,500,000)
Court Case Deposit-Note 26(b)	-	-	-	(12,960,000)	-	(12,960,000)
Write Back of Over Provided Depreciation - Note 26(b)	-	-	-	11,269	-	11,269
Economic Stimulus Programme Grant - Note 25(c)	-	-	2,204,264,050	-	-	2,204,264,050
Retained Profit/(Loss) for the Year - page 1	-	-	-	20,313,447	-	20,313,447
As at 30 th June 2021	106,000,000	281,212	3,511,986,250	20,506,020	88,580,842	6,957,935,783

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020-2021 Kshs	2019-2020 Kshs
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	31(a)	(830,596,602)	(65,506,580)
Taxation paid	17	(5,582,123)	(1,603,651)
Loan interest recovered/ (capitalized)	32(a)	(25,698,180)	(10,807,145)
Deferred Tax Asset Written Down	18	<u>62,352,816</u>	-
Net cash generated from / (used in) operating activities		<u>(799,524,089)</u>	<u>(77,917,376)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends Received	8	-	2,000,000
Interest received	16	37,214,152	21,633,387
Purchase of property, plant and equipment	14	(7,619,633)	(1,631,331)
Prior Period VAT adjustment on Asset acquisition	14	(473,122)	-
Purchase (i.e CWIP) of Investment property	13	-	(4,212,591)
Principal Loans Disbursed	32(b)	(236,730,509)	(62,007,344)
Principal Loans Recovered	32(c)	<u>3,576,880</u>	<u>27,766,633</u>
Net cash generated from / (used in) investing activities		<u>(204,032,232)</u>	<u>(16,451,246)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends Paid	26(b)	-	(64,254,000)
GOK Grant Received	25(c)	<u>2,204,264,050</u>	-
Net cash generated from / (used in) financing activities		<u>2,204,264,050</u>	<u>(64,254,000)</u>
INCREASE/ (DECREASE) ON CASH AND CASH EQUIVALENTS		1,200,707,729	(158,622,622)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		373,404,346	532,026,968
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	31(b)	1,574,112,075	373,404,346

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

5. COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021

INCOME	A	B	C=B-A	D=C/A	Remark	
ITEM	2020/2021 FINAL REVISED APPROVED BUDGET KSHS.'000'	CURRENT YEAR 2020/2021 ACTUAL KSHS.'000'	VARIANCE REVISED BUDGET TO ACTUAL YEAR KSHS.'000'	VARIANCE IN PERCENTAGE (%)	UNFAVOURABLE (U)/FAVOURABLE (F) U or F	REMARKS
Interest from Loans	40,000	38,759	(1,241)	-3.10%	U	Moratorium placed by the Government stopped lending in June 2018
Rental Income	177,000	182,497	(5,497)	-3.11%	F	Rent was more due to increased occupancy & rent escalation.
Dividend Income	2,000	-	2,000	-100%	U	No Dividend was declared by the usual payer from Golf Hotel Ltd.
Interest on Fixed & Bank Deposits	20,000	37,214	17,214	86.07%	F	Bank Deposit began earning interest on loan funds from 1 st Sep. 2020.
Other Income	100	531	431	431.00%	F	Miscellaneous on staff deductions
GOK Recurrent Grant	86,402	86,402	-	0.00%	F	GOK Recurrent Grant was actual as budgeted
TOTAL INCOME	325,502	345,403	19,901	6.11%	F	
EXPENDITURE						
Personnel Costs	152,890	159,841	6,951	4.55%	U	Incurred at actual which was above budget on some components.
Directors' Emoluments & Expenses	10,000	13,112	3,112	31.12%	U	Most activities not carried out in the previous FY due to COVID-19 were carried out in the current FY. More meetings were also held.
Local Travelling Costs	15,000	16,249	1,249	8.33%	U	Official travel outside duty station mostly to undertake core mandate & staff trainings
Overseas Travelling Costs	2,000	-	(2,000)	-100.00%	F	Budget not utilized as there was no overseas travel
Motor Vehicle Expenses	2,104	1,299	(805)	-38.26%	F	Economical usage of vehicles
Depreciation	13,497	5,561	(7,936)	-58.80%	F	Not all budgeted items were

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

						bought and also most items are fully depreciated, hence savings
Office Expenses	13,400	9,105	-4,295	-32.05%	F	PR expenses and advertising costs went below budget as some planned activities did not take place.
Properties & Lift Maintenance	7,000	5,140	- 1,860	-26.57%	F	Based on contract rates for lift maintenance and actual repairs at Utalii House.
Security	7,500	7,974	474	6.32%	U	As per contract.
Cleaning Costs	6,578	5,657	(921)	-14.00%	F	As per contract & within budget.
Electricity Cost	15,000	12,215	(2,785)	-18.57%	F	No tariff hike was witnessed, power usage was also well controlled
Water and Conservancy	1,930	1,475	(455)	-23.58%	F	Water usage controlled.
Auditors' Remuneration	406	406	-	-	F	No review upwards of fees was witnessed
Legal Fees	4,000	13,470	9,470	236.75%	U	Fees more as case filed by a former MD was ruled on and this included auction fees also.
Valuation Fees	1,000	175	(825)	-82.50%	F	Only valuation of current loanes properties were carried out
Consultancy Fees	3,000	302	(2,698)	-89.93%	F	Fees paid incurred on property Energy Audit
Bank Charges	241	255	14	5.81%	U	These were more than budget upon full uptake of online payments.
Rent and Rates	2,680	1,549	(1,131)	-42.20%	F	These were less than budget & paid as levied by County Govts.
Provision for Bad Debts	10,000	41,685	31,685	316.85%	U	General at 1% & Specific provision made at 30% for current FY per board approval of 27/07/2017.
Insurances	2,620	547	(2,073)	-79.12%	F	This was paid as contracted and was well within budget.
Research & Development Expenses	2,000	-	(2,000)	-100.0%	F	No research done due to impending merger of TFC, ICDC & IDB Capital
TFC Recurrent Grant To KSLH	8,500	8,500	-	0.00%	F	Actual as per budget.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

Post COVID-Economic Stimulus Programme (ESP) Expenses	20,000	14,991	(5,009)	-25.05%	F	Actual was well within budget.
TOTAL EXPENSES	301,346	319,508	18,162	6.03%	U	Unfavorable mainly due to recognition of loans provisions at 30% for current FY per board of 2017.
Profit/(Loss) before Tax	24,156	25,895	1,739	7.20%	F	
Less: Withholding Tax	3,000	5,582	2,582	86.07%	U	
Less: Deferred Tax	-	-	-	-	-	
Net profit /(loss) after Tax	21,156	20,313	(843)	-3.99%	U	

* U = Unfavorable variance

F = Favorable variance

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Tourism Finance Corporation is established by and derives its authority and accountability from the section 75(1) of the Tourism Act No. 28 of 2011 which commenced on 1st of September 2012 and which replaced the KTDC Act Cap. 382.

The Corporation is wholly owned by the Government of Kenya and is domiciled in Kenya. The Corporation's principal activity is to facilitate and finance development of tourism and tourism related facilities through advancement of Loans.

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 have been prepared on a historical cost basis except for the measurement at revalued amounts of certain property, plant and equipment, investment property and impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions.

It also requires the management to exercise judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in notes.

The financial statements have been prepared and presented in Kenya shillings, which is the functional and reporting currency of the Corporation.

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021 (Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on Director's assessment, no right of use assets and lease liabilities that are recognized, but a deferred tax asset of Kshs. 62,352,816 have been recognized in the Statement of Financial position over the past years. This was, however written down during the current 2020/2021FY as recommended by the Merger Consultant PKF Consortium in their Financial Due Diligence Report on TFC for prior years up to and including 30th of June, 2020.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The Directors of the Corporation do not anticipate that the application of these amendments will have significant impact on the Corporation's financial statements.

i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2019-Applicable for annual periods beginning 1 January 2020)

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

Together with the revised *Conceptual Framework* published in March 2019, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2021.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefit will flow to the Corporation and the revenue can be reliably measured. in the ordinary course of the Corporation activities, net of Value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below;

i) Finance Income:

This consists of amounts received and receivable from short- term bank deposits

ii) Rental Income:

Rent is recognised in the income statement as it accrues using the effective lease agreements

iii) Other income

Major items normally include Personnel Loan's interest, Loan Appraisal and Commitment fees, proceeds received from sale of Tender documents and Directors fees received and receivable during the Financial Year.

iv) Dividend Income

Dividend income is recognised in the income statement in the year its declared/recommended.

b) Accounting for unquoted investments in subsidiary and associated companies

Financial statements of subsidiary and associated companies have not been consolidated in these financial statements. However, the corporation's investments in these companies are stated at cost under non-current assets and comprise equity shares these companies in accordance with the February 1991 Investment Guidelines issued by Treasury.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

c) Classification of Funds

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

i) Equity funds

These are the initial funds supplied by the Government to purchase equity interest in tourism related companies.

ii) Commercial Loan Funds

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.

However, the Corporation continues to lend on commercial basis even after fully repaying the Government as it has built up a stable lending base from loan recoveries.

iii) Revolving Loans 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. However, following Board approval of 21st September 2010, the two loan funds were merged into one.

The Revolving and commercial Funds Bank Accounts were consequently closed to conform with this approval and also with the Revised Credit Policy and Manual.

The closed bank accounts were replaced by the new Loan Fund bank account that was subsequently opened.

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.

e) Provision for Doubtful debts

The corporation is responsible for bad debts incurred on both Commercial and Revolving Fund Programs 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. Loans which are non-performing and which have no further recovery prospects are written off against their Specific Provisions upon approval by the Board.

f) Trade and Other Receivables

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

g) Trade and other payables

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

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

h) Property, Plant & Equipment

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

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

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	-	0.0%
Buildings	-	2.5% (up to 30 June 2011)
Buildings	-	0.0% (from 01 July 2011)
Furniture & Fittings	-	12.5%
Electronic Equipment	-	30.0%
Motor Vehicles	-	25.0%

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

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

i) Intangible assets

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

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

j) Investment Property

Investment property which includes land and buildings are subsequently carried at re-valued amounts, being their fair value at the date of revaluation by independent external valuer.

Increase (or decreases) in the carrying amounts of assets arising from revaluation are credited (or debited) to income statement in the year of revaluation as the case may be. Capital works in progress (CWIP) relates mainly to the costs of ongoing but incomplete works on buildings, civil works and installations. Land and Buildings, having been reclassified as investment property under IAS 40 since 2011/2012 financial year, are not depreciated. They are revalued after every three years.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

k) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments. Bank account balances include amounts held at the Kenya Commercial Bank at the end of the Financial Year.

m) Comparative figures

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

n) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the Financial Statements for the year ended June 30, 2021. The Legal Notice No. 113 of 2nd of July 2021 that issued Vesting Order that directed the Corporation's assets and liabilities be transferred to Kenya Development Corporation Ltd (KDC) do not affect the current 2020/2021FY financial statements.

o) Employee Benefits

The Corporation operates a Defined Contribution Staff Retirement Benefits Scheme for its employees who are on Permanent & Pensionable Terms of Service. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions made by the Employer at 15% and by the Employee at 7.5% of Basic Salary.

The Corporation's Contributions to the Scheme are charged to Statement of Comprehensive Income in the year in which they relate.

The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time and are currently limited to a maximum of KShs 200 per month per employee.

