

REPUBLIC OF KENYA



Enhancing Accountability

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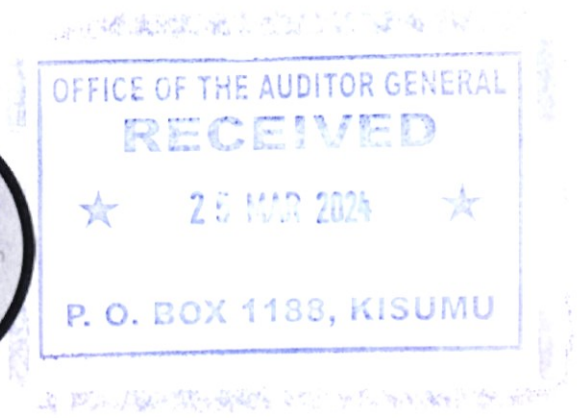
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REPORT
OF
THE AUDITOR-GENERAL

ON

SUNSET HOTEL LIMITED

FOR THE YEAR ENDED
30 JUNE, 2023



SUNSET HOTEL LIMITED



**REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023**

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



ACRONYMS

- IFRS - International Financial Reporting Standards
- SHL – Sunset Hotel Limited
- TFC – Tourism Finance Corporation
- KDC – Kenya Development Corporation
- CECM – County Executive Committee Member
- ICT – Information & Communication Technology
- CPA-K – Certified Public Accountant Kenya
- IHRM – Institute of Human Resource Management
- FCIPS – Fellow of the Chartered Institute of Procurement & Supply
- MKISM - Member of the Kenya Institute of Supplies Management
- FY – Financial Year
- CAPEX – Capital Expenditure
- HR – Human Resource
- KRA – Kenya Revenue Authority
- NSSF – National Social Security Fund
- KWS – Kenya Wildlife Service
- CSR - Corporate Social Responsibility
- CLT – Catering Levy Trustee
- NHIF – National Health Insurance Fund
- PAYE – Pay As You Earn



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023

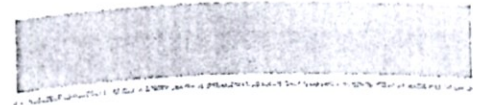


TABLE OF CONTENT

Contents

1. KEY COMPANY INFORMATION	i
2. THE BOARD OF DIRECTORS	iv
3. MANAGEMENT TEAM.....	vii
4. CHAIRMAN'S STATEMENT	viii
5. REPORT OF THE GENERAL MANAGER.....	ix
6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022/2023	x
7. CORPORATE GOVERNANCE STATEMENT	xii
8. MANAGEMENT DISCUSSION AND ANALYSIS.....	xv
9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING	xx
10. REPORT OF DIRECTORS	xxiii
11. STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	xxiv
12. REPORT OF THE INDEPENDENT AUDITORS ON SUNSET HOTEL LIMITED.....	xxv
13. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023	1
14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023	2
15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2023	
16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023.....	4
17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2023	5
18. NOTES TO THE FINANCIAL STATEMENTS	7
19. APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



1. KEY COMPANY INFORMATION

Sunset Hotel Limited (“SHL”, “The Company”) was incorporated under the Kenya Companies Act (Cap 486) in 1976 with shareholders of SHL being Kenya Development Corporation (KDC, formerly TFC and Kisumu County (formerly Kisumu Municipal Council). KDC is the majority shareholder in SHL with a direct controlling stake of 95.4% shares with Kisumu County shareholding of 4.6%. The shareholding was transferred to Kenya Development Corporation (KDC) effective 2nd July 2021 via Legal Notice No.113 pursuant to the Kenya Development Corporation Limited vesting order, 2021 published by the Cabinet Secretary for National Planning. From the management perspective, SHL is classified as a Commercial State Corporation by virtue of being a subsidiary of KDC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Hotel.

Principal Activities

The principal activity of the Company is operation of the hotel facility mainly focusing on provision of accommodation and conference facilities.

Our Vision

To be a leader in regional tourism, hospitality and conferencing.

Our Mission

Providing quality services that guarantee exceptional experience and value to our customers.

Our Core Values

- Integrity
- Teamwork
- Customer Sensitive
- Professionalism
- Quality

Directors

1.	Ms. Judith Omachar	Director	Chairperson
2.	Ms. Faith Nene	Director	Appointed January 2023
3.	Ms. Patriciah Gichungi	Director	Appointed January 2023
4.	Mr. George Okongo	Director	CECM, Finance, Planning & ICT, Kisumu County



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



Corporate secretary

Mr. John Karia
Kenya Development Corporation Ltd
Uchumi House, 17th Floor
P O Box 12665-00100
Nairobi
Email: info@kdc.go.ke

Registered Office

Sunset Hotel Limited Aput lane,
Impala walk
P. O. Box 215 – 40100
Kisumu Kenya
Tel. (254)057-2023482, 2021490
Email: info@sunsethotel.co.ke
Website: www.sunsethotel.co.ke



Corporate Headquarters

Kenya Development Corporation
Uchumi House, 17th Floor
Agha Khan Walk
P O Box 12665-00100
Nairobi

Corporate Contacts

Telephone: +254 20 2229213
E-Mail: info@kdc.go.ke
Website: www.kdc.go.ke

Corporate Bankers

1. National Bank of Kenya Limited
Oginga Odinga Street
P.O Box 1152-40100
Kisumu
2. Kenya Commercial Bank
Oginga Odinga Street
P.O Box 17-40100
Kisumu

Independent Auditors


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

Principal Legal Advisers



1. The Attorney General
State Law Office
Harambee Avenue
P.O Box 40112
City Square 00200
Nairobi, Kenya





2. THE BOARD OF DIRECTORS

DIRECTOR	KEY PROFESSIONAL/ ACADEMIC QUALIFICATIONS	WORK EXPERIENCE
 <p>Judith Omachar (Chairperson)</p>	<p>Mrs Omachar holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA-K) and is a member of ICPAK.</p>	<p>Mrs. Judith Omachar is the Deputy Director Business Development and Advisory.</p> <p>She has over 20 years' experience in investments including deal origination, appraisal and portfolio management gained at IDB Capital Limited where she was working as the Manager Credit.</p>



 <p>Ms. Faith Nene</p>	<p>Ms. Faith holds a Master of Science Degree in Human Resource Management from the University of Manchester, UK and a Bachelor of Arts degree from the University of Nairobi. She is a certified Executive Coach from the Academy of Executive Coaching, UK. She is a member of the Institute of Human Resource Management (IHRM) and the Kenya Institute of Management</p>	<p>Ms. Faith Nene is the Director Corporate Services at KDC.</p> <p>She has significant knowledge and expertise in the fields of HR, Strategy and Policy formulation gained over a period of two decades, with over sixteen years being at Senior Management level. She has extensive Board Room experience having served on the Boards of Kenya Wines Agencies Ltd (KWAL), Mount Kenya Bottlers, Uchumi Supermarkets, Funguo Registrars, Njimia Kenya Limited (a pharmaceutical company) currently serving on the Board of Isuzu East Africa, Agro Processing & Food Company and Mountain Lodge limited.</p>
 <p>Ms. Patricia N. Gachungi</p>	<p>Ms. Patricia holds a Master of Science Degree in Procurement and Logistics from the Jomo Kenyatta University of Science and Technology (JKUAT) and a Bachelor of Commerce Degree, Business Administration Option from Strathmore University. She also holds Graduate Diploma from The Chartered Institute of Procurement and Supply, United Kingdom. She is a Fellow of the Chartered Institute of Procurement and Supply (FCIPS-UK) and a Licensed Member of the Kenya Institute of Supplies Management (MKISM).</p>	<p>Ms. Patricia N. Gachungi is the Manager, Supply Chain Management at Kenya Development Corporation.</p> <p>She has solid experience in Supply Chain Management, with rich knowledge and understanding in Public Procurement and Logistics. Prior to joining KDC, she was the Head of Procurement at Tourism Finance Corporation. She has also worked at the Public Procurement Regulatory Authority in the Compliance Department.</p>



 <p>Mr. George Okongo</p>	<p>He holds a Master’s Degree in Development Studies (IDS), University of Sussex and Bachelor’s degree in Economics from the University of Dar es Salaam. He is also a graduate of the Oxford Leadership Development Programme, Said Business School, University of Oxford and holds a postgraduate certificate in Public Policy Analysis from the London School of Economics (LSE).</p>	<p>George is the CECM, Finance and Economic Planning, County Government of Kisumu. Prior to Joining the County Government, Mr Okongo served in various senior policy analysis and programme management roles in international research and development organizations. He was Development Manager at the African Population and Health Research Centre (APHRC) and Senior Programme Manager at the International Institute for Democracy and Electoral Assistance (International IDEA).</p>
 <p>Mr. John Karia</p>	<p>Mr. John holds a Master 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.</p>	<p>He is the Company Secretary. John 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 an Associate Member of the Chartered Institute of Arbitrators (Kenya Branch).</p> <p>John is a seasoned legal and governance professional with wide and varied experience gained in the financial services industry and has previously worked for Kenindia Assurance Co. Ltd and the Laptrust/CPF Group where he was the Legal Services Manager.</p>



3. MANAGEMENT TEAM



Risper Chichole
Finance Manager

Holds a Bachelor
of Commerce
(B.COM)
Finance, CPA(K)
& Diploma in
Accounting

Over 17
years' experience



4. CHAIRMAN'S STATEMENT



On behalf of my fellow Board Members, the Management and myself I hereby present to you Financial Statements of Sunset Hotel Ltd for the Financial Year 2022/2023.

Despite the aftermath of the turbulence witnessed in the industry during the previous years as a result of the Covid-19 pandemic, unprecedented inflation during the year and electioneering effects, the hotel defied all odds and was able to breakeven and post some profit for third time in a row. For a number of years, the performance of the Hotel has been wanting; with the poor performance being attributable to a number of factors but mainly due to the state of the facility and the increase in the number of high-end facilities within Kisumu County that provided stiff competition for the hotel. That the hotel is in dire need of facelift goes without saying.

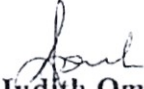
In the Year under review the hotel posted a profit of Kshs. 3.1 Million against the expected Profit of Kshs. 4.2 Million; thus further reducing the accumulated losses to Kshs. 160.63 Million.

Despite the evident improvement, it is not lost to the board the need to strategically reposition the hotel. The hotel's improvement on the backdrop of the harsh environment under which it operated during the period serves to underscore the potential that the hotel possesses. With continued concerted efforts, the hotel should be able to become self-sufficient as we continue to explore means and ways of putting

it back on track and forestalling the accumulation of further losses and safeguarding the investment of the shareholders.

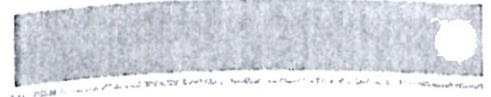
The Board has shown a lot of goodwill specifically on the refurbishment front and this will certainly go a long way in assisting the hotel to regain its faded glory. I would like to record my sincere gratitude to the Board for their invaluable support, commitment and dedication which has helped steer the hotel's strategic thinking to new altitudes.

