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THE AUDITOR-GENERAL

ON

**KENYA SAFARI LODGES AND HOTELS
LIMITED**



**FOR THE YEAR ENDED
30 JUNE, 2020**

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



KENYA SAFARI LODGES & HOTELS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020**

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



KENYA SAFARI LODGES & HOTELS
Box 90414 - 80100 Mombasa, Kenya & Box 42013 Nairobi - Kenya
t ▶ +254 41 471861-5, +254 722 203143/4 f ▶ +254 41 472970 t ▶ +254 02 229751 / 340894 f ▶ +254 02 222661
e ▶ mombasabeachhotel@kenya-safari.co.ke
w ▶ www.safari-hotels.com



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Annual Report and Financial Statements
For The Year Ended June 30, 2020

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1. KEY ENTITY INFORMATION

a) Background information

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

b) Principal Activities

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

c) Directors

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

NAME OF DIRECTOR	POSITION	DATE OF APPOINTMENT	ALTERNATE DIRECTOR	DATE OF APPOINTMENT
Franklin Ndii	Chairman	14 th June 2019	-	-
Orumoi T. Jonah	Managing Director TFC/ Director	1 st February 2016	Ms. Nora Ratemo	18 th Sept 2017
Fridah Njeru	Director	14 th June 2019	-	-
Michael Matu	Director	11 th Dec 2009 – 2 nd March 2020	-	-
Kabuga Kariithi	Director	23 rd June 2020	-	-
Brigadier (Retired) John Waweru	Director General- KWS/Director	13 th March 2009	Edwin Wanyonyi	9 th October 2015
Joe Okudo	PS, State Department for Tourism/ Director	1 st January 2016	Jonam Kinama David Jakaiti, EBS	24 th January 2019



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- d) Corporate Secretary**
John Saitoti Karia
Corporation Secretary
Tourism Finance Corporation
P.O. Box 42013-00100
Nairobi.
- e) General Manager of the Company- KSLH
Registered Office**
Mombasa Beach Hotel
Mt. Kenya Road, Nyali
P.O. Box 90414, 80100
Mombasa.
- f) Corporate Headquarters**
P.O. Box 90414, 80100
Mombasa Beach Hotel
Mt. Kenya Road, Nyali
Mombasa.
- g) Corporate Contacts**
Tel: 041-471861-5/ +254 722 203143/4
Email: info@kenya-safari.co.ke
Website: www.safari-kenya.com
- h) Corporate Bankers**
Kenya Commercial Bank
Treasury Square
P.O. Box 90254-80100
Mombasa.
- Barclays Bank
Nkrumah Road, Mombasa
P.O. Box 90182 – 80100
Mombasa.
- i) Independent Auditors**
Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084- 00100
Nairobi.
- j) Principal Legal Advisers**
The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112- 00200
Nairobi.



KSLH

A Heritage of Hospitality

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Miller & Company Advocates
P.O Box 90088-80100, GPO, Mombasa.

Kishore Nanji Advocates
P.O Box 86878 – 80100, Mombasa.



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

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2.THE BOARD OF DIRECTORS

Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
1.Mr. Franklin Mbuba Ndii		<p>DoB: 25 May 1952</p> <p>Mr. Franklin Mbuba Ndii holds a Master of Business from the University of Free State, is a Certified Public Accountant (CPA-K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).</p> <p>Mr. Ndii is a career accountant having worked in various organizations; the most recent being Kenya Utalii College (KUC) where he was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd.</p> <p>He brings a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management & Administration.</p> <p>Mr. Ndii was re-appointed to the Board of Directors of Tourism Finance Corporation on 3rd May 2019.</p>
2.Mr Michael Matu		<p>DoB: 13th Septemebr 1968</p> <p>Mr. Michael Matu the Chairman of the Audit Committee holds an Masters in Business Administration (United States International University). a BA (University of Guelph, Canada) and a Graduate Diploma (McGill University, Canada). He serves as the Executive Director, Heri Group and Deputy Chairman & Chief Executive Officer, Olympia Capital Holdings Limited</p>
3. Mr. Orumoi T. Jonah		<p>DoB: 20thOctober 1978</p> <p>Mr. Orumoi the Chairman of the Finance, HR and Administration Committee. He holds a Master of Science Degree in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He graduated with a BA (Hons.) in Accounting & Finance from the University of East London, UK. Currently he is the Managing Director of Tourism Finance Corporation, and has served as Head of Finance & ICT at the Kenya Tourism Board. He has previously worked as Finance & Leasing Contracts Manager/ Acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council,UK.</p>