Up to the current year, the Corporation had provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving. This was payable to eligible employees who served a continuous term not less than two (2) years from the date of employment to date of leaving. Each employee was entitled to thirty (30) terminal leave days per every served year.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

Accrual of these benefits stopped in the 2019/2020FY owing to the impending merger and all benefits to the staff were paid through the June 2021 payroll.

p) Loans

The Corporation's core mandate is to give credit for purposes of facilitating financing and development of tourist facilities in Kenya.

The credit given forms the loans that are repayable within a maximum of ten (10) years with a principal moratorium period of up to (twelve) 12 months. All loans are currently approved by the board after a successful appraisal by management. Repayments are first allocated to clear interest arrears and the balance to clear principal originally disbursed. Specific provision is made in respect to loans where, in the opinion of the board, recoveries are doubtful. General provision is made based on 1% of the total loan portfolio at the end of the financial year as per the current credit policy.

q) Budget Information

The Original Budget for 2020/2021 FY was approved by The Cabinet Secretary Ministry of Tourism and Wildlife vide a letter dated 3rd of August 2020. The original budget had budgeted for total income of Kshs. 257,600,000 and total expenses of Kshs. 254,715,865.

Subsequent revisions were made to the approved budget in accordance with specific approval by the Board on 29th January 2020. The revisions are added or subtracted to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation recorded revisions of income upwards by Kshs.67,902,000 to the revised income budget of Kshs. 325,502,000 by factoring in a recurrent grant from the government of KShs 86,402,000 and a reduction in loan interest earnings. The original budget expenses were also revised upwards by Kshs. 46,630,623 to the revised budget expenses of Kshs. 301,346,488 by including, amongst others, stimulus programme expenses KShs 20.0m and a recurrent grant to KSLH Ltd of KShs 8.50m.

The revision of the budget was necessitated by results of a mid-year review of the actual performance of the Corporation which indicated that it would not be feasible to achieve the level of income budgeted for considering the challenges facing the Corporation at the time. This revision also took into account the GOK interventions to TFC due COVID-19 pandemic.

The Corporation's budget is prepared on the same basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is also prepared on accrual basis. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is presented in the statement of comparison of budget and actual amounts in the financial statements on pages 5 & 6.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The Judgements, estimates and assumptions made by management include:

i. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

ii. Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

iii. Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 10(h).

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

On provision for doubtful debts, the corporation is responsible for bad debts incurred on both Commercial and Revolving Fund Programs 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. Loans which are non-performing and which have no further recovery prospects are written off against their Specific Provisions upon approval by the Board.

Specific provision is made in respect to loans where, in the opinion of the board, recoveries are doubtful. General provision is made based on 1% of the total loan portfolio at the end of the financial year as per the current credit policy.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INTEREST FROM LOANS

This is interest income earned during the year from balances of loans disbursed out of TFC Loan Fund. The applicable Interest Rate is 9.5% p.a. (down from 11.0% p.a.) from 1st of December 2018 following Board approval of 18th of September 2018

	2020-2021	2019-2020
	KShs	KShs
Interest from Loans	<u>38,759,404</u>	<u>34,838,753</u>
	<u>38,759,404</u>	<u>34,838,753</u>

The loan interest charges were on an upward trend month after month as a result of delays in recoveries witnessed in the current year as well as the fact that a number of current borrowers have had the interests suspended. Also, the moratorium on lending issued to TFC by the government on 21st June 2018 owing to the impending merger resulted into no new loan approvals during the year thus witnessing minimal rise in interest earnings. Effects of the Covid-19 pandemic had a negative impact on recoveries thus causing charges being higher on the affected loans. The disbursed loans under the stimulus programme from April 2020 did not earn interest for the current FY as they carry a twelve (12) months interest and principal repayments moratorium period.

7. RENTAL INCOME

	2020- 2021	2019-2020
	KShs	Kshs.
The Rental Income is from investment property as follows:		
Offices Rental Income	170,835,383	148,897,790
Parking Rental Income	11,481,215	11,059,770
Other Rental Income	<u>180,000</u>	<u>1,600,538</u>
	<u>182,496,598</u>	<u>161,558,098</u>

Office and parking rent recorded an increase as a result of full implementation of rent escalation per clause in lease agreement and changes in rental rates for new tenancy. Mombasa Island parking rent and rent due from Safaricom Ltd for cable installation in Utalii house and electricity levied to too high consumers form the description of Other Rental Income. This was less compared to the previous year. The direct operating expenses arising from investment property is as follows:

	2020-2021	2019-2020
	Kshs.	KShs
General Repairs and Maintenance	807,386	59,250
Security	7,973,694	7,341,260
Cleaning Costs	5,656,546	5,400,000
Generator Costs & Management Fees	2,744,401	4,894,508
Lifts Maintenance Costs	1,587,623	1,775,856
Electricity Costs	12,214,388	12,465,384
Water and Conservancy	1,475,228	1,442,824
Rent & Rates	<u>1,549,000</u>	<u>2,013,498</u>
	<u>34,008,266</u>	<u>35,392,580</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

These are costs are incurred in running and maintaining the Corporation's Investment Properties i.e. Utalii House, Hilton plot Building along Moi Avenue in Nairobi and Mombasa island plot building. There are four (4) Lifts installed at Utalii House whose quarterly maintenance fees are paid as per current contract.

The cost of electricity power supplied to Utalii House is paid by the Corporation. The power supplied to all other TFC buildings is paid directly by the tenants themselves.

The cost of water supplied to Utalii House is paid by the Corporation while water supplied to all other TFC buildings is paid directly by the tenants themselves.

8. DIVIDEND INCOME

This refers to dividends declared/recommended from shares held in the investee Companies like:

	2020-2021 KShs	2019-2020 KShs
<u>Golf Hotel Ltd, Kakamega</u>		
- final for year ending 30 th June 2019	-	2,000,000
	-	<u>2,000,000</u>

The dividends are recorded as gross. This is since the Corporation as a resident payee is automatically exempted from withholding tax on dividends received under the provisions of income Tax Act as it holds more than 12.5% shareholding in the company.

Dividends declared in the previous year (s) of KShs.27,064,677 from Kenya Hotel properties Ltd are still Outstanding as at 30th June 2021 and amount is accounted for under Trade and Other Receivables (Note 21).

9. OTHER INCOME

	2020-2021 Kshs	2019-2020 Kshs
Directors Fees	403,750	-
Miscellaneous income	<u>127,765</u>	<u>18,207</u>
	<u>531,515</u>	<u>18,207</u>

Miscellaneous Income includes amongst others commission earned upon remittance to third parties on payroll deductions like insurances.

No loan appraisal and commitment fees were received during the current year (2020: KShs Nil). This is Since there has been no new loan approvals under the normal lending mandate owing to the lending moratorium issued in June 2018 due to the impending merger. The loans disbursed in 2020/2021FY under the stimulus programme as listed in Note 20 were exempted from the payment to TFC of Appraisal and Commitment Fees.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. ADMINISTRATION COSTS

	Note	2020-2021 Kshs.	2019- 2020 Kshs.
These comprise:			
Entertainment	10(a)	719,381	702,647
Travelling Costs	10(b)	16,249,266	14,109,560
Motor vehicle Expenses	10(c)	1,298,968	1,791,639
Office Expenses	10(d)	9,104,790	12,786,268
General repairs and maintenance	7	807,386	59,250
Security	7	7,973,694	7,341,260
Cleaning Costs	7	5,656,546	5,400,000
Utalii House Management Fees	7	2,614,401	4,815,972
Utalii House Generator Running	7	130,000	78,536
Lift Maintenance	7	1,587,623	1,775,856
Electricity	7	12,214,388	12,465,384
Water and Conservancy	7	1,475,228	1,442,824
Rent and Rates	7	1,549,000	2,013,498
Auditors Remuneration	10(e)	406,000	406,000
Legal, Valuation and consultancy	10(f)	13,947,915	3,131,138
Bank Charges	10(g)	255,292	153,106
Bad debts Provision (Written Back)	10(h)	41,685,273	37,119,979
Insurances	10(i)	546,565	1,320,729
Economic Stimulus Programme Expenses	10(j)	14,990,720	-
TFC Recurrent Grant to KSLH	10(k)	<u>8,500,000</u>	-
Total		<u>141,712,436</u>	<u>106,913,646</u>

The profit before tax for the current year KShs 25,895,570 (2020: loss KShs 45,163,830) was primarily occasioned by the recurrent grant from the government for KShs 86.402m. This was intended to cushion TFC from the effects of COVID-19 pandemic. TFC was still not able to approve new lending under the core mandate due to the moratorium on lending issued to TFC by the Government on 21st June 2018 owing to the impending merger and which was still in force as at 30th June 2021. Without the government recurrent grant of KShs 86.402m, TFC would have made a loss of KShs 60,506,430 for the current FY. The profit/(loss) has been arrived at after charging/(crediting) the following:

	2020-2021 Kshs	2019-2020 Kshs
Personnel Costs - note 11	159,122,405	146,621,726
Directors' Emoluments and Expenses - note 12	13,111,774	7,064,291
Depreciation - notes 13, 14 & 15	5,561,484	4,612,612
Auditors Remuneration - note 10(e)	406,000	406,000
Provision for bad debts made/ (written back) - note 10(h)	41,685,273	37,119,979
Finance Income (Bank Deposit Interest Income) - note 16(a)	(37,214,152)	(21,633,387)
Rental Income - note 7	(182,496,598)	(161,558,098)

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (a). ENTERTAINMENT

	2020- 2021	2019- 2020
	Kshs	Kshs.
Entertainment	<u>719,381</u>	<u>702,647</u>
	<u>719,381</u>	<u>702,647</u>

This was incurred during the year as paid through payroll to Heads of Departments (HODs) as Provided in the Terms and Conditions of Service. It also involves approved claims for expenses incurred on official business.

10 (b). TRAVELLING COSTS

	2020- 2021	2019- 2020
	Kshs	Kshs
Local Travelling costs	16,249,266	13,391,520
Overseas Travelling costs	-	7,18,040
	<u>16,249,266</u>	<u>14,109,560</u>

Travelling costs comprise Local and Overseas travel expenses incurred by officers of the Corporation sent on official assignments outside their Nairobi station. Such travel involves visits undertaken for loans appraisals; borrowers follow ups, audits at the Units and for training purposes. There were no officers who travelled outside the Country during the current year compared to two (2) who travelled overseas in the previous year, hence KShs Nil Overseas Travelling costs.

10 (c). MOTOR VEHICLE EXPENSES

These are costs incurred in running of the Corporation's motor vehicles during the year which compared well with the previous year.

	2020- 2021	2019- 2020
	KShs	KShs
Fuel and Oil	740,144	933,877
Repairs and Service	<u>558,824</u>	<u>857,762</u>
	<u>1,298,968</u>	<u>1,791,739</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (d). OFFICE EXPENSES

These Comprise:	2020-2021	2019- 2020
	Kshs.	Kshs.
Publicity, Advertising & Public Relations	1,974,360	5,282,106
Printing and Stationery	1,122,312	878,072
Telephone and Postages	1,494,789	1,340,197
Subscriptions and Donations	1,203,106	2,175,420
General Office Expenses	1,843,941	1,935,632
Repairs and Maintenance of Off/E & E-mail Service	1,466,282	1,174,841
	<u>9,104,790</u>	<u>12,786,268</u>

Expenditure for the current 2020/2021FY is lower than that of the previous financial year especially for Publicity where there were lesser activities on Public Relations due to the onset of the COVID-19 pandemic restrictions.