Finally, on behalf of the Board of Directors, Management & Staff, I would like to express my sincere gratitude to our customers for their patronage over the Years and look forward to their continued and mutual partnership.


Judith Omachar
Chairperson



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



5. REPORT OF THE GENERAL MANAGER



On behalf of management of Sunset Hotel Limited, I am pleased to present to you the Annual Report and Financial Statements of the company for the year ended 30th June 2023.

The upsurge of new hotels in the county of Kisumu has created a serious scramble for clients resulting in serious competition that is

certainly good for the industry.

On the flipside, this entry of new hotels has 'disadvantaged' the old hotels and has created a challenge that the old hotels must quickly address and deal with in order to remain competitive and relevant; Sunset Hotel being no exception. Alive to that fact, the management set out to leverage on its key strengths to make up for the main weakness which remains the dilapidated state of the hotel.

The hotel's key strength being the brand name built over the years. Sunset is undoubtedly a house hold name in the region and industry at large. The hotel's strategic location also gives it an edge over the competitors. The hotel mainly focused/focuses on quality service delivery.

During the year 2023, the hotel achieved a net turnover of Kshs 63 million (2022: Kshs 59 million) representing an increase of 6 % and a profit of Kshs. 3.15 million (2023: Kshs 9.19 million) thus 66% decrease. The drop being mainly occasioned by the high cost of goods and most specifically the cost of sales during the period under review. The worldwide economic

turmoil did not spare the hotel. The political instability following the electioneering period witnessed in the better part of the year also affected the hotel's performance negatively.

The management remains focused on the refurbishment agenda and it remains hopeful that the agenda will be actualized sooner than later. It is envisaged that more efforts will be directed towards increasing operational efficiency and implementing strategies such as increasing accommodation capacity, marketing, advertising and promotions that are directed towards securing more business.

Finally, on behalf of management and staff of Sunset Hotel Ltd, I wish to express our sincere appreciation to the Board of directors for their committed support during the year ended 30th June 2023. I equally wish to express my gratitude to the shareholders; National Government and the County Government of Kisumu, customers and other valuable stakeholders for their support.

Risper Chichole
Ag. General Manager



6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022/2023

Sunset Hotel has four main strategic objectives within the current Strategic Plan for the FY 2023-FY 2027. These strategic issues are as follows:

1. Financial sustainability
2. Efficient business processes
3. Efficient labor force
4. Enhanced customer satisfaction

Sunset Hotel develops its annual work plans based on the above four Issues. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The hotel partly achieved its performance targets set for the FY 2022/2023 period for its strategic issues, as indicated in below:

Key Result Areas	Strategic Objectives	Strategic Initiatives	Remarks	
1. Financial sustainability	1.1 Maintain 0% balances of overdue payables	1.1.1 Develop and implement a payment plan for all payables incurred pre-June 2022 (Ksh 39M)	Partly achieved	
		1.1.2 Ensure strict adherence of the credit terms		
	1.2 Achieve 90% recovery of mature debt.	1.2.1 Develop and implement a recovery plan for all mature debts as at 30th June 2022		
		1.2.2 Ensure strict adherence of the credit terms		
		1.2.3 Develop credit and debtors' guidelines		
	1.3 Grow revenue to Ksh. 237,376,120	1.3.1 Grow existing revenue streams by 15% annually		Partly achieved
		1.3.2 Diversify revenue streams'		
		1.3.3 Identify possible revenue leakage points and develop closure plan		
1.3.4 Develop and adhere to pricing model				
1.4 Maintain operating ratio to below 55%	1.4.1 State all the cost centers', ratios as at June 2022, define ideal ratio & reduction targets			
	1.4.2 Implement the above stated strategies			
2. Effective customer Management	2.1 Increased occupancies at a rate of 15% annually	2.1.1 Engage a qualified marketing personnel	Partly achieved	
		2.1.2 Establish strategic business partnership and draw an engagement plan		
		2.1.3 Define SHL customer persona and develop aligned products		
		2.1.4 Develop SHL and targeted customer touch points and develop action plan		
		2.1.5 Ensure an annual occupancy increases of 15% on all revenue centers'		



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



	2.2 Effective customer relationship	2.2.1 Engage a guest relations personnel	Partly achieved
		2.2.2 Develop and implement guest engagement protocols'	
		2.2.3 Develop customer charter and ensure full adherence	
		2.2.4 Institute customer feedback and SHL response mechanism	
		2.2.5 Undertake customer satisfaction survey and implement recommendations'	
3. Effective and improved operations.	3.1 Enhanced internal processes	3.1.1 Prepare CAPEX requirements and draw an acquisition plan	Partly achieved
		3.1.2 Implement the developed CAPEX acquisition plan	
		3.1.3 Develop standard operating procedures	
		3.1.4 Develop sectional service commitment	
		3.1.5 Review guest and staff menus	
4. People and learning	4.1 Attain and retain labor productivity of 25% and below	4.1.1 Develop and institutionalize performance management systems	Partly achieved
		4.1.2 Develop and implement rewards and sanctions policy.	
	4.2 Attract and retain competent and motivated staff	4.2.1 Develop and implement human resource plan	
		4.2.2 Implement the approved HR instrument	
		4.2.3 Identify training gaps and ensure gaps closure	



7. CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which the company is directed and controlled. It also provides the framework for attaining the company's 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 hotel.

Sunset Hotel Ltd is committed to realizing profits and growth while complying with all legal Requirements and maintaining business ethics. The above are realized through:

a) Board of Directors

The Board provides leadership of the Company with the framework that upholds the core values underpinning good Corporate Governance.

The board's duties and responsibilities include;

- Setting the Strategic Direction of the hotel and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the hotel's overall systems of planning, accounting and internal controls that facilitate prudent risk management;
- Setting policy guidelines for management and ensuring competent management of the business including selection, supervision, and remuneration of Senior Management
- Ensuring the business of the hotel is conducted in compliance with relevant laws and regulations
- Monitoring the hotel's performance and reporting this to the shareholders.

There exists a formal procedure to the appointment of directors. Key elements such a conflict of interests and multiple directorships are considered during this exercise. Towards the end, the company has consistently formulated successive 5 years strategic plan.

b) Board Composition

The Board believes that to achieve good corporate governance, there is need for strong presence of the non- executive directors in the Board. During the year under review, the Board had five Directors of all whom were non-executive Directors. The General Manager attended the Board meetings in his capacity as General Manager.

The Board Chairman has the overall responsibility of leading the Board. He oversees the operations and effectiveness of the Board and ensures that the Boards' discussions are conducted in a manner that promotes open participation.



The Directors who held office during the year under review is as listed under the Board of Directors; afore section in this report.

The Corporation Secretary being the custodian of corporate governance within the entity works closely with the Board and the Hotels Management. In this regard, the Corporation Secretary facilitates all Directors to have full and timely access to all relevant information, ensures that the correct board procedures are followed and advises the Board on all Corporate Governance matters and prevailing statutory requirements.

c) Board Meetings

The Board schedule of meetings is prepared annually in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary.

During the year, the board held a total of four (4) meetings; all of which were regular board meetings.

The time, date, venue and Agenda of the meeting are communicated in advance. Attendance of the Board Members to full Board meeting, Special Board meeting over the year is set as below:

	Name	Details	Regular	Special	Total
			Meeting	Meeting	Meetings
1	Judith Omachar	Director-Chairperson	3	2	5
2	Faith Nene	Director	1	2	3
3	John Karia	Company Secretary	3	2	5
4	Patriciah Gichungi	Director	1	2	3
5	Edward Gitau	Director	2	-	2
6	George Okongo	Alternate to the Governor	3	2	5
7	Christopher Huka	Director General-KDC	2	-	2
8	Achie Alai	Alternate to the Governor	1	-	1
9	Farida Sallim	Alternate to the Governor	1	-	1



d) Company Policy on Directors Remuneration

Company Directors are entitled to sitting allowances for each Board Meeting. Directors are entitled to transport and meal allowance when attending Board Meetings outside their regular areas of residence.

These are payable at the following rates: -

Title	Directors Sitting Allowance Per Sitting	Lunch Allowance Per Sitting	Air ticket per director	Subsistence Claim
Board Chairman	20,000	2,000		18,200
Directors	20,000	2,000	As per travel	18,200

e) General Terms of Service

Directors serve a 3 years term service from the date they are appointed into office. They are eligible for re-appointment for one second term of 3 years.

f) Conflict of Interest

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



8. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The day to day running of the business of Sunset Hotel Ltd is delegated by the Board to the Hotel General manager who implements Board decisions in a manner that adds value to the hotel.

a) Revenue/Profitability

During the year under review, the hotel achieved a net turnover of Kshs 63.6 million against a budget of Kshs 60.9 million. This represented a favorable variance of 5%. Net profit stood at Kshs. 3.15 million against the projected profit of Kshs.4.25 million as shown below. The target for the year under review was therefore partly achieved.

Particulars	Budgeted	Actuals	Variance	% age Variance	Remark
	2022-2023	2022-2023	2022-2023	2022-2023	
Revenue	Kshs	Kshs	Kshs	Kshs	
Sales	60,918,784	63,674,372	2,755,588	5%	F
Other Income	-	-	-	-	
Total Revenues	60,918,784	63,674,372	2,755,588	5%	F
Cost of sales	13,947,965	18,748,398	-4,800,433	-34%	U
Gross Profit	46,970,819	44,925,974	-2,044,845	-4%	U
EXPENSES					
Administration Costs	28,709,463	35,408,432	-6,698,969	-23%	U
Selling and distribution Costs	1,088,406	500,601	587,805	54%	F
Depreciation Costs	4,968,333	3,719,152	1,249,181	25%	F
Total Operating expenses	34,766,202	39,628,184	-4,861,982	-14%	U
Operating Profit/(Loss)	12,204,617	5,297,790	-6,906,827	-57%	U
Finance Costs	7,952,569	2,148,784	5,803,785	73%	F
Profit/(Loss) before taxation	4,252,048	3,149,006	-1,103,042	-26%	U
Income tax expenses (credit)	-	-	-	-	-
Net Profit /(Loss) after taxation	4,252,048	3,149,006	-1,103,042	-26%	U