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Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
4. Mr. Edwin Wanyonyi		<p>DoB: 26th June 1975</p> <p>Mr. Edwin a member of Board of Directors holds an MBA(UON) , Bachelor of Business Administration , Dip in Resource Mobilization, Cert in Strategic Leadership from Kenya Institute of Administration and a post graduate Diploma in Resource Mobilization from Kenya Institute of Management and certificate in Project Management. Member of KIM, Kenya Fundraising Professionals and National Steering Committee Member of UNDP Small Grants. A Taskforce Member of the Tourism Recovery Taskforce in Kenya. Currently he is the deputy directors, strategy and changes at KWS Over 12 years experience in strategic management both in the public and private sector.</p>
5. Ms. Fridah Njeru		<p>DoB: 26th January 1977</p> <p>Ms. Njeru is a Entrepreneur & Hospitality Professional with over ten (10) years experience in the Hospitality industry during which period she was in charge of executing sales and marketing strategies to maximize the profitability of the hotels she worked for. Ms. Njeru has a track record of building and supporting key client relationships and driving sales revenue of some of the biggest city hotels, park lodges and beach properties in the country.</p> <p>She is currently the Managing Director of Kilimani Bakeries Ltd; one of the top bakeries in Nairobi, where she oversee the daily operations, distribution, delivery and the business development of the bakery.</p> <p>Ms. Njeru is dedicated to professionalism and customer service and takes pride in providing a culture of collaboration that is based on mutual respect and building long-term, trusting relationships. She believes in sustainable living and is constantly looking to live in better harmony with the natural world.</p>

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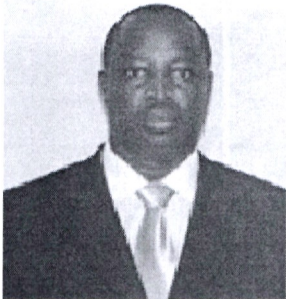


Name of Director	Name of Director	Key Professional/Academic Qualifications & Work Experience
6. Mr John Karia Company Secretary		<p>DoB: 25th May, 1984</p> <p>Mr. John Saitoti Karia is an Advocate of the High Court of Kenya and a Certified Public Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Chartered Institute of Arbitrators (Kenya Branch). He holds a Master’s degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi. ICPSK – Member No. CPSB/2714</p>
7. Mr. Victor Mwambui		<p>DoB: 28th April 1962</p> <p>Mr. Mwambui, the Administration Manager, is a graduate of Kenya Utalii College, Nairobi (Diploma in Hotel Management). He has a vast experience in hotel operations, administration and human resources management. He has over 28 years working experience and served in various roles in hotels and lodges managed by the former African Tours & Hotels Ltd (1990 –June 1998) and presently at Kenya Safari Lodges & Hotels Ltd (July 1998 to date). From August 2018 to date he’s been serving as the Acting General Manager.</p> <p>He is an Associate Member of the Association of Business Executives (UK) and holds an Advanced Diploma in Human Resource Management (ABE level 6) from the same institution. Locally, he is a member of the Tourism Professionals Association.</p>

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2. MANAGEMENT TEAM

Name	Photo	Key Professional/Academic Qualifications & Work Experience
<p>1. Mr John Karia Company Secretary</p>		<p>DoB: 25th May, 1984</p> <p>Mr. John Saitoti Karia is an Advocate of the High Court of Kenya and a Certified Public Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Chartered Institute of Arbitrators (Kenya Branch). He holds a Master’s degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi. ICPSK – Member No. CPSB/2714</p>
<p>2. Mr. Victor Mwambui</p>		<p>DoB: 28th April 1962</p> <p>Mr. Mwambui, the Administration Manager, is a graduate of Kenya Utalii College, Nairobi (Diploma in Hotel Management). He has a vast experience in hotel operations, administration and human resources management. He has over 28 years working experience and served in various roles in hotels and lodges managed by the former African Tours & Hotels Ltd (1990 –June 1998) and presently at Kenya Safari Lodges & Hotels Ltd (July 1998 to date). From August 2018 to date he’s been serving as the Acting General Manager.</p> <p>He is an Associate Member of the Association of Business Executives (UK) and holds an Advanced Diploma in Human Resource Management (ABE level 6) from the same institution. Locally, he is a member of the Tourism Professionals Association.</p>