Repairs and Maintenance of Office Equipment as well as monthly payment of e-mail and internet provided to the corporation are accounted for together in the financial statement since they were also budgeted together in the approved budget. The total of the monthly payments was KShs 551,964.

10 (e). AUDITORS RENUMERATION

The Corporation's Financial Statements of the Corporation are audited by The Auditor General. The current applicable fees are accrued as at the end of each financial year and are invoiced and payable after the issuance of the Audit Certificate. They are currently based annually at KShs 406,000(KShs 350,000 plus 16% VAT KShs 56,000).

	2020-2021	2019-2020
	Kshs	Kshs
Auditors Remuneration	<u>406,000</u>	<u>406,000</u>
	<u>406,000</u>	<u>406,000</u>

10 (f). LEGAL, VALUATION & CONSULTANCY FEES

	2020-2021	2019- 2020
	KShs	KShs
Legal Fees	13,470,459	2,479,388
Valuation Fees	175,000	651,750
Consultancy Fees	<u>302,456</u>	=
	<u>13,947,915</u>	<u>3,131,138</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Legal Fees

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

For current year, these legal costs were more/higher compared to previous year as they involved costs at KShs 6.8m including auctioneers fees for a determined case involving a former Managing Director. Included for 2019/2020FY are fees KShs 419,700 paid to Oyugi & Co. Advocates in Sundowner Ltd vs TFC where the claimant, a prospective borrower, had sued the corporation for damages arising from a failed loan disbursement.

Valuation Fees

Valuation fees for current year were in respect to properties that form security for already disbursed loans for purposes of establishing the exposure which is current security value against loan balance.

Consultancy Fees

The fees for current financial year were on Utalii House Energy Audit carried out during the year. No consultancy was undertaken in the previous financial year.

10 (g). BANK CHARGES

Currently the Corporation operates all its six (6) Bank Accounts at Kenya Commercial Bank Ltd along University Way in Nairobi. The full implementation of online payment system during the current FY coupled with the increased number of individual payments saw these charges rise sharply compared to the previous year. Cases of payments through Cheques, though cheaper, were therefore fewer compared to the previous year as TFC complied to COVID-19 restrictions on crowd movements into offices especially when coming to collect cheques physically.

	2020-2021	2019-2020
	Kshs	Kshs
Bank Charges	<u>255,292</u>	<u>153,106</u>
	<u>255,292</u>	<u>153,106</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (h). BAD DEBTS PROVISION

This comprises provisions made/ (written back) during the year as analyzed below;

	2020-2021	2019-2020
	<u>Kshs</u>	<u>Kshs</u>
a) <u>Provision on Loans</u>		
Specific Provision made for Kogelo Hotel Ltd Loan	9,502,304	7,918,588
Specific provision made for Lake Victoria Beach Resort Ltd Loan	-	4,040,623
Specific provision made for Willow Ltd Loan	7,796,904	6,497,421
Specific provision made for Proland Ltd Loan	(1,665,102)	-
Specific provision made for Savona Enterprises Ltd Loan	4,635,374	3,862,811
Specific provision made for Kipini Swahili Eco-Lodge Ltd Loan	9,781,075	7,335,807
Specific provision made for Embeut Resort Ltd Loan	8,448,770	6,336,578
General provision made on loan portfolio	3,185,948	1,128,151
Sub Total on Loans	41,685,273	37,119,979
b) <u>Provision on Ex-Tenants' Debtors</u>		
Sub Total on Ex-Tenants' Debtors	-	-
Grand Total of Provisions (written back)/made	41,685,273	37,119,979

The Corporation continued with its recovery strategy during the current year in an effort to realize recoveries from non-performing loans, though they were adversely affected by the negative effects of the COVID-19 pandemic.

The above specific provisions on loans were approved by the Board sitting on 27th of July 2017.

The Provisions were approved to be scattered over a period of five (5) years at graduated percentages of the loan balance. For current 2020/2021 FY it is provided at 30% (2020: at 25%) as per the approval.

Specific provision on Kipini Swahili Eco-Lodge and Embeut Resort loans which were also approved for provisioning but were erroneously omitted in the previous years were included and provided for from 2018/2019FY and will continue being provided for till 2022/2023FY. For all other loans, the current 2020/2021FY is the last year of the provisions being the fifth in a five-year series that began in 2016/2017FY be previous year.

Current year's general provision of KShs 3,185,948 has been made to fully satisfy credit policy which Provides for 1% general provision on total loans portfolio. 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 Kshs. 61,692,978 including interest). However, no new recovery was made on this deposit during the current year.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The current Deposit balance with interest is KShs 57,842,978 (KShs 61,692,978 less KShs 3,850,000 total received so far). The book value of this deposit as at 30th June 2021 is KShs 47,819,761 per note 21. The entire of the book value of this fixed deposit is provided for as indicated in note 21 and no new write back was made as there was no recovery (2020: KShs Nil).

No further provision was made to cover possible losses on debts from Ex-tenants for Utalii House as they are adequately provided (2020: KShs Nil).

10 (i). INSURANCES

These refer to the insurances for the corporation's buildings, motor vehicles and office equipment. The comparative amounts for the two years are as follows.

	2020- 2021	2019- 2020
	KShs	KShs
Insurances	<u>546,565</u>	<u>1,320,729</u>
	<u>546,565</u>	<u>1,320,729</u>

10 (j). POST COVID ECONOMIC STIMULUS PROGRAMME (PC-ESP) EXPENSES

The Government of Kenya established a Post Covid Economic Stimulus Programme (PC-ESP) in the current 2020/2021FY by injecting KShs 3.0bn into the tourism sector through TFC as a development grant who will make the disbursements of the funds through soft loans to the sector. The amount was later reduced through supplementary budgets to KShs 2,204,264,050 which was finally received by TFC in full. The actual expenses of administering the funds in form of Due Diligence, Sensitization programmes, ESP Committee Sitzings and travel from an approved KShs 20.0m budget (by TFC board on 29th of January, 2021) were as follows;

	2020-2021	2019-2020
	KShs	KShs
PC – ESP Stimulus Expenses	<u>14,990,720</u>	-
	<u>14,990,720</u>	-

10 (k). TFC RECURRENT GRANT TO KSLH

The Government of Kenya allocated to TFC a Recurrent Grant at KShs 86,402,000 in the current 2020/2021FY. This was Supplementary Appropriation under Article 223 of The Constitution. The additional allocation was awarded to TFC as one of the institutions that were adversely affected by the effects of COVID-19 pandemic to cushion them against job losses and imminent closure. The TFC board sitting on the 29th of January 2021 approved a recurrent grant of KShs 8,500,000 from TFC to its subsidiary Kenya Safari Lodges & Hotels Ltd (KSLH). This was to be paid out of the recurrent grant received from the government. As at 30th of June, 2021 only half or KShs 4,250,000 had been paid to KSLH leaving the remaining half being accrued as at the same date to be paid in the next 2021/2022FY. The recurrent grant to KSLH was incurred from an approved budget of KShs 8,500,000 set aside by the board on the 29th of January, 2021;

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020-2021	2019-2020
	KShs	KShs
TFC Recurrent Grant to KSLH	<u>8,500,000</u>	-
	<u>8,500,000</u>	-

11. PERSONNEL COSTS

The analysis of the various items forming the Personnel Costs are shown below;

	2020 -2021	2019- 2020
	KShs	KShs
Salaries and Wages	80,208,745	78,858,291
House Allowance	18,447,276	18,450,000
Employer's Pension Contribution	10,576,991	9,978,794
Employers NSSF Contribution	107,200	108,600
Medical Aid and Surgical scheme	13,976,451	11,468,038
Extraneous Allowance	780,000	780,000
Staff Training	3,684,527	2,749,260
Staff Gratuity	1,851,909	2,408,455
Leave Travel Cost. Leave & Off Days Provision	8,405,616	5,975,249
Terminal Benefits Provision Expense	(2,617,199)	-
Staff Welfare	1,635,854	2,591,356
Staff Group Life & Personal Accident Cover	8,473,644	1,269,080
Commuting Allowance	7,657,671	7,453,000
Staff Telephone Allowance	1,296,000	1,380,933
MD's Other Remunerative Allowances	720,000	720,000
Internship Allowance	<u>3,917,720</u>	<u>2,430,670</u>
	<u>159,122,405</u>	<u>146,621,726</u>

Annual salary increments continued to be awarded to serving employees in applicable months within the year as was the case the previous year. Medical expenditure was higher in the current year and was based on premium worked out on fixed annual benefits. Terminal benefits have not been accrued during the current year as per the decision by the Board sitting on 24th September 2019 to expunge the benefits from the Corporation's Human Resource policy under clause 15.8 (a)(v). however, these accrued benefits were paid in June 2021 payroll resulting into a reversal of excess benefits of KShs 2,617,199 that were found to have been overprovided in prior years. Group Life Assurance was more for current year as it included KShs 6,766,560 as Death-In-Service Benefits that were accrued in the year and which related to an officer who passed on in the previous year. TFC could not claim these benefits from the Insurance Company and had to bear the burden of the life benefits included in the HR Policy as there was no valid Group Life Policy as at the time of the passing on of the said officer.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. DIRECTORS EMOLUMENTS AND EXPENSES

The analysis of the various items forming the Directors' Emoluments & Expenses are shown:

	2020- 2021	2019- 2020
	<u>KShs</u>	<u>KShs</u>
Chairman Remuneration & Phone Allowances	1,044,000	1,116,000
Directors' Sitting Allowances	5,962,000	3,442,000
Directors' Mileage Claims, Lunch & Subsistence Allowances	4,124,353	1,681,507
Directors' Medical Insurance Cover	608,000	511,584
Board Training	<u>1,373,421</u>	<u>313,200</u>
	<u>13,111,774</u>	<u>7,064,291</u>

The term of the previous board ended on 2nd of October 2018 and a new board appointed on 3rd of May 2019. Expenditure for the previous year 2019/2020FY was less than that of the current year since in the current FY the board was involved in more activities. These included strategic trainings for the board, retreats and visits to the corporation's financed projects which all called for payments of sitting allowances as well as mileage and subsistence allowances. More board meetings were also held than the previous year to approve new loans under the stimulus programme funding allocated by the government during the year.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. INVESTMENT PROPERTY

2020	Land & Buildings	Capital Work in Progress (CWIP)	Total
COST OR VALUATION			
At July 1, 2019	3,100,000,000	40,630,670	3,140,630,670
Additions of CWIP	-	4,712,591	4,712,591
Refunds of CWIP	-	(500,000)	(500,000)
At June 30, 2020	3,100,000,000	44,843,261	3,144,843,261
DEPRECIATION			
At July 1, 2019	-	-	-
Charge for the year	-	-	-
At June 30, 2020	-	-	-
NET BOOK VALUE At June 30, 2020	3,100,000,000	44,843,261	3,144,843,261

2021	Land & Buildings	Capital Work in Progress	Total
COST OR VALUATION			
At July 1, 2020	3,100,000,000	44,843,261	3,144,843,261
Additions	-	-	-
Refund of CWIP	-	-	-
At June 30, 2021	3,100,000,000	44,843,261	3,144,843,261
DEPRECIATION			
At July 1, 2020	-	-	-
Charge for the year	-	-	-
At June 30, 2021	-	-	-
NET BOOK VALUE At June 30, 2021	3,100,000,000	44,843,261	3,144,843,261