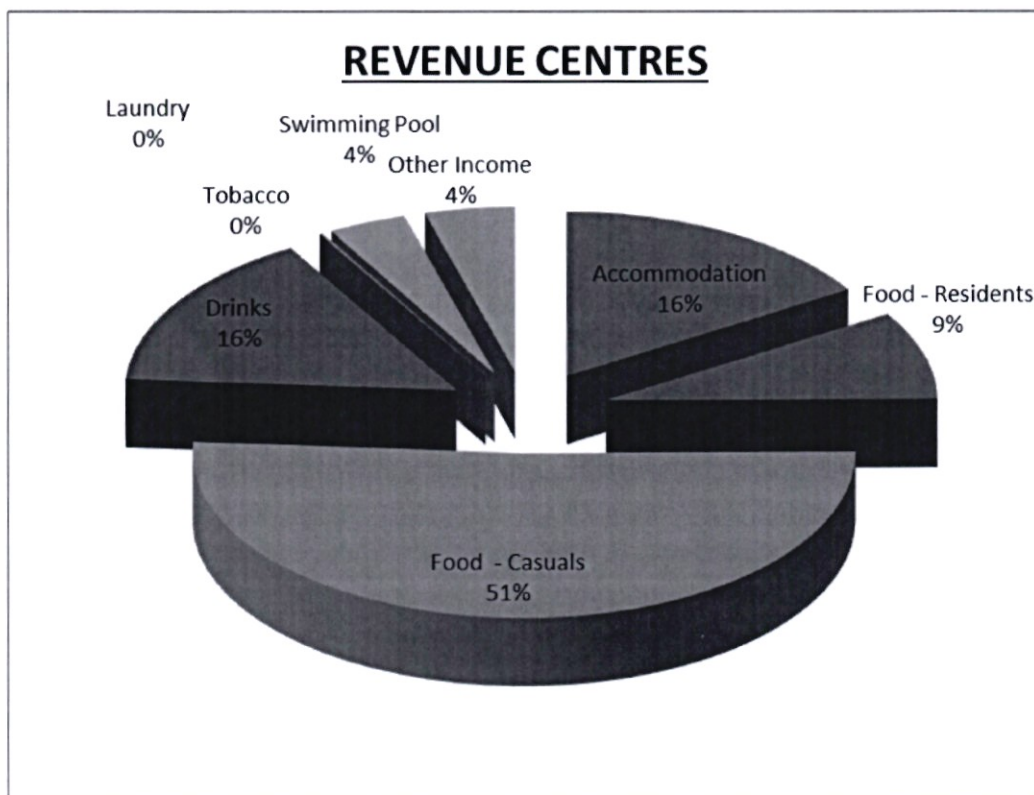


Revenue center's performance:

The Hotel's current amenities include; 50 standard rooms with 100 bed capacity, restaurant, lounge bar, pool bar, swimming pool and conference facilities. The respective centers performed as below:

Revenue Centre	Amount
Accommodation	10,304,213
Food - Residents	5,536,864
Food - Casuals	32,600,551
Drinks	9,935,525
Tobacco	26,864
Laundry	53,161
Swimming Pool	2,416,190
Other Income	2,801,003
Total	63,674,372

- 1) Food Residents -Food sales from resident/in-house guests
- 2)Food Casuals-Food sales from seminars and walk-in clients
- 3)Other Income-This includes revenue from hall hire, stationery, video/photo session, ground hire etc





Room and bed occupancy for the period was as below:

Particulars	Budget			
	Actual	Budgeted	Full Capacity	Achieved
Room Occupancy %	32%	41%	100%	78%
Bed Occupancy %	19%	22%	100%	86%
Number of Rooms Occupied	5,737	7,337	18,000	78%
Number of Beds Occupied (Guests)	6,992	7,992	36,000	87%
Average Rate - Room	1,796	1,103	3,500	163%
Average Rate - Bed	1,474	1,012	1,750	146%

The Hotel's key strength is its strategic location and ownership structure with the major challenges being its poor state of facility, high cost of operations and increased competition. The visible decline in sales over the years is due to stiff competition which has hit the Hotel hard thus calling for tough decisions to be made for the hotel to remain a float.

However, the management strongly believes that the Hotel has immense potential which if tapped through carefully thought out turn around strategies will certainly reclaim the Hotel's fast fading glory; this is already underway with discussions between the management, the directors/shareholders regarding the same having commenced. Deliberate efforts to use the internally generated funds to uplift the status of the hotel as and where possible have also been made so far.

As one of the turnaround strategies, the hotel declared all staff redundant in May 2019 and paid off their dues with funds borrowed from the shareholders. This certainly eased the burden of salaries on the hotel and it was expected that going forward the hotel would be able to breakeven. The hotel has since then endeavored to build on the gains previously made to continually improve its performance despite a myriad of challenges. The hotel's performance has for the last three years been relatively impressive with the year under review being no exception. In the year under review the hotel met the revenue targets despite missing the profit target narrowly. This is on the backdrop of perennial loss making by the hotel in the past. The performance clearly points to the overall hotel's potential in the event of a facelift.

b) Administration Costs

The overall vote was within the budget with a favorable variance of 23%. The administrative costs just like the cost of sales was much higher than budgeted largely due to the high cost of commodities in the year under review. The very high inflation witnessed in the year had not been anticipated. The cost of doing business was relatively higher during the period.



c) Finance Costs

This relates to Interest on loans disbursed to the hotel by TFC at an interest rate of 11%. It had been anticipated that the hotel would receive the ESP loan in the year 2022/2023 thus the high budgeted interest costs. This didn't however materialize thus the huge positive variance.

d) Depreciation

Most of the Hotel's assets are fully depreciated. It had been hoped that some of them would be replaced in the current financial year. However, that is yet to be effected thus the variance.

e) Liquidity Position

As a result of the above adverse revenue variance and general dismal performance over time, the Hotel has continued to default on meeting its obligations as and when they fall due. However, with the restructuring measures having been put in place, the liquidity position of the hotel has improved and the hotel is now able to meet its current obligations while offsetting the previous outstanding liabilities.

f) Compliance with Statutory Requirements

Sunset Hotel is fully compliant with all the relevant statutory requirements. The required returns are filed as and when due. However, the hotel has in the past faced serious financial constraints which made the hotel to lag behind on making remittances to the relevant organs e.g KRA and NSSF. The hotel has since cleared the NSSF principal arrears save for the penalty for which they have come up with an agreed payment plan. The hotel has also engaged KRA and agreed on a payment plan for the tax arrears.

g) Key Projects and Investment Decisions Implemented by the Entity

Save for the capital expenditure outlined in the cashflow, due to the current financial situation, the hotel has no major projects but hopes to initiate when the cash flows allow.

h) Financial Probity and Serious Governance

There is no major financial improbity reported by internal audit, external audit or other national government agencies providing oversight, neither are there serious governance issues among the board or member of the board and top management including conflict of interest.

i) Five-year performance

Save for the last three years, the hotel's performance has been on a downward trend due to its dilapidated state, having been built 40 years ago and with no meaningful refurbishment in between. The hotel is in dire need of a facelift in order to bring back its lost glory. As aforementioned, the hotel's potential cannot be underestimated.



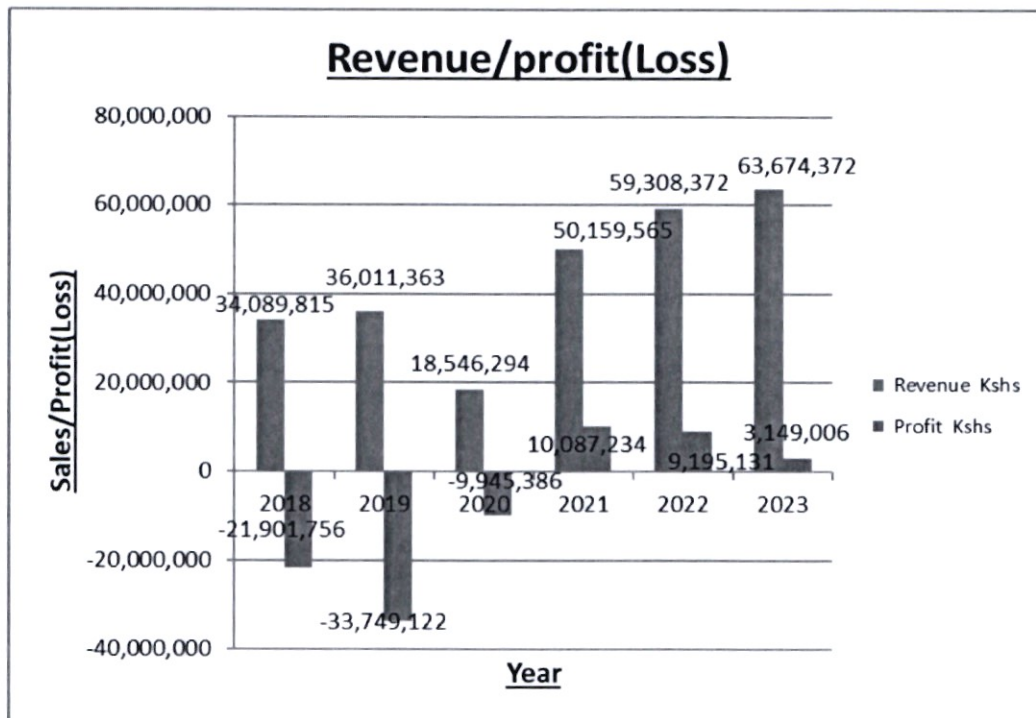
SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



The hotel's comparative performance over the last five years is as follows:

Year	Revenue	Profit
2023	63,674,372	3,149,006
2022	59,308,372	9,195,131
2021	50,159,565	10,087,234
2020	18,546,294	-9,945,386
2019	36,011,363	-33,749,122
2018	34,089,815	-21,901,756

The above performance is graphically shown as below:





9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Corporate Social Responsibility (CSR), Environmental Conservation and Sustainability means corporate culture for Sunset Hotel, a culture which holds the Company's responsibility not only for making profit, but also for the conditions under which profits are made. Finding a balance between financial successes, social responsibility and protecting the environment is a fundamental approach that lies at the heart of Sunset Hotel corporate culture and is reflected in our corporate values. Below is an outline of the organization's policies and activities that promote sustainability.

i) Sustainability strategy and profile

Sustainability is a key pillar of our company strategy and has always played a fundamental role within our business. We continue to strive to combine a powerful business sense and a strong sense of social responsibility towards our stakeholders which has over decades of existence been created, managed and sustained through long-term relationships, marked by mutual respect and trust.

ii) Environmental performance

From Environmental perspective, our guiding principles and approach has continued to evolve in an ethical manner through various partnerships so as to widen our footprint with an increased emphasis on quality, value addition and visible measures of impact and success within the ecosystem and communities in which we operate. The importance of an ever clean, green and healthy environment cannot be over-emphasised. The hotel collaborates with other partners e.g. Kenya Wildlife Services (KWS) who are the hotel's immediate neighbours in conserving the environment. The hotel boasts of a wide variety of indigenous trees within its premises thus playing a key role in conservation. The hotel also has a proper waste management policy in place.



Interaction with Nature at Sunset Hotel

iii) Employee welfare

The hotel has properly documented and approved Human resource instruments which guide all the HR related matters including hiring and staff relations. The HR Manual is the Primary Policy document in Management of the Sunset Hotel Human Resource. The Manual acts as a reference document for the Hotel, and forms the basis upon which the Hotel's work culture and environment develops.

It guides the Hotel and employees of the Hotel on matters of policy and practice. The Manual incorporates provisions of relevant legislations which are applicable on matters of Human Resource Management and Development and is largely aligned to the Constitution and Employment Act and is periodically revised as and when necessary. The hotel is an equal opportunity employer. The hotel is fully compliant

With Occupational Safety and Health Act of 2007, (OSHA)

iv) Market place practices-

a) Responsible competition practice.