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Name	Photo	Key Professional/Academic Qualifications & Work Experience
3. Mr. Benard Chepkwony		<p>DoB: 14th November 1978</p> <p>Mr. Chepkwony Finance Manager (KSLH) holds Master's degree in Business Administration from Nairobi university Bachelor of Arts degree in Economics from Kenyatta university and his professional qualifications include CPA(K), CPS(K)</p> <p>Work Experience: August 2005-December 2007: Accountant (NSL and VSL) November 2010-October 2011: Accountant Sunset November 2011-January 2013: Finance Manager (KSLH) February 2013-September 2017 : Group Credit Controller October 2017 – January 2020: Finance Manager (KSLH)</p>
4. Lillian Obura		<p>DoB: 29th December 1977</p> <p>Ms. Obura the Internal Auditor holds Bachelor of Commerce degree (Accounting Option) from Africa Nazarene University and Diploma in Banking. Ongoing student of Masters in Business Administration. Member of Institute of Internal Auditors & ISACA.</p> <p>Work Experience: 2007- 2008- Accountant, Tamarind Mombasa 2008-2013: Asst. Internal Auditor – KSLH 2014 – January 2020 : Internal Auditor – KSLH 2020- to date: Ag. Finance Manager</p>
5. Eunice Nzilani		<p>DoB: 28th December 1982</p> <p>Ms. Nzilani the Human Resource Manager(KSLH) holds Bachelor of Business Administration Human Resource degree from Jomo Kenyatta University Higher Diploma in HRM and Industrial relations Technical University of Mombasa Diploma in HRM and Industrial Relations(TUM) Member of Institute of Human Resource Management</p> <p>Work Experience: 2006-2010 –HRM Sai Rock Hotel 2011-HRO-A.Appreals Jan 2012-Apr 2014 HRO –AWL 2014 – to date: Human Resource Manager-KSLH</p>

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4. CHAIRMAN'S STATEMENT

During the financial year ended 30th June 2020, the Company recorded a turnover of Ksh 401,925,000 as compared to estimate of Ksh 472,000,000 and Ksh 407,935,000 realized in the financial year ended 30 June 2019. Compared to the budget this represents a drop of 14.9 %. This was occasioned by the dismal performance in the last quarter (Q4) of the financial year occasioned by the outbreak of COVID-19 resulting in cancellation of foreign tourist bookings at Voi and Ngulia Safari Lodge and group conference bookings at Mombasa Beach Hotel.

COVID -19 GLOBAL PANDEMIC

This vibrant picture of the industry has now changed due to the adverse global, human, social, and economic impact of COVID-19 pandemic. As we approached the end of March 2020 many establishments in the hotel and tourism industry had begun witnessing extremely low levels of business with fears of possible near collapse of the industry. As a result KSLH recorded a dismal financial performance in the last quarter of the 2019-2020 FY with revenues at all Units showing a sharp decline beginning April 2020. Voi and Ngulia Safari Lodges which are dependent on the foreign markets for their revenues began to record nil occupancies and in May 2020 the Board resolved to suspend operations in these lodges until end of September 2020.

CHALLENGES FACING THE COMPANY

Facilities: all three KSLH units require a comprehensive program of complete renovations and upgrading.

Plant, equipment, furniture and fittings: a large proportion of these across the Company are fully depreciated, unserviceable and obsolete. They require complete overhaul.

Motor vehicles: The set of seven vehicles are fully depreciated, unserviceable and obsolete. There is need for total replacement with new ones.

Business challenges: the company faces stiff competition especially at the lodges from hotel companies with modern facilities and has challenges attracting and retaining high value clients owing to the aged status and tired look of the facilities.

Trade creditors, statutory liabilities, and unremitted payroll deductions: the Company is struggling to clear outstanding past VAT, PAYE and Tourism Fund levy because of constrained cash flows associated with poor business and negative working capital. Payment plans in place relate to historical debts and KSLH is struggling to meet current tax liabilities and other obligations (pension scheme contributions, SACCO and staff terminal benefits arrears etc)

Debt Collection: Debt recovery is slow and negatively impacts on cash flows due to long processes in payments by government institutions.

Technical Insolvency: the Company has been on the brink of technical insolvency arising from persistent losses and very weak and negative working capital. KSLH continued operation as a going concern is dependent upon the support of its creditors, shareholders and Government.

Chairman- Board of Directors



3RD DECEMBER, 2020



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5. REPORT OF THE CHIEF EXECUTIVE OFFICER

Kenya Safari Lodges & Hotels Ltd (KSLH) properties offer accommodation, catering/restaurant services and event venue facilities to a diversity of clientele. In the first three quarters of 2019/2020 FY, sales promotion efforts at Mombasa Beach Hotel focused on the conferencing product offered to the market as either residential or non-residential packages. The MDAs market segment provided conferencing business to the hotel until March 2020 when the outbreak and spread of the COVID19 pandemic caused serious disruption to KSLH business.

The unique geographical spread and positioning of KSLH Units in the Kenya coastal tourist circuit i.e. a beach hotel at the Mombasa North Coast and two lodges in the renowned Tsavo National Parks provided leverage for them to handle the increased demand witnessed during the mid and peak seasons of the foreign leisure market.

COVID -19 GLOBAL PANDEMIC

This vibrant picture of the industry has now changed due to the adverse global economic impact of the COVID-19 pandemic. In Kenya like in the rest of the world, stringent measures instituted to stop the spread of the virus such as restrictions in air travel (foreign and domestic), physical distancing, night curfews, closure of bars and limitations in opening hours of eateries have led to extremely low levels of business and possible near collapse of the industry.