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

14. PROPERTY, PLANT AND EQUIPMENT

2020	Office Equipment, Furniture & Fittings	Computer & related Equipment	Motor vehicles	Cutler & Holloware	Total
COST OR VALUATION					
At July 1, 2019	117,258,154	13,070,280	9,510,000	31,497	139,869,931
Additions	-	1,631,331	-	-	1,631,331
Correction of overstatement	(3,530)	-	-	-	(3,530)
At June 30, 2020	117,254,624	14,701,611	9,510,000	31,497	141,497,732
DEPRECIATION					
At July 1, 2019	116,386,235	11,662,010	-	-	128,048,245
Charge for the year	739,922	1,495,190	2,377,500	-	4,612,612
At June 30, 2020	117,126,157	13,157,200	2,377,500	-	132,660,857
NET BOOK VALUE At June 30, 2020	128,467	1,544,411	7,132,500	31,497	8,836,875

Property, plant and equipment include the following items that are fully depreciated as at 30th June 2020 as follows:

	Cost or valuation	Normal annual depreciation charge
Office Equipment, Furniture & Fittings	119,467,912	14,928,776
Computer & related Equipment	24,835,937	7,102,681
	<u>144,306,849</u>	<u>22,031,457</u>

2021	Office Equipment, Furniture & Fittings	Computer & related Equipment	Motor vehicles	Cutler & Holloware	Total
COST OR VALUATION					
At July 1, 2020	117,254,624	14,701,611	9,510,000	31,497	141,497,732
Additions	1,500,251	6,119,382	-	-	7,619,633
VAT Adjustment on Prior period Acquisition	92,791	380,331	-	-	473,122
At June 30, 2021	118,847,666	21,201,324	9,510,000	31,497	149,590,487
DEPRECIATION					
At July 1, 2020	117,126,157	13,157,200	2,377,500	-	132,660,857
Charge for the year	243,109	2,940,875	2,377,500	-	5,561,484
Prior year Over provided depreciation	(11,269)	-	-	-	(11,269)
At June 30, 2021	117,357,997	16,098,075	4,755,000	-	138,211,072
NET BOOK VALUE At June 30, 2021	1,489,669	5,103,249	4,755,000	31,497	11,379,415

Property, plant and equipment include the following items that are fully depreciated as at 30th June, 2021 as follows:

	Cost or valuation	Normal annual depreciation charge
Office Equipment, Furniture & Fittings	116,902,790	14,612,849
Computer & related Equipment	25,768,542	7,730,563
	<u>142,671,332</u>	<u>22,343,412</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. INTANGIBLE ASSETS

2020	ERP Software	Total
COST OR VALUATION		
At July 1, 2019	14,000,000	14,000,000
Additions	-	-
At June 30, 2020	14,000,000	14,000,000
DEPRECIATION		
At July 1, 2019	14,000,000	14,000,000
Charge for the year	-	-
At June 30, 2020	14,000,000	14,000,000
NET BOOK VALUE At June 30, 2020	-	-

2021	ERP Software	Total
COST OR VALUATION		
At July 1, 2020	14,000,000	14,000,000
Additions	-	-
At June 30, 2021	14,000,000	14,000,000
DEPRECIATION		
At July 1, 2020	14,000,000	14,000,000
Charge for the year	-	-
At June 30, 2021	14,000,000	14,000,000
NET BOOK VALUE At June 30, 2021	-	-

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Assets Acquired

	2021	2020
10 No. Bulk Filers with Rotating Handles	886,611	-
4 No. Filing Racks with 4 Shelves	90,480	-
2 No. Fire Proof Cabinets	273,760	-
10 No. Orthopedic Chairs	249,400	-
Sub Total for Office Furniture & Fittings	1,500,251	-
18 No. Laptops HP Pro-book	2,266,200	
3 No. I-pads & I-pad covers	422,160	
19 No. Laptops HP Pro-book	2,404,089	
7 No. I pads 8 th Generation	919,783	
1 No. Samsung Galaxy Tablet with Accessories	107,150	
1 No. Laptop	-	90,000
11. No apple iPads	-	1,541,331
Sub Total for Computer & Related Equipment	6,119,382	1,631,331
GRAND TOTAL	7,619,633	1,631,331

Notes:

a) A disclosure is made to the effect that the four (4) TFC's Motor Vehicles with total cost KShs 19,316,075 were fully depreciated as at 1st of July 2018. However, they are still being fully used and TFC is deriving economic benefit as a result of this use. To ascertain their fair value, these Vehicles were revalued by an independent appointed Valuer on an open market basis during 2018/2019FY. Total of revalued amounts is KShs 9,510,000 resulting into a loss of KShs 9,806,075 which was reversed by debiting income. Accumulated depreciation brought forward of KShs 19,316,075 was also reversed by crediting income thus resulting into net credit to income of KShs 9,510,000, the first year of depreciation on this revaluation surplus is the previous FY 2019/2020 is the carrying amount of the asset at the end of the financial year

b) No depreciation is provided for Cutlery and Holloware since none of these 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 Revaluation Reserve.

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.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

A further revaluation was carried out in March 2011 by Regent Valuers International (K) Ltd, professional valuers, on an open market basis. This was in respect to Utalii House valued at KShs 730,000,000 (surplus KShs 152,764,800).

A further revaluation was carried out in July 2014 by Crystal Valuers Ltd, professional valuers, on an open market basis. This was in respect to Utalii House valued at KShs 1,600,000,000 up from KShs 730,000,000 (surplus KShs 870,000,000).

A revaluation was carried out during the 2012/2013 year by Metrocosmo Ltd, professional valuers, on open market basis with respect to KADC's Mombasa Island Plot. The market value was given as KShs 600,000,000 against previously carrying cost of KShs 6,945,472 resulting into surplus of KShs 593,054,528 which was realized through the Statement of Comprehensive Income as provided by International Accounting standard (IAS) 40 paragraph 35.

A further revaluation was carried out in December 2014 by Trans Country Valuers Ltd, professional valuers, on an open market basis. This was in respect to Mombasa Island Plot valued at KShs 700,000,000 up from KShs 600,000,000 (surplus KShs 100,000,000).

A revaluation was carried out in June 2014 by Metrocosmo Ltd, professional valuers, on an open market basis. This was in respect to the corporation's plot along Moi Avenue in Nairobi valued at KShs 800,000,000 against its then carrying amount of KShs 15,000,000 resulting into surplus of KShs 785,000,000 which was realized through the Statement of Comprehensive Income as per IAS 40.

d) Capital Work In Progress (CWIP) carrying amount of KShs 21,997,694 as at 30th of June 2016 comprises the amount of architectural services paid in the previous year(s) with respect to Utalii House phase II rehabilitation works KShs 17,937,694 and deposit and survey fees with respect to the proposed acquisition of Marina land in Shimoni, Kwale KShs 4,060,000 (deposit KShs 3,500,000 and fees KShs 560,000).

The refund of the deposit had been made as at 30th of June 2019 at KShs 3,000,000 leaving a balance KSh 500,000 which was received in July 2019. Further payments were made under CWIP in 2016/2017FY KShs. 21,632,976 and were in respect to paintings and rehabilitation works to Utalii House that were contracted during the previous year. These were paid to Contractor CM Construction Ltd. KShs. 18,098,960 and Kenchuan Architects Ltd. KShs. 3,534,016. These works had not been completed and commissioned as at 30th June 2021.

In 2019/2020 FY, a total of KShs.4,712,591 was paid to Kenchuan Architects Ltd at KShs.2,307,944 and Kenby Investments at KShs.2,404,648 in respect to staircase works at Utalii House.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. INCOME FROM NON-ORDINARY ACTIVITIES

This is income that was generated from non-trading activities during the year. These are;

16(a). BANK DEPOSIT INTEREST INCOME

	2020-2021	2019-2020
	<u>KShs</u>	<u>KShs</u>
This Comprises:		
Interest from F/D in Sundowner Case	-	10,942,376
Interest from TFC Loan Fund Bank Account	35,544,294	-
Interest from Fixed & Call Deposits	1,669,858	10,691,011
	<u>37,214,152</u>	<u>21,633,387</u>

This is interest normally earned during the financial year from Fixed Deposit accounts held by the Corporation at Kenya Commercial Bank Ltd. A deposit was placed into joint advocates' account in December 2014 KShs 30.153Million in Sundowner Ltd vs TFC for a failed disbursement. Interest earned KShs 10,942,376 was recognized in the previous 2019/2020FY.

Interest earnings were more than that of previous year as TFC negotiated with the bank to allow an interest of 2.50% p.a. credited to the loan fund bank account every month. This is after the Corporation adhered to Government directives through The National Treasury to stop any further investments of surplus funds in Treasury bills and Fixed deposits in Commercial banks and other financial institutions in a letter dated 19th of November 2019. No new investments were placed in fixed deposits and treasury bills during the current 2020/2021FY.

16(b). RECURRENT GRANT FROM GOK

Recurrent grant of KShs 86,402,000 was allocated by the Government of Kenya (GOK) to TFC during the year under Article 223 of The Constitution. This was a Supplementary Appropriation to TFC as one of the institutions that were affected by the effects of COVID-19 pandemic to cushion them from job losses and imminent closure. As at 30th June 2021, only 75% or KShs 64,801,500 had been received with balance 25% or KShs 21,600,500 accrued as at the same date which was received on 8th of July, 2021.

	2020-2021	2019-2020
	<u>KShs</u>	<u>KShs</u>
Recurrent Grant from GOK	<u>86,402,000</u>	-
	<u>86,402,000</u>	-

	2020-2021	2019-2020
	<u>KShs</u>	<u>KShs</u>
Withholding tax paid	5,582,123	1,603,651
	<u>5,582,123</u>	1,603,651

This refers to 15% withholding tax deducted from Bank Deposit Interest Income in note 16 above.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Withholding tax paid during current year of KShs. 5,582,123 was on Bank Deposit interest earnings at 15% of KShs 37,214,152 (2020: KShs 1,603,651).