The hotel embraces best commercial practices, ethical and International standards in dealing with stakeholders.

Sunset hotel ensures responsible competition practices by operating within and cultivating a corruption free environment, responsible political involvement, fair competition and respect for competitors at all times.



b) Responsible Supply chain and supplier relations

The hotel ensures fairness in all the procurement processes by adhering to the relevant procurement regulations and endeavours to pay the suppliers within the stipulated time frames while maintaining clear, transparent, open communication channels and mechanisms.

c) Responsible marketing and advertisement

Sunset hotel at all times applies and maintains ethical marketing practices by ensuring a level playing ground and being sensitive to the competitors at all times as well as operating within healthy marketing principles.

d) Product stewardship

All undertakings of the hotel are geared towards customer satisfaction. The hotel maintains positive communication with both the internal and external customers and has a robust feedback mechanism in place. This ultimately safeguards consumer rights and interests in the long run.

Corporate Social Responsibility / Community Engagements

Our Sustainable approach towards sourcing and production helps us to create value for a wide group of stakeholders from farmers to community groups to customers. Sunset Hotel continues to give priority to the local communities and farmers living around our areas of operation where possible so as to ensure economic independence. The Hotel occasionally hires local performers to entertain guests through dance and music thus enhancing guest experience by exposing them to the diverse range of local cultures and ethnic groups whilst economically empowering the local people. The hotel is largely engaged in supporting education specifically by offering internships and attachment to students and allowing the students to tour the facility as a way of gaining practical experience especially for hospitality students.

Occasionally, the Hotel also supports some charitable causes and community initiatives. These take many forms: financial, supply of foodstuffs or clothing, hosting of community events. Due to financial constraints, the hotel did not make any cash donations during the year but was able to donate firewood to children's home.



10. REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statement for the year ended June 30, 2023 which shows the state of Sunset Hotel Ltd affairs.

Principal activities

The principal activity of the company is provision of accommodation and conferencing facilities.

Results

The results of the entity for the year ended June 30, 2023 are set out on pages 1- 46

Dividend

Subject to the approval of the shareholders, directors recommend the payment of a first and final dividend for the year of 10% of the net profit after tax, amounting to Kshs.314,900, subject to withholding tax where applicable. No interim dividend was paid in the year ended 30 June 2023. If approved, the dividend will be paid on or before 31st December of the subsequent year to shareholder registered in the books of the hotel. The register of members will be closed for one day only to facilitate the preparation of dividend warrants.

Reserves

The Directors propose to carry forward the balance of accumulated losses amounting to **Kshs. 160,946,278.**


Directors

The members of the Board of Directors who served during the year to date of this report are set out on page iv-vii in accordance with Regulation 2(b) of the Sunset Hotel Ltd Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the Sunset Hotel Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General continues in office in accordance with Section 35 of the Public Audit Act 2015.

By Order of the Board


John Karla
Company Secretary
Kenya Development Corporation
P O Box 42013-00100
Nairobi
Date.....



11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Board to prepare financial statements in respect of Sunset Hotel Limited, which give a true and fair view of the state of affairs of the Hotel at the end of the financial year/period and the operating results of the Hotel for that year/period. The Companies Act 2015 requires the directors to ensure that the Hotel keeps proper accounting records which disclose with reasonable accuracy the financial position of the Hotel. The Directors are also responsible for safeguarding the assets of the Hotel.

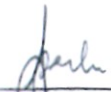
The Directors are responsible for the preparation and presentation of the Hotel's financial statements, which give a true and fair view of the state of affairs of the Hotel for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management policies 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 Hotel; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board of Directors accept responsibility for the Hotel's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors confirm that the Hotel's financial statements give a true and fair view of the state of Hotel's transactions during the financial year ended June 30, 2023, and of the Hotel's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Hotel, which have been relied upon in the preparation of the Hotel's financial statements as well as the adequacy of the systems of internal financial control.

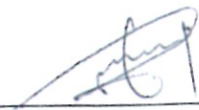
Nothing has come to the attention of the Directors to indicate that the Hotel will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Sunset Hotel's financial statements were approved by the Board on11.09.....2023 and signed on its behalf by:



Judith Omachar
Chairperson of the Board



Risper Chichole
Accounting Officer

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SUNSET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

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 the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the 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, risk management environment and 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 controls, 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 Sunset Hotel Limited set out on pages 1 to 46, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other comprehensive income, statement of

Report of the Auditor-General on Sunset Hotel Limited for the year ended 30 June, 2023

changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Sunset Hotel Limited as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Material Uncertainty Relating to Going Concern

The statement of financial position reflects total current liabilities balance of Kshs.140,607,405 which exceeds total current assets balance of Kshs.36,342,708 resulting to a negative working capital balance of Kshs.104,264,697 which casts significant doubt on the Company's ability to continue as a going concern. However, this material uncertainty has not been disclosed in the financial statements. The Company is, therefore, unable to meet its financial obligations as and when they fall due.

2. Unsupported Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.438,732,429. The property, plant and equipment movement schedule reflects amounts of Kshs.2,098,077 and Kshs.2,376,033 in respect of additions to buildings and furniture fittings respectively all totalling Kshs.4,474,110. However, review of payment vouchers revealed that the amounts were not supported with bills of quantities for the renovations work done. Further, no inspection and acceptance reports and certificates were provided for audit verification.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.438,732,428 could not be confirmed.

3. Unsupported Inventories

The statement of the financial position reflects a balance of Kshs.356,588 in respect to inventories and as disclosed in Note 15 the financial statements. However, there was no general ledger or bin cards provided to compare with the physical stock as counted during stock take at the end of the financial year.

In the circumstances, the accuracy of inventories balance of Kshs.356,588 could not be confirmed.

4. Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.31,384,913 in respect of trade and other receivables, which as disclosed in Note 16(a) to the financial statements is net of provisions for bad and doubtful receivables balance of Kshs.4,663,429. Included in the debtors balance of Kshs.31,384,913 are gross debts amounting to Kshs.24,673,412 owed by Government institutions which have been long outstanding and no demonstration of recoverability. Further, a provision for bad and doubtful debts of Kshs.4,663,429 has been made but has not been supported by any documented accounting policy or management policy and therefore the adequacy could not be confirmed.

In the circumstances, the accuracy, valuation, completeness and recoverability of trade and other receivables balance of Kshs.31,384,913 could not be confirmed.

5. Unsupported Share Capital

The statement of financial position reflects ordinary share capital balance of Kshs.12,000,000 which, as disclosed in Note 18 to the financial statements comprises of ordinary share capital for Tourism Finance Corporation and County Government of Kisumu of Kshs.11,450,000 and Kshs.550,000 respectively. However, no evidence was provided to confirm the County Government's subscription and shareholding.

In the circumstances, the accuracy and ownership of the share capital balance of Kshs.550,000 could not be confirmed.

6. Unsupported Long Outstanding Loans

The statement of financial position reflects non-current liabilities balances of Kshs.52,221,129 and Kshs.2,500,000 in respect of Tourism Finance Corporation loans principal and advance amount respectively. Further, the statement reflects accrued loan principal and interest balances of Kshs.50,421,820 and Kshs.54,288,514 respectively, totalling to Kshs.104,710,334. The loans have remained unpaid since 2004 without the Tourism Finance Corporation indicating the likelihood of converting them into Equity. Further, no loan agreement or application details were provided to confirm how the loans were advanced.

In the circumstances, the accuracy and completeness of the loan balances could not be confirmed.

7. Long Outstanding and Understatement of Audit Fees Provision

The statement of financial position and as disclosed in Note 22 to the financial statements reflects a balance of Kshs.35,897,072 in respect to trade and other payables which includes Kshs.4,736,000 in respect to audit fees which has been outstanding for more than fifteen (15) years. This is contrary to Section 41 of the Public Audit Act, 2015 which provides that funds for the Auditor-General shall consist of audit fees charged at rates prescribed by the Auditor-General. Further, Note 7 to the financial statements reflects provision for audit fees of Kshs.300,000 for the year under review which is less than the

audit fees of Kshs.348,000 invoiced for the audit of the 2021/2022 financial year leading to an understatement of Kshs.48,000.

In the circumstances, the accuracy of audit fees provision could not be confirmed. In addition, Management was in breach of the law.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Sunset Hotel Limited Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.60,918,784 and Kshs.63,674,372 respectively resulting to an excess of Kshs.2,755,588 or 5% of the budget.

Similarly, the Company expended Kshs.39,628,185 against an approved budget of Kshs.34,766,202 resulting to an over-expenditure of Kshs.4,861,983 or 14% of the budget. However, no evidence was provided to confirm that the over expenditure was authorized. In addition, no disclosure note has been made in the financial statements.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Information

The Directors and Management are responsible for the other information, which comprises the Chairman's Report, Directors' Report, the Statement of Corporate Governance, Management Discussions and Responsibilities, Environmental and Sustainability Reporting and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon. My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness

and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Failure to Remit Statutory Deductions

The statement of financial position and as disclosed in Note 22 to the financial statements reflects trade and other payables balance of Kshs.35,897,072. Included in the balance is unremitted statutory deductions totalling Kshs.23,119,135 comprising of Value Added Tax (VAT) of Kshs.15,416,158, Pay As You Earn (PAYE) of Kshs.1,980,349, Withholding Taxes of Kshs.1,472,381, NSSF of Kshs.3,983,649, NHIF Kshs.22,400, Catering Levy Trustee (CTL) of Kshs.104,894 and Pension of Kshs.139,304. Further, as disclosed in Note 24 to the financial statements, the Hotel had a contingent liability of Kshs.14,457,324 arising from Kenya Revenue Authority (KRA) penalties which has not been supported.

In the circumstances, the Company risks losing funds due to interest and penalties which may arise from non-remittance of statutory dues.