KSLH OPERATIONS AND FACILITIES ASSESSMENT

KSLH has experienced financial difficulty and erosion of shareholders capital due to a combination of the following factors;

1) Aged facilities and old equipment, furniture and fittings:

Most of the buildings and facilities are old and aged requiring complete facelift; most of the equipment, furniture and fittings are fully depreciated and unserviceable posing challenges to operations and efficient service delivery to clients. Areas that call for complete overhaul of operating equipments include:

a) Mombasa Beach Hotel

- **Kitchen cooking ranges and bakery oven;** cold rooms and freezers, laundry equipment, food and beverage equipment for bars and restaurants; Stainless steel storage racks & other sundry equipment
- **Guest rooms refurbishment** including balcony sliding doors, bathrooms and main bedroom doors

b) Voi & Ngulia Safari Lodges

- **Kitchen cooking ranges and bakery oven;** cold rooms and freezers, laundry equipment, food and beverage equipment for bars and restaurants; Stainless steel storage racks & other sundry equipment

2) High operation costs - high cost of repairs and maintenance due to aged and worn out facilities, high electricity, water and staff costs.

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- 3) **Business challenges** – the units are facing great challenges in attracting and retaining good businesses due to the status of the facilities.
- 4) **Revenue decline** - decline in rooms sales due to the status of the rooms. Influx of new hotels and global brands that have increased competition.
- 5) **Statutory deductions** – the units are not remitting statutory deductions including staff deductions as they should: SACCO, loans to Commercial Banks, Staff Welfare, union’s dues, PAYE and Tourism Fund levy.
- 6) **Pending bills (suppliers and other creditors)** – huge levels of unpaid bills; persistent problem of non- payment of suppliers of goods and services on time as per credit terms.
- 7) **Poor debt collection** – KSLH lacks a dedicated debt recovery department and required staff to undertake credit control debt collection functions and responsibilities.
- 8) **Funding needs** – unable to attract private and or commercial funding
- 9) **Financial downturn experienced in the tourism sector due to external factors** e.g. COVID-19 pandemic, insecurity, political disruption and seasonal fluctuations.
- 10) **Human resources**- gaps in training and professional development.

BUSINESS TURNAROUND AND RECOVERY IN THE WAKE OF COVID-19

Mombasa Beach Hotel has been serving as a quarantine facility since March 2020 following the outbreak and spread of the COVID19 infection. The lifting of restrictions has been gradual with Government being cautious with re-opening of businesses such as bars, restaurants and nightclubs. The sale of alcohol in such premises remains banned.

The situation has continued to evolve while the booking forecasts remain uncertain; the probability that the Company may face financial challenges in terms of operations sustainability is not to be ignored. However, management is optimistic that business will return back to normalcy.



Victor Mwambui
Ag. General Manager

03 December 2020



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6. REVIEW OF KSLH 'S PERFORMANCE FOR FY 2019/2020

Sales

KSLH recorded an annual sales turnover of Ksh. 369,773,000 as at 30 June 2020 against a revenue budget of Ksh.472,000,000 representing a variance of 21.7 % below budget. Compared to FY2018/2019 sales turnover this represents a difference of Ksh.38,160,000 or a 9.4% drop in revenues.

Cost of Sales

In 2019/ 2020 F total cost of sales were 87,726,000 representing 24% of turnover compared to estimate of Ksh104,820,000 and last year (2018/ 2019 FY) actual of Kshs 105,905,000.

Gross Profit

Gross margin achieved for 2019/2020 FY was Ksh. 290,638,000 against an estimate of Kshs 367,180,000 representing a reduction of 21 % compared to budget. A comparison with the gross profit of Kshs 309,171,000 for 2018 / 2019 FY, translates to a reduction in GP of 6% below the previous year.

Operating Expenditure

The total operating expenditure for the year ended 30 June 2020 was Kshs 291,674,000 representing 78.9 % of total revenue compared to budget of Ksh. 354,006,115 (75% of sales) and Ksh 299,829,000 the previous year. Thus there was a decline in total expenditure associated with a decline in sales turnover. Total HR costs represented the largest portion of this expenditure at Ksh 168,365,000 but this amount was way below the budget of Ksh 214,795,292 by 21.6 %. The Company managed to contain personnel costs by not undertaking any recruitment but only filling a few critical positions essential for sustaining KSLH trading activities. The only vacant positions filled include sales & marketing manager, sales executives and managers for each of the two lodges.

Property upkeep, repair and renewals expenses stood at Ksh 19,866,000 (or 7.1% of sales) which was below estimate of Ksh. 26,054,646 by 23.7 % and 10.2 % lower compared to 2018/2019 FY actual of Ksh 22,112,0 . These repair and maintenance costs that appears disproportionate to the total sales were occasioned by the poor state of the facilities, plant, machinery and equipment across the Company.