18. DEFERRED TAX

	2020-2021 KShs	2019-2020 KShs
Accelerated Capital Allowance	(9,953,579)	(9,953,579)
Tax Losses	(29,602,737)	(29,602,737)
Provision for terminal dues	(20,299,476)	(20,299,476)
Provision for gratuity	(937,423)	(937,423)
Provision for leave pay	(1,559,601)	(1,559,601)
	<u>(62,352,816)</u>	<u>(62,352,816)</u>
Deferred tax (income)/expense	-	-
	<u>-</u>	<u>-</u>

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

Accounting profit/(loss) before taxation	20,313,447	(46,767,481)
Tax at applicable rate (30%)	-	-
Expenses not subject to tax (Depreciation)	-	-
Over/Under provision in prior years	-	-
Income not subject to tax	-	-
Income not subject to tax	-	-
	<u>(-)</u>	<u>(-)</u>

Movement in deferred tax account

	2020 -2021 KShs	2019-2020 KShs
Opening Balance	(62,352,816)	(62,352,816)
Write down during the year	62,352,816	-
Deferred Tax Liability/(Asset)	-	-
Closing Balance	<u>-</u>	<u>(62,352,816)</u>

A TFC Due Diligence Report as at 30th June 2020 was carried out for purposes of the Merger of TFC, ICDC and IDB Capital. The Report recommended that the Deferred Tax Asset of KShs 62,352,816 that has continued to be carried forward in the balance sheet be written down as it would not be utilized by KDC in the merger. The amount was therefore written down as at 30th June 2021 against tax liability carried forward.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. INVESTMENTS

Project	Percentage Held %	Equity Investment 2021 KShs	Equity Investment 2020 KShs
(i) <u>Subsidiaries</u>			
Kenya Safari Lodges & Hotels Ltd	84.07	116,061,176	116,061,176
Bomas of Kenya Ltd	100.00	5,080,000	5,080,000
Mt. Elgon Lodge Ltd	72.90	1,345,780	1,345,780
Sunset Hotel Ltd	95.40	11,450,000	11,450,000
Kabarnet Hotel Ltd	98.20	5,432,120	5,432,120
Golf Hotel Ltd, Kakamega	80.00	4,827,480	4,827,480
African Tours & Hotels Ltd - Non-performing, being Wound up	52.60	5,469,360	5,469,360
Subtotals		149,665,916	149,665,916
(ii) <u>Associates</u>			
Mountain Lodges Ltd	39.70	6,101,160	6,101,160
International Hotel (K) Ltd	40.05	135,939,167	135,939,167
Kenya Hotel Properties Ltd	53.9	117,603,012	117,603,012
Buffalo Springs Ltd	41.00	1,041,750	1,041,750
Subtotals		260,685,089	260,685,089
(iii) <u>Others</u>			
Maralal Safari Lodge Ltd	15.50	802,000	802,000
The Ark Ltd	5.50	823,976	823,976
African Tours & Hotels Preference Shares	-	29,100	29,100
Subtotals		1,655,076	1,655,076
Grand Totals		412,006,081	412,006,081
Less: Provision for Investment in AT & H Ltd.		(4,721,000)	(4,721,000)
Provision for Investment in Buffalo Springs Ltd.		(1,000,000)	(1,000,000)
TOTAL INVESTMENTS		406,285,081	406,285,081

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Notes to Investments - continued

a) All the investments listed above are stated at their historical costs amounts at the time of acquisitions.

b) Buffalo Springs Ltd was leased to Mara Simba Lodge by Isiolo Town Council and the Corporation along with the Ministry of tourism and the Ministry of Finance sought for legal opinion from the Attorney General since Isiolo County council moved in because of the Corporation's failure to pay land rent arrears. The legal opinion advised that Isiolo County Council was right in exercising its Landlord rights. Following various meetings, it was finally decided that a forensic audit should be done by the Kenya National Audit Office to bring out the position of the Corporation in regard to equity investment and the outstanding loan.

This matter was substantively discussed by the KTDC Board sitting at its 234th meeting held on the 25th of February, the 3rd and the 4th of March 2010 where it was resolved that the Forensic Audit be carried out. Consequently, the Corporation requested the Auditor General to carry out the Audit. The Auditor General by his letter dated 15th of September 2010 advised the Corporation to outsource the Forensic Audit Service. The Corporation has not yet engaged an Audit Firm for these services.

c) All the investments indicated above are performing, except as indicated in (ii) below. They operating on a day-to-day basis and the Corporation does not finance any of their operating costs. The others indicated as non-performing are either operating below capacity or are already dissolved awaiting removal from the books.

i) Mt. Elgon Lodge Ltd. and Kabarnet Hotel Ltd. are operating below capacity and have requested the Corporation to finance their rehabilitation so as to resume full capacity.

ii) African Tours & Travel Hotels Ltd. was placed under receivership in 1998 and later wound up. The Investment in both ordinary and in preference shares is already provided as shown above.

iii) Malalal Safari Lodge Ltd. is generally operating on low scale and largely depends on seasoned guests and customers.

d) The audit for 2017/2018FY revealed understatements of investments in equity involving a number of investee companies. This revelation arose after a verification of share certificates confirming the shares issued whose total amounts were more than the current carrying balances in the books by KShs 8,542,618. This amount which involved the following companies was incorporated in the books by adjusting upwards the individual equity investment and the revaluation reserve in the previous 2018/2019FY;

	<u>KShs</u>
1. Golf Hotel Ltd	827,480
2. African Tours and Hotels Ltd	777,460
3. Mountain Lodges Ltd	3,207,640
4. Kenya Hotel Properties Ltd	3,413,652
5. The Ark Ltd	274,636
6. Buffalo Springs Ltd	<u>41,750</u>
	<u>8,542,618</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. LOANS						
	Principal Balance	Principal Arrears	Interest Arrears	2020-2021 Total	2019-2020 Total	
Project	KShs	KShs	KShs	KShs	KShs	
1-Hotel Big Five Ltd.	-	8,581,360	36,360,456	44,941,816	44,941,816	
2-Kabarnet Hotel Ltd.	10,164,859	8,194,085	9,250,939	27,609,883	27,609,883	
3-Golf Hotel Ltd, Kakamega.	16,912,707	(1,821,292)	-	15,091,415	16,778,865	
4-Buffer Springs Ltd.	-	4,944,310	13,039,857	17,984,167	17,984,167	
5-Mt Elgon Lodge Ltd.	7,584,752	831,576	930,852	9,347,180	3,527,223	
6-Sunset Hotel Ltd, Kisumu.	53,678,764	44,293,084	49,713,578	147,685,426	138,553,744	
7-Metro Enterprises Ltd.	-	-	33,474,906	33,474,906	33,474,906	
8-Olimo Synergy Ltd.	-	15,000,000	15,096,017	30,096,017	30,096,017	
9-Kogelo Hotel Ltd.	-	23,006,490	22,721,566	45,728,056	43,614,911	
10-Lake Victoria Beach Resort Ltd.	-	8,529,801	419,152	8,948,953	8,534,688	
11-Willow Ltd.	-	15,015,000	20,791,158	35,806,158	35,806,158	
12-Reef Hotels (Management) Co. Ltd.	1,845,134	5,349,994	243,610	7,438,738	7,197,867	
13-Embeut Resort Ltd.	-	30,350,000	26,956,190	57,306,190	52,132,195	
14-Savona Enterprises Ltd.	-	10,002,420	11,273,614	21,276,034	21,276,034	
15-West Vision Holdings Ltd.	4,550,516	9,415,067	1,652,955	15,618,538	14,874,970	
16-Triple Trojan Investment Ltd.	2,133,295	2,739,905	506,442	5,379,642	4,943,149	
17-Lagoon Development Ltd.	-	(738,801)	-	(738,801)	(738,801)	
18-Marura Ikumi Ltd.	2,402,803	2,147,811	103,984	4,654,598	4,696,437	
19-Kipini Swahili Eco - Lodges Ltd.	2,314,811	46,523,896	11,735,678	60,574,385	55,296,840	
20-Kangocho & Company Ltd.	28,646,067	8,979,954	2,132,732	39,758,753	38,595,228	
21-Kenya Hotel Properties Ltd.	60,064,531	64,684,984	173,051,992	297,801,507	257,828,911	
22-Kenya Safari Lodges & Hotels Ltd.	-	11,650,446	-	11,650,446	12,338,006	
23-Jaqanaz Resort Ltd	13,290,458	2,750,727	-	16,041,185	16,961,038	
24-Tafaria Ltd.	19,863,508	6,555,340	2,362,678	28,781,526	27,265,432	
25-Bungoma Royal Suites Ltd	41,705,222	13,198,406	13,943,848	68,847,476	62,574,396	
26-The Q. Holdings Ltd	56,081,571	11,948,635	7,471,266	75,501,472	69,892,775	
27-Afrika Lodges Ltd	12,366,487	2,612,002	(238,361)	14,740,128	15,458,470	
28- Comfort Hotels & Lodges Ltd	24,204,368	5,914,226	4,050,128	34,168,722	31,078,890	
29-Jirime Hotel & Resort	24,819,716	9,306,068	3,499,698	37,625,482	35,043,335	
30-Peniel Group of Hotels Ltd	4,223,086	986,945	-	5,210,031	5,652,334	
31-Natural World Mombasa Safaris	3,473,858	4,024,175	584,101	8,082,134	7,557,344	
32-Mountain Lodges Ltd	23,572,469	2,018,070	1,776,822	27,367,361	23,467,539	
33-The Alba Hotels Ltd	38,402,152	-	-	38,402,152	-	
34-Mwingi Hotels Ltd.	20,935,704	-	-	20,935,704	-	
35-Whirlpring Hotel Kisumu Ltd	5,672,015	-	-	5,672,015	-	
36-Afrikana Yard Ltd	4,614,973	-	-	4,614,973	-	
37-Doa Doa Tented Camp & Lodge Ltd	10,800,000	-	-	10,800,000	-	
38-Moffat Court Apartments Ltd	5,254,320	-	-	5,254,320	-	
39-Pinecone Hotel Ltd, Kisumu	12,000,000	-	-	12,000,000	-	
40-Sixty-Four Centre Ltd	15,337,658	-	-	15,337,658	-	
41-Naivasha Kongoni Lodge Ltd	10,387,534	-	-	10,387,534	-	
42-Gelian Investments Ltd	35,328,464	-	-	35,328,464	-	
43-Engwata Enterprises Ltd	2,115,350	-	-	2,115,350	-	
44-Bali's Best Bar Ltd	15,082,661	-	-	15,082,661	-	
45-Rhino Watch Safaris Ltd	9,866,667	-	-	9,866,667	-	
46-Sandalwood Hotels & Resorts Ltd	33,961,800	-	-	33,961,800	-	
47-Kasarani Sports View Hotel Ltd	<u>9,028,253</u>	-	-	<u>9,028,253</u>	-	
TOTALS	642,686,533	376,994,684	462,905,858	1,482,587,075	1,164,314,967	
Less: Total provision for Loans in suspense				(244,787,454)	(185,367,155)	
Total of loans Book values				1,237,799,621	978,947,812	
Less: Total provision for Bad Loans				(214,365,769)	(172,680,496)	
TOTAL LOANS NET OF PROVISIONS				<u>1,023,433,852</u>	<u>806,267,316</u>	

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

	2020-2021	2019-2020
	Total KShs	Total KShs
Loans Bad Debts Provision Brought Forward on 1st of July	172,680,496	135,560,516
Provision Made / (Write Back) per Note 10(h)	<u>41,685,273</u>	<u>37,119,980</u>
Loans Bad Debts Provision Carried Forward on 30th June	<u>214,365,769</u>	<u>172,680,496</u>

Loan(s) with Kshs. Nil balances in the 2019-2020FY column are new ones that were disbursed within the current FY 2020/2021. All the new loans were disbursed out of the Development Grant from the Government in the current 2020/2021FY under the Post Covid Economic Stimulus Programme (PC-ESP) to stimulate the tourism sector from the effects of the Covid-19 pandemic - see Note 25(c).