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

REPORT ON 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 audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

- ii. In my opinion, adequate accounting records have been kept by Sunset Hotel Limited, so far as appears from the examination of those records; and,
- iii. The Hotel's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Hotel's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern basis of accounting unless Management is aware of the intention to liquidate the Hotel or 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 Hotel's financial reporting process, reviewing the effectiveness of how 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Hotel's 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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 Hotel's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hotel to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hotel to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

16 April, 2024



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



13. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023	2022
		Kshs	Kshs
REVENUES			
Sales/ Turnover	6 (a)	63,674,372	59,308,372
TOTAL REVENUES		63,674,372	59,308,372
Cost of Sales	6 (b)	18,748,398	15,773,129
GROSS PROFIT		44,925,974	43,535,243
OPERATING EXPENSES			
Administration Costs	7 (a)	35,398,431	26,020,476
Selling and Distribution Costs	8	510,601	423,182
Depreciation of Property, plant and equipment	14	3,719,152	2,197,378
TOTAL OPERATING EXPENSES		39,628,184	28,641,036
OPERATING PROFIT/(LOSS)		5,297,790	14,894,207
Finance Costs	10	2,148,784	5,699,076
PROFIT/(LOSS) BEFORE TAXATION	11 (b)	3,149,006	9,195,131
INCOME TAX EXPENSES/ (CREDIT)			-
PROFIT/(LOSS) AFTER TAXATION	11 (b)	3,149,006	9,195,131
Earnings per share – basic and diluted	12	5.25	15.33
Dividend per share	13	0.525	-



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023


14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2023	2022
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	438,732,429	437,977,470
Total Non-Current Assets		438,732,429	437,977,470
Current Assets			
Inventories	15	356,588	370,594
Trade and other receivables	16 (a)	31,384,913	26,262,099
Bank and cash balances	17 (a)	4,601,207	8,453,829
Total Current Assets		36,342,708	35,086,522
Total Assets		475,075,137	473,063,992
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	18	12,000,000	12,000,000
Revaluation reserve	19	426,946,695	426,946,695
Retained earnings		(160,946,278)	(163,780,381)
Proposed dividends		314,900	-
Capital and Reserves		278,315,317	275,166,314
Non-Current Liabilities			
Shareholder's loan advanced		1,431,286	1,431,286
TFC Loans Principal balance	21	52,221,129	54,828,994
Advance from TFC		2,500,000	2,500,000
Total Non-Current Liabilities		56,152,415	58,760,280
Current Liabilities			
Trade and other payables	22	35,897,072	39,183,713
Accrued Loan Principal	23 (b)	50,421,820	47,813,955
Accrued Loan interest	23 (b)	54,288,514	52,139,730
Total Current Liabilities		140,607,405	139,137,398
TOTAL EQUITY AND LIABILITIES		475,075,137	473,063,992

The financial statements were approved by the Board on 2023 and signed on its behalf by:


Risper Chichole
Ag. General Manager


Head of Finance
Risper Chichole
CPAK MNO:8320


Judith Omachar
Chairperson of the Board



15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2023

	Ordinary share capital	Revaluation reserve	Retained earnings	Proposed Dividends	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2022	12,000,000	426,946,695	(163,780,381)	-	275,166,314
Revaluation gain	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
Capital/Development grants received during the year	-	-	-	-	-
Proposed Dividends	-	-	-	314,900	314,900
Profit/(Loss) for the year after tax and proposed dividends	-	-	2,834,104	-	2,834,104
At June 30, 2023	12,000,000	426,946,695	(160,946,278)	314,900	278,315,317
At July 1, 2021	12,000,000	79,262,476	(172,975,512)	-	(81,713,036)
Revaluation gain	-	347,684,219	-	-	347,684,219
Transfer of excess depreciation on revaluation	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
Capital/Development grants received during the year	-	-	-	-	-
Profit/(Loss) for the year	-	-	9,195,131	-	9,195,131
At June 30, 2022	12,000,000	426,946,695	(163,780,381)	-	275,166,314



16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

CASH FLOWS FROM OPERATING ACTIVITIES	Note		2023 Kshs	2022 Kshs
Cash generated from / (used in) operations	23	(a)	621,488	9,150,362
Interest received				-
Interest paid				-
Taxation paid				-
Net cash generated from/ (used in) operating activities	23	(a)	621,488	9,150,362
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	14		(4,474,110)	(6,458,828)
Proceeds from disposal of property, plant and equipment			-	-
Net cash generated from/ (used in) investing activities			(4,474,110)	(6,458,828)
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan Proceeds & Borrowings	23	(b)	-	-
Repayment of loans & borrowings			-	-
Net cash generated from/ (used in) financing activities			-	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			(3,852,622)	2,691,534
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23	(c)	8,453,829	5,762,295
Effects of foreign exchanges rate fluctuations				-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	(c)	4,601,207	8,453,829



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2023

Particulars	Original Budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	% age Variance	Remark
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
Sales	60,918,784	-	60,918,784	63,674,372	2,755,588	5%	F
Other Income	-	-	-	-	-		
Total Revenues	60,918,784	-	60,918,784	63,674,372	2,755,588	5%	
Cost of sales	13,947,965	-	13,947,965	18,748,398	-4,800,433	-34%	U
Gross Profit	46,970,819	-	46,970,819	44,925,974	-2,044,845	-4%	U
EXPENSES							
Administration Costs	28,709,463	-	28,709,463	35,408,432	-6,698,969	-23%	U
Selling and distribution Costs	1,088,406	-	1,088,406	500,601	587,805	54%	F
Depreciation Charges	4,968,333	-	4,968,333	3,719,152	1,249,181	25%	F
Total Operating expenses	34,766,202	-	34,766,202	39,628,185	-4,861,983	-14%	U
Operating Profit/(Loss)	12,204,617	-	12,204,617	5,297,789	-6,906,828	-57%	U
Finance Costs	7,952,569	-	7,952,569	2,148,784	5,803,785	73%	F
Profit/(Loss) before taxation	4,252,048	-	4,252,048	3,149,006	-1,103,043	-26%	U
Income tax expenses (credit)	-	-	-	-	-	-	-
Net Profit/(Loss) after taxation	4,252,048	-	4,252,048	3,149,006	-1,103,043	-26%	U

Key: U- Unfavorable
F- Favorable



STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE (*continued*)

Explanatory notes: -

- a) **The hotel surpassed its revenue target by 5%** against all odds. The hotel's performance has steadily been improving due to management's concerted efforts to re-position the hotel. However, the dilapidated state of the hotel remains the greatest impediment. The hotel's performance has been on a downward trend due to its poor state having been built 40 years ago and with no meaningful refurbishment since then. If given a slight facelift, the hotel will easily bring back its lost glory. It has immense potential given its very prime location.
- b) **Cost of sales** had a negative variance of 34% with this being mainly due to the high cost of inputs especially food items and certainly partly due to the relatively higher sales recorded during the period as compared to what was budgeted. The period saw an unprecedented hike in the cost of most of the items yet the hotel could not pass the cost to its customers as well.
- c) **Administration costs** were equally over the budgeted figure i.e., a negative variance of 23% similarly due to the general increase in prices of most commodities.
- d) **Selling and distribution costs** were within the budgeted figure with a positive variance of 54%. It had been envisaged that the hotel would carry out a lot of publicity after refurbishment, which unfortunately did not take place during the period thus the variance.
- e) **There was minimal capital expenditure** in the period thus the favourable variance for depreciation. This is a provision made in the books for depreciable assets. Notably a number of assets also happen to be fully depreciated thus the reduction in depreciation. The hotel however revalued its land and buildings in the previous year.
- f) **Finance costs** were within the budgeted figure with a positive variance of 73%. The hotel had budgeted for the interest on the ESP loan which however wasn't received in the period as forecasted.



18. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sunset Hotel Limited was established and derives its authority and accountability from the Kenya Companies Act (cap 486). It was established in 1976. It is 95.4% owned by the Government of Kenya through Kenya Development Corporation effective 2nd July 2021 vial Legal Notice No.113 pursuant to the Kenya Development Corporation Limited vesting order, 2021 published by the Cabinet Secretary for National Planning and 4.6% by the County Government of Kisumu. The hotel was previously owned by Tourism Finance Corporation under the Ministry of Tourism up until then. The hotel is domiciled in Kenya and its principal activity is provision of accommodation and conference facilities.

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 re-valued amounts of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the hotel's accounting policies.

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

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)

a) Relevant new standards and amendments to published standards effective for the year

TITLE	DESCRIPTION	EFFECTIVE DATE
IFRS 17 Insurance Contracts (issued in May 2017)	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.</p> <p><i>The Hotel Does not issue insurance contracts. The adoption of IFRS 17 has not had the effects in the Financial statements presented.</i></p>	Effective for annual periods beginning on or after 1 st January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.</p> <p><i>The Hotel has adopted the new definition of accounting estimates that has helped the hotel properly distinguish between its accounting policies and changes in accounting estimates</i></p>	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.</p> <p><i>The hotel has disclosed material accounting policy information in its financial statements</i></p>	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.</p>	The amendments are effective for annual periods beginning on or after January 1, 2023.
IFRS 17 Insurance Contracts (issued in May 2017)	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment</p>	Effective for annual periods beginning on or after 1 st January 2023.



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



TITLE	DESCRIPTION	EFFECTIVE DATE
	<p>contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.</p> <p>The Hotel Does not issue insurance contracts. The adoption of IFRS 17 has not had the effects in the Financial statements presented.</p>	

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.



b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023

TITLE	DESCRIPTION	EFFECTIVE DATE
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

c) Early adoption of standards

The Hotel did not early – adopt any new or amended standards in year 2022/2023.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.;

- i) **Revenue from the sale of goods and services** is recognized in the year in which the hotel delivers products/services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Finance income** comprises of interest receivable from bank deposits and investment in securities, and it recognized in profit and loss on a time proportion basis using effective interest rate method.
- iii) **Other income** is recognized as it accrues.

b) In-kind contributions

These are donations made to the hotel in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the hotel includes such value in the statement of comprehensive income both as revenue and as expense in equal opposite amounts; otherwise, the contribution is not recorded.

c) Property Plant and Equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers. Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Land and Buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent Depreciation for Buildings.



All other property Plant and Equipment is stated at historical cost less Depreciation. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life as follows: -

The annual rates in use are:

- | | |
|---|----------|
| a) No depreciation is charged on the Leasehold land | |
| b) Building | - 2.5% |
| c) Property, Plant & Machinery | - 12.5% |
| d) Furniture, Fittings and Equipment | - 12.5% |
| e) Motor Vehicle | - 25.0% |
| f) Computers | - 33.0 % |

Depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal on pro-rata basis.

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 recognized so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible assets

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

f) Amortization and impairment of intangible assets

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.



g) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use- are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

g) Inventories

Inventory is valued at the lower of cost and net realizable value. The Cost is determined by first in, first out (FIFO) method. Inventories are held for sale as raw materials for kitchen production supplies. Specific provisions are made for obsolete, slow moving and defective inventories.

h) Turnover

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

i) Trade & other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current asset. If not, they are presented as non-current assets.

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

j) Taxation

Current Income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.



Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.



k) Cash and cash equivalents

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

l) Borrowing

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

m) Trade and other payables

Trade and other payables are non-interest bearing recognised initially at fair value and subsequently 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 hotel or not, less any payments made to the suppliers.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current Liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are measured at amortised cost using the effective interest method. Payables are derecognised when extinguished.

n) Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1080.00 per employee per month. A contributory pension scheme is also in place with employer/employee contributions set at 10% of the employees' basic pay.



o) Exchange rate differences

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

p) Budget information

The original budget for FY 2022-2023 was approved by the National Assembly. No subsequent revisions or additional appropriations were made to the approved budget. Any revisions if any are made in accordance with specific approvals from the appropriate authorities.

The hotel's budget is prepared on a different 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 prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

q) Comparatives

Comparative figures have been adjusted to conform to the changes in the presentation in the current year.

r) Subsequent events

Since the end of the year 2022/2023, no events have become known or have occurred that may lead to significant changes to these financial statements.