Expenditure on utilities formed the bulk of day to day operating costs which amounted to Ksh. 62,492,000 compared to budgeted amount of Ksh68,022,484 which was lower by 8 % of budget.

Operating Profit (Loss)

Overall KSLH achieved an operating profit of Kshs 21,517,000 compared to budget estimate of Ksh 10,493,855 and last year, Ksh27,689,000.

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The 2019/2020 FY financial results for each KSLH unit are tabulated here below:

ANNUAL TRADING RESULTS 2019/ 2020 FY

Unit	Sales Turnover (FY 2019/2020)			Net Profit/(Loss) (FY 2019/2020)		
	Actual (Ksh'000)	Budget (Ksh'000)	2018/2019 (Ksh'000)	Actual (Ksh'000)	Budget (Ksh'000)	2018/2019 (Ksh'000)
Mombasa Beach Hotel	214,067	250,000	262,306	16,422	34,919	44,029
Voi Safari Lodge	119,724	120,000	114,304	20,143	8,447	6,368
Ngulia Safari Lodge	44,940	82,000	42,091	(6,486)	1,013	(11,409)
KSLH Head Office	23,195	20,000	17,247	(8,562)	(33,907)	(11,300)
TOTAL	401,926	472,000	435,948	21,517	10,472	27,688



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7. CORPORATE GOVERNANCE STATEMENT

Kenya Safari Lodges & Hotel Ltd (“KSLH”) is a limited liability company registered under the Kenya Companies Act whose share holding is as follows:

Shareholder	No. of Shares	% Shareholding
Tourism Finance Corporation	4,110,855	82.45%
Mountain Lodges Ltd	884,853	17.53%
Kenya Wildlife Service	1,016	0.02%

Board of Directors

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

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

TFC

Three (3) directors including the Chairman of the Board.

One (1) alternate director (alternate to Managing Director, TFC)

Mountain Lodges Ltd

One (1) director

KWS

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

Ministry of Tourism

One (1) alternate director representing the Principal Secretary, Tourism

Changes in Directorships

With the demise of Mr. Michael Matu, KSLH director who was a nominee of Mountain Lodge Limited on 2nd March 2020, Mr. Kabuga Kariithi was effectively nominated on 23rd June 2020 to represent Mountain Lodge Limited Company.

KSLH Articles of Association Clause 84 provide that the number of Directors shall not be less than two and not more than ten directors. Under Clause 85 of the Articles of Association, provision has been made for the Board, from time to time, to appoint any other person as director, either to fill a casual vacancy or as an addition to the Board so long as at any time the number of directors shall not exceed the maximum number fixed.



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Clause 91 of the Articles of Association of the Company provides that directors may elect a Chairman of their meeting and determine the period for which he is to hold office.

The chairman of the Board is a non executive independent director along with another director nominated by TFC. The directors have a wide range of business and professional skills and experience.

Board Responsibilities

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

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

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

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

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

Board Committees

The Board has set up one main committee as outlined below with delegated it mandates as stipulated. The committees is:

Board Audit Committee: the membership comprised of Mr. Michael Matu (Chair), Mr. Jonah T. Orumoi (Member), Ms. Frida Njeru (Member) and Mr. Edwin Wanyonyi (Member).

Since Kenya Safari Lodges and Hotel is a state corporation, this committee is guided by the guidelines for audit committees in the public sector issued by the Treasury. Its main activities are to determine whether risks, internal controls and compliance maturities are reasonably in place, planned and directed, for goals of KSLH to be realized as expected by stakeholders. It does this by overseeing the auditing and financial reporting processes of KSLH.



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8.MANAGEMENT DISCUSSION AND ANALYSIS

The company sales revenue decreased by 8% to Kshs.402M from Kshs.435M attained in FY2018/2019. Out of the 3 Units of KSLH, Voi & Ngulia Safari Lodge recorded increased sales revenues compared to the previous year, though this was below the targeted sales in the annual budget 2019/2020. Mombasa beach hotel recorded decreased sales compared to previous year. The last quarter of the year coincided with COVID 19 global Pandemic and the associated business downturn hence negative impact on the occupancy levels.

The achievement of the budgeted sales turnover for the financial year 2019/2020 was premised on the refurbishment of the flagship unit, Mombasa Beach Hotel at total cost of Ksh 78 million, Ngulia Safari Lodge at Ksh.41M and Voi Safari Lodge at Ksh.42M respectively. Although the renovation project was scheduled to begin at the beginning of the period under review this was set-aside due to lack of funding. Therefore the company was only able to undertake minimal capital improvement such as installation of 53 new split –unit air-conditioners for guest rooms at Mombasa Beach Hotel and much more is yet to be achieved. As a result KSLH properties are unable to command a leadership position in market share within their respective locations.