21. TRADE AND OTHER RECEIVABLES	2020-2021	2019-2020
These Comprise:	Kshs	Kshs
Debtors (Note below)	1,198,095,758	432,446,309
Deposit and Prepayments	<u>127,670</u>	<u>111,173</u>
	1,198,223,428	432,557,482
Fixed Deposit at Euro Bank Ltd (In liquidation)	<u>47,819,761</u>	<u>47,819,761</u>
	1,246,043,189	480,377,243
<u>Less:</u> Provision for Bad Debts on debtors	<u>(142,366,757)</u>	<u>(142,366,757)</u>
Provision for Bad debts	<u>(47,819,761)</u>	<u>(47,819,761)</u>
	<u>1,055,856,671</u>	<u>290,190,725</u>
<u>Note:</u> Debtors comprise of:		
(i) Current Tenants Debtors	184,873,669	118,179,547
(ii) Unit Debtors (excluding Dividends)	147,533,411	151,131,411
(iii) Dividends due from Kenya Hotel Properties Ltd.	27,064,677	27,064,677
(iv) Ex-Tenants Debtors	87,111,822	87,612,943
(v) Current Staff Debtors	4,313,486	3,080,610
(vi) Ex-Staff Debtors	6,926,269	6,357,117
(vii) Other Debtors (see below)	<u>740,272,424</u>	<u>39,020,004</u>
	<u>1,198,095,758</u>	<u>432,446,309</u>

The book value of Fixed Deposit at Euro Bank Ltd (in Liquidation) is re-classified from Cash & Cash Equivalents under Note 22 to Debtors under Note 21. This is since this amount has been outstanding for a considerably long time from year 2003 and can no longer qualify for classification as Cash & Cash Equivalents as it is not easily realizable.

Current tenant debtors were more for current year as most of the tenants were not able to clear their arrears in time mainly due to adverse economic effects of the Covid-19 pandemic. Staff debtors were more than previous year as more staff had taken advances than previous year. These are recovered in maximum of twelve (12) months.

Ex-tenant debtors are those who gave up office and parking spaces and left with rent balances. The dividends due are the ones declared as per note 8 but had not been received as at the year end.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Other Debtors has over the years included payment in 2014/2015 FY by the corporation as directed by the court of a deposit of KShs 30.1m in judgement awarded to Sundowner Ltd who sued the corporation for damages resulting from a failed loan disbursement. The corporation, after a successful appeal, was refunded KShs 27.50m in the previous FY leaving a balance of KShs 13.14m after earning interest of KShs 10.94m and incurring legal fees KShs 0.419m. For 2019/2020FY this included KShs 12.50m in 2018/2019FY into the Merger Expenses bank account at Kenya Commercial Bank for purposes of meeting expenses of the proposed merger following authorization by The National Treasury and this has since been expensed through Retained Earnings during the current year.

During the current 2020/2021FY, TFC was allocated and received a Development Grant under the Post Covid Economic Stimulus Programme (PC-ESP) of KShs 2,204,264,050 as per Note 25(c) through the parent Ministry of Tourism & Wildlife (MOTW). As at 30th June 2021 only KShs 1.5bn had been received leaving a balance of KShs 704,264,050 accrued as at the same date under the MOTW's debtors account and which was received by TFC on 8th July 2021. As explained in Note 16(b), the KShs 21,600,500 accrued and also due from the same MOTW on the same date under the Recurrent Grant was also received on 8th of July 2021. These two accruals from the MOTW amounted to total KShs 725,864,550 thus increasing the Other Debtors amount as at 30th June 2021 compared to the previous year.

22. CASH AND CASH EQUIVALENTS

	2020-2021	2019-2020
a. Short term deposits	<u>KShs</u>	<u>KShs</u>
Fixed Deposits	-	47,841,308
b. Bank and cash balances	<u>KShs</u>	<u>KShs</u>
Cash at Bank	1,574,083,395	325,490,781
Cash in Hand	<u>28,680</u>	<u>72,257</u>
	<u>1,574,112,075</u>	<u>325,563,038</u>
Total cash & Cash Equivalents	<u>1,574,112,075</u>	<u>373,404,346</u>

For the purpose of Cash Flow Statement, the year-end Cash and Cash equivalents shown above is offset and reduced, where applicable, by Bank Overdraft if any. During the current financial year 2020/2021 new Loans continued to be disbursed per note 32 (b). The receipt of a development grant from the government of KShs 1.5bn for lending under the stimulus programme had a positive impact on the balance of cash and cash equivalents as at 30th of June 2021.

All these funds are held at Kenya Commercial Bank University Way. The account numbers holding the funds are as follows;

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Short Term Deposits		2020-2021	2019-2020
Name	A/C No.	Kshs.	Kshs.
1. Loan Funds Fixed Deposit	1177740990	-	47,841,308
		-----	-----
		-	47,841,308
		=====	=====
Bank and Cash Balances		2020-2021	2019-2020
Name	A/C No.	Kshs.	Kshs.
2. TFC Administration A/c	1104821397	(705,447)	1,446,139
3. TFC Loan Fund A/c	1123183503	1,560,502,380	297,197,549
4. TFC Privatization Funds	1104822970	13,300,626	25,861,257
5. TFC Loan Funds Interests	1123183805	99,934	99,934
6. TFC Sinking Fund A/c	1104823721	262,003	262,003
7. TFC Tenant Deposit A/c	1123183619	623,899	623,899
8. TFC Petty Cash A/c	-	28,680	72,257
		-----	-----
		1,574,112,075	325,563,038
		=====	=====
Grand Total		1,574,112,075	373,404,346

23. EQUITY FUNDS

These are the initial funds paid by the Government of Kenya (GOK) as equity investment in the Corporation. The funds were used by the Corporation to acquire equity interest in tourism related companies.

	2020- 2021	2019- 2020
	KShs	KShs
Equity Fund Investment by GOK in the Corporation	<u>106,000,000</u>	<u>106,000,000</u>
	<u>106,000,000</u>	<u>106,000,000</u>

24. PRE-INVESTMENT STUDIES GRANT

These are the funds that were initially granted by the Government of Kenya (GOK) to help the Corporation carry out feasibility studies before investment in equity.

	2020 -2021	2019 – 2020
	KShs	KShs
Pre - Investment Studies Grant	<u>281,212</u>	<u>281,212</u>
	<u>281,212</u>	<u>281,212</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RELATED PARTY TRANSACTIONS

The following were the transactions with related parties during the financial year;

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity Interest.

(b) Employees

The Corporation provides all qualifying employees with car and housing loans on terms more favorable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

(c) Loan Fund

This fund refers to Grants that have over the years been received from the Government of Kenya (GOK).

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. The GOK grant received by the Corporation is development in nature and is utilized in loan disbursement to borrowers in fulfilment of the Corporation's core mandate of financing tourism related projects.

This is Income approach and was adopted to the grant received in the 2004/2005 financial year.

	2020 -2021 <u>KShs</u>	2019 – 2020 <u>KShs</u>
GOK Grant received 2004/2005 FY	7,500,000	7,500,000
Disbursement /Expense realized to income 2005/2006 FY	<u>(2,027,800)</u>	<u>(2,027,800)</u>
Balance of grant fund	5,472,200	5,472,200
GOK Grant received 2009/2010 FY	400,000,000	400,000,000
GOK Grant received 2010/2011 FY	300,000,000	300,000,000
GOK Grant received 2011/2012 FY	78,000,000	78,000,000
GOK Grant received 2012/2013 FY	60,000,000	60,000,000
GOK Grant received 2013/2014 FY	14,250,000	14,250,000
GOK Grant received 2016/2017 FY	375,000,000	375,000,000
GOK Grant received 2017/2018 FY	75,000,000	75,000,000
GOK Grant received 2020/2021 FY	<u>2,204,264,050</u>	-
Balance of grant fund as at 30 th June	<u>3,511,986,250</u>	<u>1,307,722,200</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Government of Kenya in the current 2020/2021FY granted a development grant to TFC for KShs 3.0bn for onward lending on concessionary terms for restructuring and rehabilitating existing tourist facilities to cushion them from the effects of Covid-19 pandemic. This was later reduced through supplementary budgets to KShs 2,204,264,050 which was received on 1st September 2020 at KShs 1.50bn and the balance accrued as at 30th June 2021 of KShs 704,264,050 was received on 8th of July 2021.

d) Investee Companies

The following balances are the Related Parties' Relationships between the Corporation and the Investee Companies shown in Note 19 as per IAS.

	Type of debt	2020 -2021	2019 – 2020
		Kshs	Kshs
i) Kenya Safari lodges & Hotels	Loan	11,650,446	12,138,006
	Unit Debtors	8,648,463	12,650,463
ii) Bomas of Kenya Ltd	Unit Debtors	1,535,951	1,535,951
iii) Mt. Elgon Lodge Ltd	Loan	9,347,180	3,527,223
	Unit Debtors	26,799,307	26,328,322
iv) Sunset Hotel Ltd	Loan	147,685,426	139,254,671
	Unit Debtors	29,785,210	29,785,210
v) Kabarnet Hotel Ltd	Loan	27,609,883	27,609,883
	Unit Debtors	46,742,749	46,228,524
vi) Golf Hotel Ltd	Loan	15,091,415	17,113,343
	Unit Debtors	3,017,767	3,017,767
vii) African Tours & Hotel Ltd	Unit Debtors	149,543	149,543
	Tenant debtors	8,016,872	8,016,872
viii) Mountain Lodges Ltd	Loan	27,367,361	23,467,539
	Unit Debtors	622,678	622,678
ix) International Hotels Ltd	Unit Debtors	11,415,080	11,415,080
x) Kenya Hotel properties Ltd	Loan	297,801,507	257,818,911
	Unit Debtors	41,745,449	41,745,449
xi) Buffalo Springs Ltd	Loan	17,984,167	17,984,167
	Unit Debtors	649,193	649,193

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

xii) Maralal Safari Lodge Ltd	Unit Debtors	60,000	60,000
xiii) The Ark Ltd	Unit Debtors	<u>354,482</u>	<u>354,482</u>
	Total	<u>734,080,129</u>	<u>681,483,277</u>

26. GENERAL FUND

This Comprises:

a) CAPITAL RESERVE

	2020-2021	2019-2020
	<u>KShs</u>	<u>KShs</u>
Capital Reserve B/f	20,506,020	20,506,020
Capital Reserve C/f	<u>20,506,020</u>	<u>20,506,020</u>

b) RETAINED EARNINGS

Balance Brought Forward including Revaluation Reserve	3,248,216,743	3,359,238,224
<u>Prior Period Adjustment</u>		
Merger Expenses Paid in April 2019	(12,500,000)	-
Merger Expenses Paid in December 2020	(12,500,000)	-
Court Deposit in Former MD's case paid in Mar'20	(12,960,000)	-
Over Provided Depreciation in Prior Years	<u>12,269</u>	<u>-</u>
Restated Retained Earnings Brought Forward	<u>3,210,268,012</u>	<u>3,359,238,224</u>
Dividends paid to The National Treasury	-	(64,254,000)
Retained Earnings/(Loss) for the year	<u>20,313,447</u>	<u>(46,767,481)</u>
Retained Earnings/(Loss) Carried Forward	<u>3,230,581,459</u>	<u>3,248,216,743</u>
TOTAL GENERAL FUND	<u>3,251,087,479</u>	<u>3,268,722,763</u>

Note:

- i) A loss of KShs 46,767,481 was experienced in the previous 2019/2020FY. However, during the current 2020/2021FY a profit was made of KShs 20,313,447 which was attributed to the allocated recurrent grant of KShs 86,402,000 from the government as mentioned earlier to cushion TFC from adverse operational effects of Covid-19 pandemic.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

- ii) The Merger Expenses were incurred by TFC following a directive from The National Treasury (TNT) to both TFC and ICDC in the 2018/2019FY each to deposit KShs 25.0m (total KShs 50.0m) into Merger Expenses bank account with Kenya Commercial Bank Ltd. The bank account was, when opened, to be operated by both TFC and ICDC in conjunction with TNT. TFC paid its portion of the KShs 25.0m in two instalments the first being in April 2019 KShs 12.50m which was held under Debtors in the two previous FYs.