5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity'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.

Critical accounting estimates and judgments in applying the entity's accounting policies

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

i) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a) Useful lives of property, plant and equipment

The company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The rates used are set out in (d) above. 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 Hotel
- 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

b) Revaluation of PPE

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

c) Recoverability of trade and other receivables

Management has made Judgment in estimating the amounts that may not be recovered based on experience and efforts expended in the attempt to recover the outstanding balances.

ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Company's accounting policies, management has made judgments in determining:

- The classification of assets into current and non-current
- Whether assets are impaired



a) Provisions

Provisions were raised and management determined an estimate based on the information available; specifically, provision for bad debts which was estimated at 0.942% of the total budgeted revenue for the period.

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

b) Contingent liabilities

In the course of day to day running of the company's affairs, the company is exposed to contingent liabilities including public liability and legal cases. The status of these exposures are evaluated by the management from time to time to ascertain the likelihood of the liabilities crystalizing. Provisions are subsequently made in the financial statements where an obligation has been established. Judgements are required in determining the amount of financial obligation on the company.



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023

NOTES TO THE FINANCIAL STATEMENTS

6	(a) SALES /TURNOVER	2023	2022
		Kshs.	Kshs.
	Gross sales of Services	75,135,759	69,983,879
	Less: taxes on gross sales	(11,461,387)	(10,675,507)
	(Taxes :16% VAT,2% CLT)	63,674,372	59,308,372
	Accommodation	10,304,213	8,776,680
	Food-Casuals	32,600,551	30,153,297
	Food-Residents	5,536,864	5,509,407
	Drinks	9,935,525	10,272,542
	Tobacco	26,864	19,660
	Swimming	2,416,190	1,816,532
	Laundry	53,161	65,754
	Other Income	2,801,004	2,694,500
	Total	63,674,372	59,308,372
	(b) Cost of sales		
	Food	14,496,133	11,536,469
	Beverage	4,228,724	4,219,493
	Tobacco	23,541	17,167
	Total	18,748,398	15,773,129
7	(a) ADMINISTRATION COSTS		
	Staff costs note(7b)	12,816,802	8,869,663
	Directors & Secretarial emoluments	1,979,848	432,400
	Electricity and water	6,492,086	5,350,689
	Transportation, travelling and subsistence	1,101,386	359,600
	Printing, stationery and photocopy	825,051	733,413
	Insurance costs	442,128	41,845
	Bank charges and commissions	73,585	64,015
	Office and general supplies and services	87,803	64,299
	Auditors' remunerations	300,000	300,000
	Legal & Consultancy fees	191,379	319,200
	Repairs and maintenance	4,342,353	4,068,794
	Provision for Bad and doubtful debts	574,080	521,892
	Other Operating Costs	6,171,931	4,894,667
	Total	35,398,431	26,020,476



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023

	(b) STAFF COSTS		
	Salaries and allowances of permanent employees	7,378,489	4,780,627
	Wages of temporary employees	733,664	776,268
	Compulsory national social security schemes	275,400	215,785
	Terminal dues/Pension Contributions	824,666	126,792
	Leave Pay and gratuity provisions	-	-
	Staff travel and other related expenses	3,604,583	2,970,191
	Total	12,816,802	8,869,663
	The average number of employees:		
	Permanent employees- Management	-	1
	Permanent employees- Non Management	18	nil
	Temporary and contract employees	6	19
	Total	24	20
8	SELLING AND DISTRIBUTION COSTS		
	Advertising, marketing and promotional expenses	510,601	423,182
	Sales commission	-	-
	Sales discounts and rebates	-	-
	Other selling and distribution costs	-	-
	Total	510,601	423,182
9	OPERATING PROFIT/(LOSS)		
	The operating profit /(loss) is arrived at after charging /(crediting):		
	Staff cost (note7(b))	12,816,802	8,869,663
	Depreciation of property, plant and equipment	3,719,152	2,197,378
	Provision for bad doubtful debts	4,663,429	4,089,349
	Directors' emoluments -Allowances	1,171,000	340,000
	-Expenses	808,848	12,400
	Secretarial Fees	-	80,000
	Auditors' remuneration- current year fees	300,000	300,000
	Interest on loan	2,148,784	5,699,076
	Land rent & rates	334,032	334,032
	Total	25,962,047	21,921,898
10	FINANCE COSTS		
	Exchange losses on short term bank deposits	-	-
	Exchange losses on cash and bank balances	-	-
	Interest expenses on loans	2,148,784	5,699,076
	Interest expenses on bank overdrafts	-	-
	Total	2,148,784	5,699,076



11 INCOME TAX EXPENSES / (CREDIT)

(a) Current taxation

Current taxation based on the adjusted profit for the year at 30%	-	-
Current tax: prior year under / (over) provision	-	-
Current year deferred tax charge	-	-
Prior year under – provision for deferred tax	-	-
Total	-	-

(b) Reconciliation of tax expenses/ (credit) to the Expected tax based on profit

Profit before taxation	3,149,006	9,195,131
Allowable B/forward Losses	(74,014,288)	(83,209,419)
Tax at applicable tax rate of 30%	-	-
Prior year under-provision	-	-
Tax effects of expenses not deductible for tax purposes	-	-
Tax effect of income not taxable	-	-
Tax effects of excess capital allowances over	-	-
Deferred tax prior year over - provision	-	-
Total	(70,865,282)	(74,014,288)

12. EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit/(loss) after tax of Kshs.3,149,006 (2022: Kshs. 9,195,131) by the average number of ordinary shares in issue during the year of 600,000 (2022: 600,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). No interim dividend was declared and/or paid during the year. The directors propose a dividend of 10% for the year to be paid on or before 31st December of the subsequent year.



NOTES TO THE FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT

2023	LEASEHOLD		WORK IN	PLANT	FURNITURE	MOTOR	
	LAND	BUILDING	PROGRESS	& MACHINERY	FITTING	VEHICLE	TOTAL
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 01-07-2021	310,000,000	125,000,000	-	12,491,488	18,598,175	295,000	466,384,663
Additions		2,098,077			2,376,033		4,474,110
Transfers							
Revaluation Increase							
As at 30-06-2022	310,000,000	127,098,077	-	12,491,488	20,974,208	295,000	470,858,773
DEPRECIATION							
As at 01.07.2022	-	-	-	11,994,753	16,117,440	295,000	28,407,193
Charge for the year	-	3,150,501	-	62,092	506,559	-	3,719,152
Write off on revaluation							
As at 30-06-2023	-	3,150,501	-	12,056,845	16,623,999	295,000	32,126,345
NET BOOK VALUE							
As at 30-6-2022	310,000,000	125,000,000	-	496,735	2,480,735	-	437,977,470
As at 30-6-2023	310,000,000	123,947,576	-	434,643	4,350,209	-	438,732,428

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

	Cost or valuation	Normal annual Depreciation charge
Plant & machinery	11,923,281	1,439,725
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	15,473,652	1,896,494
	27,691,933	3,409,969



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

2022	LEASEHOLD		WORK IN	PROPERTY	FURNITURE	MOTOR	
	LAND	BUILDING	PROGRESS	& EQUIPMENT	FITTING	VEHICLE	TOTAL
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 01-07-2021	15,000,000	75,000,000	26,911,576	12,204,591	16,595,317	295,000	146,006,484
Additions	-	4,169,073	-	286,897	2,002,858		6,458,828
Transfers	-	26,911,576	-26,911,576				-
Revaluation Increase	295,000,000	18,919,351					313,919,351
As at 30-06-2022	310,000,000	125,000,000	-	12,491,488	18,598,175	295,000	466,384,663
DEPRECIATION							
As at 01.07.2021		31,875,000	-	11,937,596	15,867,087	295,000	59,974,683
Charge for the year	-	1,889,868	-	57,157	250,353	-	2,197,378
Write off on revaluation		-33,764,868					-33,764,868
As at 30-06-2022	-	-	-	11,994,753	16,117,440	295,000	28,407,193
NET BOOK VALUE							
As at 30-6-2021	15,000,000	43,125,000	26,911,576	266,995	728,230	-	86,031,801
As at 30-6-2022	310,000,000	125,000,000	-	496,735	2,480,735	-	437,977,470



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



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

	Cost or valuation	Normal annual Depreciation charge
Plant & machinery	11,923,281	1,439,725
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	15,473,652	1,896,494
	27,691,933	3,409,969

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2023	2022
		Kshs.	Kshs.
15	INVENTORIES		
	Food store	130,474	124,946
	Bar stock & Tobacco	226,114	245,648
	TOTAL	356,588	370,594
16	(a) TRADE AND OTHER RECEIVABLES		
	Trade receivables (note b)	34,802,454	29,398,058
	Deposits and prepayments	1,245,888	951,390
	VAT recoverable	-	-
	Staff receivables	-	2,000
	Gross trade and other receivables	36,048,342	30,351,448
	Provisions for Bad and doubtful receivables)	(4,663,429)	(4,089,349)
	Net trade and other receivables	31,384,913	26,262,099
	(b) TRADE RECEIVABLES		
	Gross trade receivables	34,802,454	29,398,058
	Other: Provisions for Bad and doubtful receivables)	(4,663,429)	(4,089,349)
	Net trade and other receivables	30,139,025	25,308,709
	At June 30, the ageing analysis of the		



SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023

	gross trade receivables were as follows:		
	Less than 30days	3,037,738	770,658
	Between 30 and 60days	2,140,507	1,817,908
	Between 61 and 90 days	1,565,696	1,346,819
	Between 91 and 120 days	1,492,707	1,110,582
	Over 120 days	26,565,807	24,352,092
		34,802,454	29,398,058

NOTES TO THE FINANCIAL STATEMENTS (continued)

			2023	2022
			Kshs.	Kshs.
17	(a)	BANK AND CASH BALANCES		
		Cash at bank	4,468,627	8,332,102
		Cash at hand	132,580	121,727
			4,601,207	8,453,829
	(b)	DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS		
		Cash at Hand:		
		Petty cash	57,880	20,377
		Mpesa	67,850	100,950
		Credit Cards	6,850	400
			132,580	121,727
		Cash at Bank (Current Accounts)		
		National bank-A/c No.01020023525100	4,147,995	8,005,959
		KCB- A/c No. 1108232736	320,632	326,143
			4,468,627	8,332,102

The bulk of the cash was held at National bank the main banker



18. ORDINARY SHARE CAPITAL

	2023 Kshs.	2022 Kshs.
Authorized, issued and fully paid		
572,500 Ordinary Shares @ Kshs.20/= (KDC)	11,450,000	11,450,000
27,500 Ordinary Shares @ Kshs 20/= (Kisumu County)	550,000	550,000
	12,000,000	12,000,000

19. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of the leasehold land and buildings as indicated in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

- i) These reserves shown in the Statement of changes in Equity arose due to valuation of the hotels building and land in the current year 2022 subsequent to the initial revaluation carried out in 2004.
- ii) Land and building were initially taken at a value of Kshs. 178,013 and 10,559,511 respectively. However, on the initial revaluation in 2004, the values came to Kshs. 75,000,000 for building and 15,000,000 for leasehold land. This therefore resulted in reserves of Kshs. 64,440,489 for building and 14,821,987 for leasehold land respectively. A total of Kshs. **79,262,476**.
- iii) On the current revaluation as at June 2022, the values came to Kshs.310,000,000 for land and Kshs.125,000,000 for building with Net book values of Kshs.15,000,000 and Kshs.43,125,000 respectively. This therefore resulted in total reserves of Kshs.309,821,987 for land and Kshs.117,124,708 for building. A total of Kshs.**426,946,695**.

20. RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the hotel's shareholders. Undistributed retained earnings if any are utilized to finance the hotel's activities. However, the hotel has retained losses as at date.



21. BORROWINGS

Particulars	2023 Kshs	2022 Kshs
Balance at beginning of the year	54,828,994	59,769,468
External borrowings during the year	-	-
Domestic borrowings during the year	-	-
Repayments of external borrowings during the year	-	-
Repayments of domestic borrowings during the year	(2,277,865)	(4,940,474)
Balance at end of the year	52,551,129	54,828,994
Less: Amounts due within one year (current portion)	(2,607,865)	(4,007,888)
Amounts due after one year (non-current portion)	49,943,264	50,821,106
Accrued Loan Principal (current portion)	50,421,820	47,813,955
Accrued Loan Interest (current portion)	52,288,514	52,139,730
Total loan and Accrued Interest	152,653,598	150,774,791

NOTES TO THE FINANCIAL STATEMENTS (continued)

The above borrowing is from TFC, one of the shareholders at an interest rate of 11%, with the respective loans being as follows:

Particulars	Loan 1	Loan 2	loan 4	Loan 6	Loan 7	TOTAL
Balance B/Forward	14,092,760	10,004,022	1,982,732	24,078,379	4,671,101	54,828,994
Additions	-	-	-	-	-	-
Repayment	-	-	-	-2,607,865	-	-2,607,865
Totals	14,092,760	10,004,022	1,982,732	21,470,514	4,671,101	52,221,129



22. TRADE AND OTHER PAYABLES

Particulars		2023	2022
		Kshs	Kshs
Trade Creditors		10,188,207	10,035,899
Value Added Tax		15,416,158	12,641,332
CLT		104,894	65,882
Deposits Payable		670,928	670,928
Payroll Control		-	-
P.A.Y.E		1,980,349	7,775,456
N.S.S.F		51,840	36,720
NSSF Arrears		3,931,809	4,531,809
N.H.I.F		22,400	15,700
Pension		139,304	21,132
Accrued Expenses-Audit Fees	1,200,000		
-Directors fees	718,800	1,918,800	1,923,800
Withholding Tax		1,472,381	1,465,055
		35,897,072	39,183,713

Included in Trade Creditors above is Kshs.4,736,000 being outstanding audit fee owed to the Kenya National Audit Office.

The movement in Value Added Tax account resulted from the payment of Kshs.2,505,180 which had been paid by Kisumu County on behalf of the hotel directly to KRA. The amount was posted to PAYE A/c by KRA while the hotel allocated it to VAT A/c thus necessitating the transfer upon reconciliation of the accounts with KRA in May 2023. KRA had not picked the amount on their end.



NOTES TO THE FINANCIAL STATEMENTS (continued)
23. NOTES TO THE STATEMENT OF CASHFLOWS

			2023	2022
23	(a)	Reconciliation of operating profit/ (loss) to cash generated from/ (used in) operations	Kshs.	Kshs.
		Operating profit/(loss)	3,149,004	9,195,131
		Depreciation	3,719,152	2,197,378
		Interest Charged	2,148,784	5,699,076
		Operating profit/(loss) before working capital changes	9,016,940	17,091,585
		(Increase)/decrease in inventories	14,006	(157,597)
		(Increase)/decrease in trade and other receivables	(5,122,816)	(3,520,231)
		Increase/(decrease) in trade and other payables	(3,286,642)	(4,263,395)
		Cash generated from/ (used in) operations	621,488	9,150,362
	(b)	Analysis of changes in loans		
		Balance at beginning of the year	54,828,994	59,769,468
		Receipts during the year		-
		Repayments during the year	(2,607,865)	(4,940,474)
		Repayments of previous year's accrued interest	-	-
		Foreign exchange (gains)/losses	-	-
		Accrued interest	54,288,514	52,139,730
		Accrued Principal	50,421,820	47,813,955
		Balance at end of the year	156,931,463	154,782,679
	(c)	Analysis of cash and cash equivalents		
		Cash at bank	4,468,627	8,332,102
		Cash in hand	132,580	121,727
		Balance at end of the year	4,601,207	8,453,829



NOTES TO THE FINANCIAL STATEMENTS (continued)

Related party transactions

The hotel has two shareholders namely Kenya Development Corporation (KDC) and Kisumu County Government. Tourism Finance corporation owns 95% of Sunset Hotel Limited shareholding while Kisumu County owns 5%.

Sales and Purchases

During the year, the hotel provided accommodation, conference and catering services to the Kisumu County Government while Kenya Development Corporation did not hold any business with the hotel in the financial year. However, all transactions between the parties are strictly at arm's length.

Sunset Hotel incurred Land rent & rates amounting to Kshs. 334,029 for land leased to the hotel for 99 Years by Kisumu County Government; this was fully paid by the hotel.

Transactions with related parties

	2023 Kshs	2022 Kshs
a) Loans received from the shareholders		
Loans from TFC/KDC	Nil	Nil
Loans from Kisumu County Government	Nil	Nil
Total	Nil	Nil

24. CONTINGENT LIABILITIES

	2023 Kshs	2022 Kshs
KRA Penalties	-	14,457,324
Total	-	14,457,324

The hotel has since entered into a payment plan with KRA over the previous years tax arrears. The hotel is up to date with the plan as well as the current taxes. The hotel is currently tax compliant. The hotel anticipates to apply and receive waiver from KRA for the penalties.



NOTES TO THE FINANCIAL STATEMENTS (continued)

Explanatory notes:

The hotel at some point was unable to pay the statutory taxes to KRA and therefore accumulated arrears as stated in the statement of financial position under current liabilities. The hotel has since entered into a payment agreement with KRA for the tax arrears as shown in the statements; the hotel continues to honor the payment plan and is up to date with the current taxes. However, KRA has levied penalties of the above amount as at the date of these statements. The hotel hopes to apply for waiver of the penalties once the principal is cleared. The hotel remains optimistic that the penalties will be waived in the long run.

25. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company'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 company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

a) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the



NOTES TO THE FINANCIAL STATEMENTS (continued)

Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total	Fully Performing	Past due	Impaired
30-Jun-23	Kshs	Kshs	Kshs	Kshs
Trade receivables	34,802,454	6,743,941	23,395,084	4,663,429
Due from related parties	-	-	-	-
Bank balances	4,601,207	4,601,207	-	-
Total	39,403,661	11,345,148	23,395,084	4,663,429

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2022 is as shown below:

	Total	Fully Performing	Past due	Impaired
30-Jun-22	Kshs	Kshs	Kshs	Kshs
Trade receivables	29,398,058	3,935,384	21,643,272	3,819,401
Due from related parties	-	-	-	-
Bank balances	8,453,829	8,453,829	-	-
Total	37,851,887	12,389,213	21,643,272	3,819,401

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from county governments.



NOTES TO THE FINANCIAL STATEMENTS (continued)

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

b) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1- 3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2023:				
Trade payables	2,342,291	-	7,845,916	10,188,207
Current portion borrowings	-	-	104,710,334	104,710,334
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	2,342,291	-	112,556,250	114,898,541
	Less than 1 month	Between 1- 3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022:				
Trade payables	1,560,866	-	8,475,033	10,035,899
Current portion borrowings	-	-	99,953,685	99,953,685
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	1,560,866	-	108,428,718	109,989,584



NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

i) Foreign exchange risk

The company does not undertake any major transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations are minimal. Any Foreign currency transactions during the year are converted into Kenya Shillings at Rates ruling at the transaction date. The resulting differences from conversion and Translation are dealt with in the Profit and Loss Statement in the year in which they arise.

ii) Interest rate risk

This is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

To mitigate this risk, the hotel tries to bank and only deal with banks/institutions that are well established and offer favorable interest rates.

Fair Value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those



NOTES TO THE FINANCIAL STATEMENTS (continued)

valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

d) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the entity's ability to continue as a going concern. The entity capital structure comprises of the following funds:

Particulars	2022-2023	2021-2022
	Kshs	Kshs
Revaluation reserve	426,946,695	426,946,695
Retained earnings	(160,631,378)	(163,780,381)
Capital reserve	12,000,000	12,000,000
Total funds	278,315,317	275,166,314
Total borrowings	52,221,129	54,828,994
Less: cash and bank balances	(4,601,207)	(8,453,829)
Net debt/(excess cash and cash equivalents)	47,619,922	46,375,165
Gearing	17%	17%



NOTES TO THE FINANCIAL STATEMENTS (continued)

26. CURRENCY

The financial statement is presented in Kenya shillings. (Kshs.)

27. EVENTS AFTER CLOSING PERIOD

There were no material adjusting and non-adjusting events after the reporting period

28. MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

The statement of financial position reflects current liabilities totalling to Kshs.140,607,405 which exceeds current assets balance of Kshs.36,342,708 resulting to a negative working capital of Kshs. 104,264,697 which casts significant doubt on the Hotel's ability to continue as a going concern. Notably, of the total current liabilities, Kshs.104,710,334(74%) is owed to the majority shareholder in form of accrued loan interest and principal arrears with another Kshs.17,396,507(12%) is what is owed to KRA. Most of the loans are no longer accruing interest and considerations are underway to have the loans restructured or capitalized. The management is therefore certain about the hotel's ability to continue operating as a going concern. On the other hand, the hotel has entered into a payment plan with KRA and has been honoring it while remaining up to date with the current taxes and has since been certified as tax compliant.

As noted, the hotel's performance has also steadily improved over the recent years. The hotel is also undertaking some modest refurbishment which will certainly go along way in improving its performance.

29. INCORPORATION

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



19. APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the Auditor General on the previous year's statements and the management comments that were provided to the auditors. The hotels nominated focal persons to resolve the various issues and associated time frame with which the issues are expected to be resolved.