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

	AMOUNT
VAT	233,989,439
WITHOLDING TAX	9,900,668
PAYE	165,033,163
CLT	53,189,734
PENSION	24,729,040
SACCO	3,716,201
TRADE CREDITORS	108,323,000

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

Management is hopeful that the company is going to maintain profitability as indicated as long as COVID 19 pandemic curve is flattened and normal business resumes. Meanwhile Management has reviewed its Strategic plan, putting more focus on all its trading units to ensure revenues start rising to enable the company reduce its trade creditors and other liabilities. Out of court settlement and negotiations on payment modalities have also been undertaken between trade creditors, other creditors and KSLH, the company having been issued with demand letters.

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9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

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

- (i) ***Environmental protection***- During the year KSLH undertook several beach cleaning exercises geared towards protection and rehabilitation of the environment more specifically the beach environment.
- (ii) ***Education***- During the year KSLH endeavored to support educational activities which include HIV/AIDS awareness, Career development among the vulnerable groups, Special projects geared towards empowerment of the youth through internship.
- (iii) ***Sports promotion*** -KSLH has sports teams for men and women which participate in local tournaments.
- (iv) ***Beautification projects*** - KSLH sought to partner with other stakeholders in beautification of the city of Mombasa. The lodges have also partnered with KWS on environmental clean-ups within the parks.
- (v) ***Local community programs***-During the year KSLH partnered with Bombolulu Workshop for supply of PPE's to mitigate against COVID 19 Pandemic.



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10.REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Kenya Safari Lodges and Hotels affairs.

Principal activities

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

Results

The results of the entity for the year ended June 30, 2020 are set out on page 1

Dividends

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

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulations of the Kenya Safari Lodges and Hotels Ltd Memorandum and Articles of Association; Mr Franklin Ndiu was appointed as the new chairman of the board of directors with effect from 14th June 2019 replacing Mr. Paul Kurgat.

Auditors

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

By Order of the Board


Mr. John Karia
Corporation Secretary

Mombasa

Date: 10th NOVEMBER 2020

KENYA SAFARI LODGES AND HOTELS LIMITED
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11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(5) of the Public Finance Management Act, 2012 and section 14(3) of the State Corporations Act, require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the KSLH's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2020, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

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

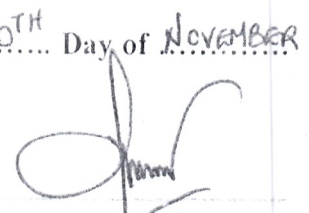
Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Company's financial statements were approved by the Board on the ...10TH... Day of NOVEMBER 2020 and signed on its behalf by:


Chairman


Director

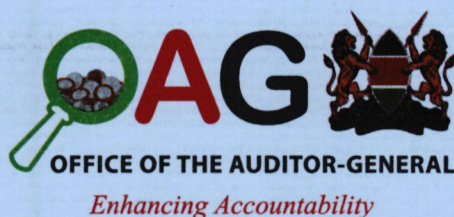

Director



KENYA SAFARI LODGES AND HOTELS LIMITED
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12.REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY

REPUBLIC OF KENYA



Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

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

REPORT OF THE AUDITOR-GENERAL ON KENYA SAFARI LODGES AND HOTELS LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Safari Lodges and Hotels Limited set out on pages 1 to 50, which comprise of the statement of financial position as at 30 June, 2020, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Safari Lodges and Hotels Limited as at 30 June, 2020, 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 Public Finance Management Act, 2012 and the Kenyan Companies Act, 2015.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Fully Depreciated Assets

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment totalling Kshs.629,037,000 and a nil balance in respect to intangible assets. The values are net of fully depreciated property, plant and equipment, and intangible assets valued at Kshs.195,418,000 and Kshs.3,845,000, as further disclosed in Notes 16 and 17 to the financial statements respectively.

Among the fully depreciated fixed assets are several that are still in use. Failure to include the values of the assets in the financial statements has contravened International Financial Reporting Standard No.16 on accounting for property, plant and equipment.

Consequently, the property, plant and equipment and intangible assets balances as at 30 June, 2020 are not fairly stated.

1.2 Unconfirmed Ownership of Freehold Land

Included in the property, plant and equipment balance totalling Kshs.629,037,000 are land and buildings with a net book value of Kshs.611,656,000 which includes freehold land in Mombasa valued at Kshs.360,000,000. However, the title for the land was not presented for audit verification and further, its physical demarcation beacons were not identified by Management.

In addition, handing over reports between successive General Managers of the Company did not include the freehold land. Further available records indicated that the land was charged to other parties as shown in the appendix attached to this report.

In view of these anomalies, ownership of the freehold land and the accuracy and validity of its valuation amounting to Kshs.360,000,000 as at 30 June, 2020 could not be confirmed.