This together with the final instalment paid in December 2020 KShs 12.50m have now been adjusted in the current 2020/2021FY against the Retained Earnings brought forward as they relate to expenditure for the previous FYs.

- iii) Court Deposit in former MD's case was for KShs.12.96m deposit was paid in 2019/2020FY into a joint account between Kilonzo & Co. advocates and Patrick & Teddy advocates being lawyers for the claimant and the Corporation respectively in relation to a legal case by a Former Managing Director. This has been held under the debtors account pending the conclusion of the case which is still ongoing. During the current 2020/2021FY, this amount was adjusted against the retained earnings brought forward as it refers to the previous financial year.
- iv) The write back of KShs 11,269 was in respect to depreciation that had been over provided in the previous years with respect to some assets. This was noted during a thorough analysis of assets as at 30th June 2021 carried for purposes of having correct assets' carrying amounts for purposes of the merger.
- v) Loan interest earnings reduced as a result of a lending moratorium placed by Government earlier and which continued to be in force throughout the year. This was contained in letter Ref. MOT/CONF. 6/1/01(2) Vol. 1C dated 21st June 2018 from The Cabinet Secretary Ministry of Tourism & Wildlife owing to the impending merger. The Corporation was allocated KShs.3Bn (which was later reduced to KShs 2,204,264,050 through supplementary budgets) in the National 2020/2021FY budget for implementation of Post Covid-19 Economic Stimulus package of the tourism industry. The amount which was actually received during the year of KShs 1.5bn was placed in the TFC's loan fund bank account which together with other funds therein earned a negotiated interest at 2.50% p.a. credited monthly from September 2020. This improved Bank Deposit earnings, thus more profitability. Disbursements to qualifying borrowers began in April, 2021 all with interest and principal repayment moratorium period of twelve (12) months.

27. RESTRUCTURING RESERVE

	2020-2021 Kshs.	2019-2020 Kshs.
Revolving Fund Programme	16,701,086	16,701,086
Commercial Fund Programme	71,879,756	71,879,756
	<u>88,580,842</u>	<u>88,580,842</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

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

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 already been offset from the Reserve. Currently the corporation does not have any deferred interest on loans in its books.

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

No new additional Loan Restructuring Reserve was provided out of Profits during the current year (2019: KShs Nil)

28. IREDEEMABLE GOK REVOLVING FUND LOAN

This Loan was given by the Government of Kenya (GOK) at the inception of the Corporation to finance the disbursement of loans to indigenous Kenyans to establish tourist-related business enterprises under the Revolving Fund loans programme.

The Government later rescheduled this loan in December 1986 by writing off the arrears and retaining the loan at Principal at KShs. 48,000,000 being irredeemable and carrying an interest of 8.5% p.a. as from 1st January 1990.

The resulting annual interest amount of KShs. 4,080,000 had over the years been charged to income every financial year and becomes due for payment to the Treasury on the 1st of July of the following financial year.

However, following successful request by the Corporation to the Government of Kenya, Treasury through their letter dated 4th of September 2009 waived the annual interest on this Irredeemable Loan.

Interest for the current year 2020/2021 has therefore not been charged and only the Principal Loan is now due as shown below;

	2020-2021	2019-2020
	Kshs.	Kshs.
Irredeemable GOK Revolving Fund Loan	<u>48,000,000</u>	<u>48,000,000</u>
	<u>48,000,000</u>	<u>48,000,000</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

29. RETIREMENT BENEFIT OBLIGATION

a) KTDC Staff Retirement Benefits Scheme

The Corporation operates a Defined Contribution Staff Retirement Benefits Scheme for its employees who are on Permanent & Pensionable Terms of Service. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions made by the employer at 15% and by Employee at 7.5% of Basic Salary. The Corporation's contributions to the scheme are charged to Statement of Comprehensive Income in the year in which they relate.

b) TFC Terminal Benefits Provision

The Corporation had provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving. This is payable to eligible employees who serve a continuous term not less than two (2) years from the date of employment to date of leaving. Each employee earns thirty (30) terminal leave days per every served year after revision of HR policy during the 2016/17 FY up from previously twenty-one (21) days. The Benefits due for current staff as at 30th June 2020 were paid in June 2020 payroll as all TFC employees moved to merger to join Kenya Development Corporation Limited (KDC) as from 1st of July 2021. This payment left employees benefits provision at KShs Nil as at 30th June 2021 (2020: KShs 73,968,364).

30. TRADE AND OTHER PAYABLES

	2020-2021	2019-2020
	Kshs.	Kshs.
These Comprise:		
(a) Creditors (Note (a) below)	201,013,144	193,649,807
(b) <u>Provisions:</u>		
(i) Gratuity for Employees on Contract Terms	3,339,909	1,488,000
(ii) Employees Leave and Off days Benefits	5,621,519	3,767,232
	<u>209,974,572</u>	<u>198,905,039</u>
<u>Note (a) Creditors are comprised of:</u>		
(i) Creditors for Accrued Expenses	34,587,379	21,418,415
(ii) Current Tenants for Rent Deposit	19,017,760	16,486,542
(iii) Current Tenants Payments in Advance	1,486,862	1,399,289
(iv) Audit Fees	1,680,000	1,274,000
(v) VAT – Output & withholding	83,221,700	128,776,724
(vi) Payroll Recoveries	48,847,351	21,861,707
(vii) Current Staff Creditors	9,318,361	81,992
(viii) Ex - Staff Creditors	2,837,129	2,351,138
(ix) Other Creditors	16,602	-
	<u>201,013,144</u>	<u>193,649,807</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

a) Creditors

Creditors include, among others, creditors for expenses, tenants rent deposits received, tenants who had paid in advance as at the year-end & VAT-output and withholding. Ex-staff creditors include amounts of benefits due to employees who leave towards end of a financial year but had not been paid as at 30th of June 2021.

b) (i) 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.

c) (ii) Employees Leave and Off Days Benefits

This refers to monetary liability for employee's accrued annual leave and off days as at the balance sheet date. This was more than last year as most staff had not taken bulk of their balances of Leave days during the current year compared to previous year.

31. NOTES TO THE STATEMENT OF CASH FLOWS

	2020-2021 Kshs	2019-2020 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations		
Operating profit/(loss) Before Taxation (Page 1)	25,895,570	(45,163,830)
Depreciation (Notes 13, 14 & 15)	5,561,484	4,612,612
Interest received from bank deposits (Note 16(a))	(37,214,152)	(21,633,387)
Income from investment (dividend) (Note 8)	-	(2,000,000)
Merger Expenses adjusted to Retained Earnings brought forward (Note 26(b)(ii))	(25,000,000)	-
Court Case Deposit paid in 2019/2020FY adjusted to Retained Earnings b/f as prior year expense—Note 26(b)(iii)	(12,960,000)	-
Operating profit/(loss) before working capital changes	(43,717,098)	(64,184,605)
(Increase)/decrease in trade and other receivables (Note 21)	(765,665,946)	(57,377,590)
Increase/(decrease) in trade and other payables (Note 30)	11,069,533	20,913,077
Increase/(decrease) in Employee benefits provision—Note 29b	(73,968,364)	(1,977,442)
Increase/(decrease) in loan's provision (Note 20)	41,685,273	37,119,980
Cash generated from/(used in) operations	(830,596,602)	(65,506,580)

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

(b) Analysis of cash and cash equivalents

Short term deposits (Note 22)	-	47,841,308
Cash at bank (Note 22)	1,574,083,395	325,490,781
Cash in hand (Note 22)	28,680	72,257
Balance at end of the year	<u>1,574,112,075</u>	<u>373,404,346</u>
	=====	=====

32. LOAN'S TRANSACTIONS

a) Interest Capitalized

Interest capitalized as shown in the cash flow statement from operating activities refers to interest recovered during the year after being netted with interest charged to loans.

This is net interest additions or capitalized to the loans during the year:

	2020 -2021 Kshs	2019 -2020 Kshs
Interest Recovered from Loans	13,061,224	24,031,608
Interest Charged to loans & Earned as income	(38,759,404)	(34,838,753)
	<u>(25,698,180)</u>	<u>(10,807,145)</u>

b) Loans Disbursed

Disbursements KShs. 236,730,509 in 2020/2021 financial year were for fifteen (15) new loans per Note 20 that were disbursed under the Stimulus Programme at KShs 228,787,551 and two (2) existing shareholder loans totaling to KShs 7,942,958. For 2019/2020FY, only one (1) loan to Mountain Lodges Ltd was disbursed.

	2020 -2021 Kshs	2019 -2020 Kshs
Principal Loans Disbursed	<u>236,730,509</u>	<u>62,007,344</u>
	<u>236,730,509</u>	<u>62,007,344</u>

c) Principal Loans Recovered

Principal Loans Recovered during the previous financial year 2019/2020FY were less than that of the current year since there were a number of borrowers who were unable to continue with regular repayments due to adverse effects of Covid-19 pandemic. As reported in the previous year the Corporation continued to put more efforts in the recovery process.

	2020-2021 Kshs	2019 -2020 Kshs
Principal Loans Recovered	<u>3,576,880</u>	<u>27,766,633</u>
	<u>3,576,880</u>	<u>27,766,633</u>

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

33. INTEREST EXPENSE

This refers to the amount incurred and paid on borrowings by the Corporation.

The Corporation does not currently have an operational Bank Overdraft facility on its Administration account as it used to have earlier.

It managed its cash flows well and hence do not physically overdraw this bank account. There was, therefore, no interest on overdraft this year as was the case the previous year.

34. 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% have been on-going and were not through as at 30 June 2012. 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. This payment was done in 2005/2006 financial year.

The total penalties and interest stood at KShs 167,689,035 out of which KShs 83,844,517.50 was waived by the Minister for Finance on 21st January 2005 leaving a balance of KShs 83,844,517.50. This is after paying all the principal taxes due.

By a letter dated 12th of March 2009 to KRA, Treasury indicated that it was considering our justifications for request for waiver with a view of coming up with an acceptable solution and sought KRA indulgence in the matter.

The matter was placed before the Corporation's Board meeting on 14th and 15th June 2010 where it was agreed that a Tax Consultant be engaged to scrutinize these tax penalties and interest and advise the Corporation.

The Tax Consultant called PKF Taxation Services Ltd was engaged during the previous financial year. The Consultant managed to get a breakthrough at KRA on all Tax matters to date. The Corporation paid as requested by KRA Principal Taxes of KShs 1,442,792 for year of Income 2000 and KShs 1,843,862 for year of Income 2001 so as to qualify for application of waiver of penalties and interest on both years. All Principal Tax arrears to date were therefore cleared. Consequently, the Corporation through the Parent Ministry of Tourism wrote to the Minister for Finance requesting for waiver of penalties and interest for years 2000 & 2001 totalling to KShs 29,575,483 and also for full waiver of balance of KShs 83,844,517.50 for years 1993 to 1999. The Ministry of Finance through their letter dated 2nd of April 2013 communicated the Minister's decision and approval for a 100% waiver under section 94(4) of the Income Tax Act.

The Corporation was therefore relieved from this Contingency Liability as at 30 June 2013 and also for current year.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. NUMBER OF EMPLOYEES

The number of employees as at 30th June of each the two comparative financial years is as follows:

	<u>2020-2021</u>	<u>2019-2020</u>
Beginning of the Year	45	47
<u>Less:</u> Termination	(1)	-
Retirements	-	(1)
Deaths	(1)	(1)
<u>Add:</u> Recruitments	3	-
End of the Year	<u>46</u>	<u>45</u>

During the current year the serving staff number reduced by the termination of one (1) officer and death of one (1) officer. The number, however increased by three (3) recruitments.