Ref. No.	Issue/observations from Auditor General	Management comments	Focal point person to resolve the issue	Status	Time Frame
1.	<p>Non-disclosure of Material Uncertainty Relating to Going Concern</p> <p>It was observed that the financial position reflected current liabilities totaling to Kshs.139,137,398 which exceeds current assets balance of Kshs.35,086,522 resulting to a negative working capital of Kshs.104,050,876 which casts significant doubt on the Hotel's ability to continue as a going concern. However, this material uncertainty to continue to continue as a going concern had not been disclosed in the financial statements. In the circumstances, the financial statements have been prepared on the assumption that the hotel will continue to receive financial support from the Government and its creditors.</p>	<p><i>While its true that the hotel's previous performance was unimpressive, the hotel has since taken some turnaround measures with one of such strategies being declaring all staff redundant in 2019. This was to pave way for renovations but this was unfortunately slowed down by the onset of the Covid-19 pandemic. However, with the pandemic having been contained, the agenda has since been revived and it's at an advanced stage. We are optimistic that the refurbishment will be done and that will certainly enable the hotel to become competitive once more given its very strategic location. The hotel's potential cannot be underestimated.</i></p>	General Manager	On-going	N/A



		<p><i>On the contrary, the hotel's performance for the last two years including the year under review has shown some improvement against all odds with a profit of Kshs. 10,087,234 and Kshs. 9,195,131 being posted respectively. The negative retained earnings (accumulated losses) of Kshs.163,780,381 is equally an improvement from negative retained earnings of Kshs. 183,062,746 reported two years ago.</i></p> <p><i>Of the current liabilities of Kshs.139,137,398, Kshs.99,953,685(72%) is solely the current portion of the loans amounts owed to TFC; the major shareholder while Kshs.20,416,788(15%) is KRA tax arrears. The option of having the amounts converted to equity is being considered by the shareholders and with that, the balance sheet position should be able to improve a great deal. On the other hand, the hotel has entered into a payment plan with KRA for the arrears while it remains up to date with the</i></p>			
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		<p>current taxes. The hotel is currently tax compliant.</p> <p>With the revaluation of its assets mainly land and building there has equally been an improvement in hotel's financial position from what it was previously. Save for the loan related liabilities, notably the current assets continue to grow while the current liabilities are consistently reducing thus the hotel's likelihood to continue as a going concern.</p>		
2.	<p>Un-supported loans from the Tourism Finance Corporation</p> <p>It was stated that the statement of financial position reflected non-current liabilities balances of Kshs.54,828,994 and Kshs.2,500,000 in respect of TFC current portion of loan and advance amount respectively. In addition, the statement also reflected accrued loan principal and interest of Kshs.47,813,955 and Kshs.52,139,730 respectively all totaling to Kshs.99,953,685 and payable to Tourism Finance Corporation. However, no loan agreement or application details were provided to confirm how the loans were advanced. In the circumstances, the existence and completeness of the loan balances amounting to Kshs.157,282,679</p>	<p>The hotel has a couple of loans as correctly stated; a total of 7(seven) loans. All the loans are from the major shareholder i.e Kenya Development Corporation, formerly Tourism Finance Corporation with most of them not currently accruing interest after being suspended by the lender apart from loan 6 which is active. The loans were mostly for meeting operational costs. For instance, loan No.6 which was for Kshs.30M was primarily for settling terminal dues for the staff who were declared redundant in the year 2019 while loan No.7 was for settling land rent</p>	Partly resolved	30 th June 2024



	could not be confirmed.	<p><i>and rates which had accumulated over a period of time. Plans are underway to have the loans converted into equity so as to avoid further accumulation of interest. The hotel has requested the shareholder to zero rate the loans meanwhile.</i></p> <p><i>Loan agreements for three of the loans were availed i.e agreements for loans No.6, No.7 and No.2. The management has requested for copies of the four missing loan agreements from the lender and will avail them for verification as soon as they are availed.</i></p> <p><i>The loan statements for the respective loans from the lender were equally availed for review. The statements are once again hereby attached for your review (Annex I).</i></p>			
3.	<p>Trade and Other from Exchange Transactions 3.1 Unsupported Provision for Trade Debtors</p> <p>The statement of financial position reflects an amount of Kshs.26,262,099 in respect of trade and other receivables as disclosed in Note 16(a) to the financial statement, which was net of provision for</p>	<p><i>As correctly observed, the disclosure presents some contradiction. However, for the period under review, the provision was estimated based on a review of the outstanding amounts at the end of the year under review as per note 4(i).</i></p>	General Manager	On-going	30 th June 2024



<p>bad and doubtful debts of Kshs.4,089,349. However, Note 14(a) on summary of significant accounting policies, trade and other receivables provides that receivables are carried at anticipated realizable value of an estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Further Note 5(ii)(a) on a significant judgements and sources of estimation uncertainty, provisions, states that specifically, provision for bad debts was estimated at 1.23% of the total budgeted revenue for the period and hence an expected provision for bad and doubtful debtors of Kshs.641,936.</p> <p>3.2 Long Outstanding Trade and Other Receivables</p> <p>The statement of financial position reflected an amount of Kshs.26,262,099 in respect of trade and other receivables which as disclosed in Note 16(a) to the financial statements is net of provisions for bad and doubtful receivables of Kshs.4,089,349. Included in the balance are gross debts amounting to Kshs.27,900,211 owed by Government institutions and which have been long outstanding. In the circumstances, existence and recoverability of trade and other receivables balances of Kshs.26,262,099 could not be confirmed.</p>	<p><i>The hotel is also in the process of developing a current accounting policy which will clearly outline the formula of arriving at the provision for bad debts. The policy will clearly outline the basis of provision going forward. Notably, as much as the provision has been made in the books, no debts have actually been written off against the provision so far.</i></p> <p><i>The issue of non-payment by government entities especially county governments is a reality which can't be wished away. The hotel being a government entity unfortunately derives its revenue mostly from government entities who unfortunately are very poor paying masters. It's also close to impossible to get upfront payment from government entities to mitigate against the risk of non-payment as the case would be under normal circumstances. However, the support that we get from government entities cannot also be underestimated and as much as they take long to pay.</i></p>			
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		<p><i>they eventually pay; a few government entities also pay well and on time. The hotel however endeavors to find a way of balancing out and expanding its customer base to avoid over reliance on government entities; and will continue to do so through targeted marketing. The hotel has also scaled down on services offered to County Governments and also works with credit limits for entities with a poor payment history.</i></p>			
4.	<p>Unsupported additions to Property, Plant and Equipment The statement of financial position and disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.437,977,470, an increase of Kshs.351,945,669 from last years balance of Kshs.86,031,801. However, amounts of Kshs.4,169,073 and 2,002,858 in respect of improvements to buildings and furniture and fittings were not supported with bills of quantities for the renovation work done and invoices for furniture and fittings respectively. In the circumstances, the completeness and accuracy of the expenditure incurred on additions to property, plant and equipment all amounting to Kshs.6,171,931 could not be confirmed.</p>	<p><i>As correctly observed, the Property, plant and equipment went up from Kshs.86,031,801 to Kshs.437,977,470. The increase being due to additions totaling to Kshs.6,458,828 and revaluation gain of Kshs.345,486,841. The additions to Property, plant and equipment additions entailed additions to furniture and fittings of Kshs.2,002,859. Improvements to buildings of Kshs.4,169,073 and Plant and machinery of Kshs.286,897.</i></p> <p><i>The improvements to land and buildings of Kshs.4,169,073 entailed Renovation of poolside changing rooms, perimeter wall,</i></p>	General Manager	Resolved	N/A



		<p><i>hall door, and landscaping. The hotel engaged the county government of Kisumu, through the public works department for guidance specifically for landscaping and perimeter wall thus ensuring the hotel receives value for money. Bills of quantities were obtained from the county; which the hotel used as a guide at various stages of the landscaping works; copies of which are hereby attached for your verification. Purchase documents for all the additions to property, plant and equipment were availed for audit and verification.</i></p> <p><i>However, due to the hotel's lean staffing, the hotel was not able to constitute all the necessary procurement committees and by extension provide some of the reports as may be required. To mitigate against this, the hotel is in the process of instituting a procurement department to handle such issues in future. The recruitment process of the procurement officer has already begun in earnest. (Annex 2)</i></p>		
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5.	<p>Unsupported Share Capital The statement of financial position reflects ordinary share capital amount of Kshs.12,000,000 which comprise of ordinary share capital for TFC and County Government of Kisumu of Kshs.11,450,000 and Kshs.550,000 respectively. However, no evidence was provided to confirm the County Governments subscription and shareholding.</p>	<p><i>The missing share certificate number 2 for 27,500 shares belongs to the County Government of Kisumu. The management has since requested for the share certificate from the County Government of Kisumu and will avail it for verification as soon as its obtained. Apparently, the certificate appears to be untraceable and the process of applying for a replacement by the registrar of companies has commenced with the help of the Company secretary.</i></p>	General Manager	On-going	30 th June 2024
6.	<p>Un supported Staff Costs The statement of Profit or loss and other comprehensive income reflects Kshs.26,020,476 in respect of administration costs as disclosed in Note 7(a) to the financial statements which includes Kshs.8,869,663 relating to staff costs. Although the hotel and only one permanent staff for the last two years, salaries and allowances of permanent employees increased by Kshs.3,385,987 or 242% from Kshs.1,394,640 to Kshs.4,780,627 without any supporting documents or justification.</p>	<p><i>The hotel had one permanent staff in the year under review. However, the staff who had been working on casual basis were put on contract with effect from August 2021 which saw an increase in their salaries thus the apparent jump in the salaries figure. Contract and permanent employees' salaries are accounted for under salaries and allowances for permanent employees while salaries for casuals is accounted for under wages for temporary employees. Notably, the total wages for temporary employees went down by Kshs.2,554,218 while salaries for the</i></p>	General Manager	Resolved	N/A




		<p><i>permanent employees went up by Kshs.3,385,987 as observed as a result of change in employment terms for the staff. The overall increase in staff costs of Kshs.2,996,116 is also purely as a result of change in employment terms as it attracted allowances like housing which was not previously there as well as relatively higher basic pay. Equally the figure of Kshs.2,970,191 is the total expenditure on staff travel and other related costs which in this case entails; Travelling expense, medical, housing, staff meals, leave, staff welfare, and training expenses. The jump was largely due to housing allowance for the staff who were put on contract terms effective August 2021.</i></p>			
7.	<p>Unsupported Value of Property, Plant and Equipment</p> <p>The statement of Financial Position and note 14 to the financial statements reflected property, plant and equipment of Kshs.439,977,470 which includes unsupported work in progress of Kshs.26,911,576 transferred to buildings and included in the revalued amount in respect of buildings. In addition, the revaluation report had a forced sale</p>	<p><i>The management adopted the market value as the revaluation figure carried in the hotel's books despite the report having other values as is the required standard and practice for valuation reports. Despite the report having been signed off on 5th August, it represented the position of the hotel's property as at 30th June 2022 as nothing material had taken place between 30th June and then.</i></p>	General Manager	N/A	N/A



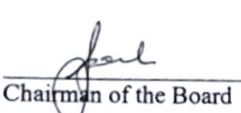
SUNSET HOTEL LIMITED
Annual Reports and Financial Statements
For the financial year ending 30 June 2023



value, market value, mortgage value and insurance value dated 5 August 2022 and not 30 June 2022 the date of the financial statement all of which are different. Management did not provide a support for the basis or the valuation adopted in the financial statement.	<i>The actual inspection of the property had also been conducted within the time frames.</i>			
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General Manager

Date.....11/09/2023.....


Chairman of the Board

Date.....11/09.....