2.0 Trade and Other Receivables

The statement of financial position as at 30 June, 2020 reflects trade and other receivables balance totalling Kshs.173,366,000. However, examination of records on the receivables revealed the following anomalies:

2.1 Dormant Trade Debtors

As similarly reported in 2018/2019, included in the trade and other receivables balance totaling Kshs.173,366,000 as at 30 June, 2020 are three hundred and fifty-four (354) trade debtor accounts with a total balance of Kshs.62,988,012. No payment had been received from the debtors in the previous two years and further, the efforts made by Management to recover the debts were not disclosed. In addition, there was no specific provision made for the impairment of the debts.

2.2 Non-Existent Debtors

Further, as similarly reported in 2018/2019, the list of outstanding trade debtors includes Kshs.9,134,671 owed by four entities that are no longer in existence. However, no specific provision was made to recognize the doubtful nature of the debts in the year under review.

Under the circumstances, the adequacy of the provision for bad debts amounting to Kshs.6,080,917 and the extent to which the trade and other receivables balance totalling Kshs.173,366,000 were recoverable as at 30 June, 2020 could not be confirmed.

3.0 Long Outstanding Trade and Other Payables

As previously reported, the trade and other payables balance totalling Kshs.698,310,000 shown in the statement of financial position as at 30 June, 2020 includes long outstanding payables on various statutory payroll deductions, Value-Added-Tax and other levies totalling Kshs.505,436,383. However, penalties payable for failure to remit the deductions

have not been provided for in these financial statements. Further, no satisfactory explanation has been provided by Management for the failure to recover the balance.

Consequently, the trade and other payables balance totalling Kshs.698,310,000 as at 30 June, 2020 may not be fairly stated.

4.0 Unsupported Administrative Expenses

The statement of profit and loss and other comprehensive income reflects administrative expenses totalling Kshs.17,322,000, as further disclosed in Note 10 to the financial statements. Included in the balance are Directors' expenses totaling Kshs.3,966,000.

Audit examination of the Directors' expenses revealed expenditure totalling Kshs.489,450 spent on airfares whose occurrence could, however, not be confirmed as the respective travel records were not provided for audit.

In the circumstances, the propriety of the expenditure totalling Kshs.489,450 relating to director's expenses could not be confirmed.

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

I draw attention to the disclosure in Note 32 to the financial statements which indicates that the Company is facing a liquidity risk due to its negative working capital amounting to Kshs.432,916,000 resulting from its current liabilities totalling Kshs.701,920,000 and current assets totalling Kshs.269,004,000 as at 30 June, 2020. In addition, the Company had accumulated losses totaling Kshs.404,288,000 as at 30 June, 2020 as reflected in the statement of changes in equity for the year then ended.

Further, as previously reported, the Company in 2013/2014 financial year successfully negotiated for conversion into equity of a loan totalling Kshs.75,554,000 received from the Tourism Finance Corporation. The interest accrued thereon was waived. However, despite these actions, the working capital position of the Company and its overall financial performance have continued to decline.

In addition, the Company is behind schedule on repayment of another Tourism Finance Corporation loan totalling Kshs.20,740,045 received in April, 2016 and which is due for full repayment in April, 2021. Examination of records on the loan indicated that out of the expected repayments totalling Kshs.14,195,257 as at 30 June, 2020, only

Kshs.8,602,039 had been paid and therefore the Company was in default for Kshs.5,593,218.

These conditions indicate the existence of a material uncertainty that has cast doubt on the Company's ability to meet its financial obligations as they fall due, and to continue as a going concern. Therefore, the Company's existence as a going concern is dependent upon continued support from its shareholders, bankers and creditors.

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 are responsible for the other information which is comprised of the report of directors as required by the Kenyan Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

1.0 Lack of Strategic Plan

As previously reported, the Company's Strategic Plan for the period 2012-2018 expired in November, 2018. Management has indicated that a draft plan is about to be finalized

and launched. Therefore, the Company is operating without a strategic plan contrary to Section 68(2) (g) of the Public Finance Management Act, 2012 which requires an Accounting Officer of a National Government entity to prepare a strategic plan in conformity with the medium term fiscal framework and policy objectives.

In the absence of the Strategic Plan the basis for setting budget objectives and programmes and activities may not be objective.

2.0 Failure to Use E-Procurement Platform

During the year under review, Management undertook various procurements that included purchase of fifty-five air conditioners, one hundred forty-two television sets and food stuffs among others. However, the e-procurement platform was not installed contrary to Executive Order No.6 of 06 March, 2015 which required all state corporations and universities to conduct their procurement activities through the platform. National Treasury Circular No.6/2015, had similarly required all public entities to migrate to e-procurement by June 2015.

Failure by Management to operationalize the platform is not only irregular but may also result in uncompetitive and irregular procurement activities by the Company.