Comparison for 2020/2021 and 2019/2020 is as follows;

<u>Retirement</u> <u>2020/2021</u>	<u>Termination</u> <u>2020/2021</u>	<u>Recruitment</u> <u>2020/2021</u>	<u>Death</u> <u>2020/2021</u>
-None	-Network Systems Officer Musa Abdi Kiptalam	-Treasury Officer-Titus Tipape -ICT Officer -Alpha Njagi -Driver – Faizal Ibrahim	Driver – Simon Karanja
<u>Retirement</u> <u>2019/020</u>	<u>Termination</u> <u>2019/020</u>	<u>Recruitment</u> <u>2019/020</u>	<u>Death</u> <u>2019/020</u>
-Technician – George Abong'o	None	None	- Chief Strategy officer Jack Okeyo

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Taking risk is core to the Corporation's business, and the operational risks are an inevitable consequence of being in business.

The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.

The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The key types of risk include:

1. Market risk - includes interest rate and other price risk,
2. Credit risk
3. Liquidity risk.

Credit Risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's loans and advances to customers and investment securities.

For risk management reporting purposes, the Corporation considers all elements of credit risk exposure such as individual obligator default risk and sector risk. In the normal course of its business, the Corporation incurs credit risk from loans and advances to customers and advances to customers.

The credit risk exposure is, however, managed through assessment of each borrower considering the financial position, past experience and other factors as well as monitoring the performance of borrowers' businesses during the loan term.

The non-performing loan portfolio was 56% in FY 2019/20 and is still on the rise majorly due to the effects of COVID-19 on the TFC borrowers. To cushion and mitigate the sector from the adverse effect of Covid-19, the Corporation developed post Covid 19 recovery strategy, to cushion the sector against collapse. The measures for recovery are thus aimed at addressing the immediate collapse of the sector as result of pandemic and address the long-term growth of the sector. The strategy was approved by the Board on 20th June 2020.

Market Risk:

The Corporation's activities expose it to market risks and the effects of changes in market prices and interest rates, thus leading to inflationary pressures. The Corporation's overall risk management programme focuses on the unpredictability of this risk to minimize potential

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
adverse effects on its financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Corporation does this by purchasing competitively and lending on a fixed interest rate regime. The Corporation is able to do this because it does not take deposits but instead lends its own capital.

The Corporation does not deal in foreign exchange and as such its exposure to forex risk at all.

Liquidity Risk:

This is the risk that the Corporation will encounter difficulties in meeting its financial commitments from its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities to meet its obligations. Ultimate responsibility for liquidity risk management framework for the management of the Corporation's short, medium- and long-term funding and liquidity management requirements.

Liquidity position is monitored through daily cash position as well as monthly cash forecast that monitors debt structure and expected cash position. The responsibility for managing daily and monthly liquidity assessment resides with the Financial Manager. However, the statement of financial position liquidity management resides with the Corporation's Finance and administration Committee.

Liquidity risk also relates to the risk that the Corporation would miss out attractive investment opportunities due to lack of funding. This risk is mitigated by the fact that the Investments held in treasury bills can be converted to cash when funds are required.

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021
APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by The Auditor General as well as TFC's Management comments that were provided to clear the issues. However, as at 30th June 2021, the audit certificate for 2019/2020 had not been issued.

The Corporation nominated focal persons to resolve the various issues as shown below with the associated time frame within which the issues are expected to be resolved:

Reference No. on the External Audit report	Issue / Observations from The Auditor General	Management Comments	Focal Point person to resolve the issue	Status	Time Frame										
	Differing Values in Share Certificates and Financial Statements Share certificates availed for audit scrutiny for the various investments held by TFC had differences amounting to KShs 134,768,421 compared to the amounts reflected in the financial statements as analysed below; <table><tr><td></td><td>Difference</td></tr><tr><td></td><td>KShs</td></tr><tr><td>Kenya Safari Lodges –</td><td>32,824,076</td></tr><tr><td>Kabarnet Hotel –</td><td>522,120</td></tr><tr><td>International Hotels –</td><td>101,422,225</td></tr></table>		Difference		KShs	Kenya Safari Lodges –	32,824,076	Kabarnet Hotel –	522,120	International Hotels –	101,422,225	No adjustments to reduce the overstatements have not been carried out in 2019/2020FY. In 2020/2021FY, TFC will establish with the investee entities the share certificates that may not have been issued to correct this anomaly.	Head of Investments	Unresolved	30 th June 2022
	Difference														
	KShs														
Kenya Safari Lodges –	32,824,076														
Kabarnet Hotel –	522,120														
International Hotels –	101,422,225														

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

Audit Query Ref No.	Issue / Observations from The Auditor General	Management comments	Focal Point person to resolve the issue	Status	Time Frame
2	Valuation of Shares The current value of the shares of the shares held in the Subsidiaries and Associates is based on historical values and thus does not reflect the current net value of the shares. The Corporation has never carried out a revaluation of the shares since time of acquisition. In view of the above, it has not been possible to confirm the accuracy of the investments balance of KShs 397,742,463 as at 30th June 2018.	As noted in the report, the Corporation has carried the balances of its equity investments at book values which are the costs incurred initially to acquire these investments. No valuation amounts have ever been incorporated into the books. TFC will carry out the revaluations in 2021/2022FY.	Head of Investments	Un-resolved	30 th June 2022

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

3	Investment Properties The investment properties balance of Kshs. 3,140,630,670 as at 30 June 2019 includes capital work in progress amounting to Kshs. 40,630,670 comprising of Kshs. 21,997,694 which had been carried forward since the year 2011 and Kshs. 21,632,976 additions for the year 2016/2017. Consequently, it has not been possible to determine the carrying value of investments balance of Kshs.3, 140, 630,670 as at 30 June 2019 Other Matter Capital Work In Progress The corporation entered into a contract with C.M. Construction East Africa Limited for the proposed external repainting works and fire escape staircase in Utalii House at a contract sum of KShs 21,922,810. The work was due to start on 26th January 2017 with an expected end date of 31st of May 2017. By December 2017, the repainting works were complete pending rectification of defects identified during an inspection exercise. As at the time of audit in October 2018, the contractor had not yet addressed the defects	The Breakdown of Kshs. 21,997,694 and Kshs. 21,632,976 is Kshs. 43,630,670 The amount of Kshs. 21,632,976 was paid to M/S CM Construction for repainting of Utalii House and construction of fire escape terminating at the ground floor for north and south wings of the building. The Contractor did not satisfactorily complete the works: The repainting had defects and the same is currently subject to arbitration. The Fire Escapes for north was not completed and due to the	Head of Legal Services and Corporation Secretary (HOLS & CS)	Partly Resolved	31st March 2022
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TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

	as advised. Similarly, as at December 2017, the fire escape staircase work was 45% completion level. The works on the North Wing side of the building had however not started. By the time of audit in October 2018, the works were still pending and the contractor had already been paid a total of KShs 18,098,959. Consequently, it has not been possible to establish whether the payment was commensurate with the work done. Fully depreciated assets The depreciation schedule availed for audit indicates that the net book value for standby generator and firefighting equipment is zero having been fully depreciated. However, physical inspection and enquiries indicate that these items are in good condition and still in use and thus the entity still derives economic benefit. These items ought to be revalued to ascertain their fair value. It has not been possible to confirm the balance of KShs. 11,821,686 is fairly stated.	dispute another contractor was procured and the work <i>is</i> in progress. The Completion of these works (Repainting and Fire Escape) is subject to closure of the arbitration process and completion of the north wing fire escape prior to the project manager issuing a completion certificate. Management has noted your recommendation for the revaluation of standby generator and firefighting equipment. These have net book values as KShs Nil as at 30th of June, 2019 as they had not been revalued within that financial year. These will be revalued during the current 2020/2021FY and arising revaluation amounts adjusted in the books	Head of Investments Head of Human Resource & Administration	Un-resolved Unresolved	31st March 2022 30th June 2022
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TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

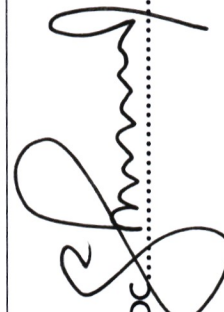
	Emphasis of Matter Debt and Equity policy: Conversion to equity As per the Debt and Equity Policy Section 4.13 all non-performing loans held by a Subsidiary or an Associate company were to be converted to equity upon application from investments department. This is applicable where the Corporation deems it necessary after an investment proposal has been tabled in the Investment Committee and adopted. This will be subject to ratification by both the Credit Committee and the TFC Board". There was a board approval to convert some loans owned by some subsidiaries into equity capital in July 2011 such loans included:	The Conversion of TFC non-performing loans in subsidiaries conversion into equity Board Resolution of 2011 was reversed during the Credit Committee meeting held on May 17th 2016, which resolved that TFC to pursue all the subsidiaries to repay their outstanding loan balances However, the earlier Board Resolution had been implemented as the Corporation in June 2012, converted its non-performing loan of Kshs. 75.5 million in Kenya Safari Lodges & Hotels into equity and share certificate issued.	Head of Investments/ Head of Credit	Unresolved	30th June 2022
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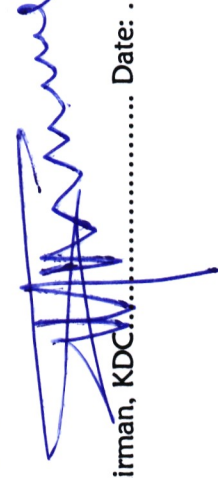
TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

	<table><tr><th>Subsidiary</th><th>Loan Amount</th></tr><tr><td>Mt Elgon Lodge</td><td>1,909,920.85</td></tr><tr><td>Sunset Hotel Ltd</td><td>33,874,978</td></tr><tr><td>Kabarnet Hotel Ltd</td><td>2,149,996</td></tr></table> The directive has never been implemented to date	Subsidiary	Loan Amount	Mt Elgon Lodge	1,909,920.85	Sunset Hotel Ltd	33,874,978	Kabarnet Hotel Ltd	2,149,996	The Corporation is in the process of funding some of its subsidiaries' refurbishment, conversion can only take place after the completion of the exercise and subsequent evaluation of business performance of the refurbished facility. The Corporation injected in Sunset Hotel Limited in June 2019 additional Kshs. 30 million for payment of retrenchment terminal dues for members of staff. Conversion of the Sunset Hotel cannot be implemented till all the financials needs of the facility are financed and completed. For Mt. Elgon Lodge Limited, the Corporation is funding the		
Subsidiary	Loan Amount											
Mt Elgon Lodge	1,909,920.85											
Sunset Hotel Ltd	33,874,978											
Kabarnet Hotel Ltd	2,149,996											

TOURISM FINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended June 30, 2021

			ongoing refurbishment to the tune of Kshs. 20 million. Therefore, conversion of these loan facilities can only be evaluated after completion of the refurbishment exercise.	
			The Corporation is injecting in Kabarnet Hotel Limited additional Kshs. 30 million for refurbishment of the facility. Conversion of the Hotel loans cannot be implemented till completion of the current refurbishment is completed and a subsequent evaluation of business performance of the facility.	


Interim Director General, KDC..... Date: 29/07/2022


Chairman, KDC..... Date: 29/07/2022