3.0 Unremitted Statutory Deductions

Included in other payables balance totaling Kshs.513,204,000, as further disclosed in Note 24 to the financial statements, are tax and statutory deductions totalling Kshs.409,338,478; as detailed below:

Deduction	Amount (Kshs.)
Value-Added-Tax	233,989,439
National Social Security Fund	127,600
National Hospital Insurance Fund	287,610
Pay-As-You-Earn	165,033,162
Withholding Value-Added-Tax	9,900,667
Total	409,338,478

Failure to remit statutory deductions may result in payment of penalties which would amount to wasteful expenditure. Management has indicated that the respective agencies had agreed to a staggered repayment of the outstanding remittances.

4.0 Forfeiture of Cash Receipts on Sale of Shares

As reported in the previous year, the share capital of the Company was increased from Kshs.9,319,000 to Kshs.100,954,000 by a rights issues of 5,047,724 ordinary shares of Kshs.20 each in October, 2013. The shares were offered to existing shareholders at Kshs.20 per share based on par value. However, the net assets of the Company as at 30 June, 2013 amounted to Kshs.667,399,000, and therefore the net asset value of each share was Kshs.145.65. As a result, the rights issue price of Kshs.20 per share was

undervalued by Kshs.125.65 and may have resulted in loss to the Company of significant cash receipts that may otherwise have helped in reverse the Company's unfavorable cash position.

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

REPORT ON 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Non-integration of the Accounting System

As reported in the previous year, the Mombasa Beach Hotel maintains its books of account in an electronic accounting system which may be operated in multiple locations via a network. However, it had not been deployed in Voi and Ngulia Safari Lodges whose financial records are maintained in electronic workbooks. The workbooks are physically transferred to Mombasa on a flash-disk where they are uploaded onto the electronic accounting system. The financial data is therefore susceptible to unauthorized change, damage or loss during transfer. In addition, decision making by Management is slow since the accounting system takes long to be updated with data from the two lodges.

Failure to optimize the existing accounting system by connecting it to all business operational units of the Company may, therefore, be hindering efficient and effective operation of the business.

2.0 Weak Controls on Debt Management

Disclosed in Note 19 to the financial statements are trade debtors balance totalling Kshs.140,459,000 as at 30 June, 2020, out of which Kshs.118,234,489 or 84% had been outstanding for more than six months.

Section 2.3.2 of the Company's Draft Credit Policy provides that customers shall be allowed credit upon payment of a deposit of 50% of the quotation and settle the balance

on departure, or within 30 days. The long outstanding debts indicate that the Company may have contravened its own policy on debt management and therefore its internal controls on credit sales may not be functioning as intended.

3.0 Lack of Substantive Senior Managers

The Company headed by an Acting General Manager as at 30 June, 2020 who had been in the position since August, 2018 and whose contract had been extended four times. The position had been advertised more than once but no one was appointed to the post. In addition, the position of the Finance Manager became vacant in January, 2020 but had not been filled at the time of the audit in November, 2020.

No satisfactory explanation was provided by Management on why the Board has taken so long to recruit substantive position holders or confirm the acting appointments. Since they lack substantive authority, the senior management in acting capacity may be constrained from making and executing significant decisions on operation and growth of the business.

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 processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit and loss and other comprehensive income are in agreement with books of account; and

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance

In preparing the financial statements, Management is the responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters

related to going concern and using the applicable basis of accounting unless the directors are aware of intention to liquidate the Company or to cease operations.

The directors are 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 manner.

The directors are responsible for overseeing financial reporting process, reviewing the effectiveness of how the Company 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 ability of the Company 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 Company 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 Company 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 control that are identified during the audit.

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

27 August, 2021

APPENDIX

Charges on Mombasa Property

Charge No.	Date	Charge/Presentation No.	Charged by	Value	Comments
10	04.05.1992	005 of 23.04.1992	Annurahi Jafferahi M.	Unquantified	Sub-lease Interest
15	25.02.2005	Not clear from copy but dated 21.03.2005	Kenya Tourism Development Corporation Limited	Kshs.40,000,000	Details Not Provided

KENYA SAFARI LODGES AND HOTELS LIMITED
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13. STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020

	Notes	2019-2020	2018-2019
		Shs'000	Shs'000
TURNOVER	4	369,773	407,935
COST OF SALES	7	(87,726)	(105,905)
GROSS PROFIT		282,047	302,030
OTHER INCOME	5	8,591	7,142
TOTAL INCOME		290,638	309,172
OPERATING COSTS	8	(62,492)	(66,893)
STAFF COSTS	9	(168,365)	(172,667)
ADMINISTRATIVE COSTS	10	(17,322)	(19,493)
REPAIRS AND MAINTENANCE	11	(19,866)	(22,113)
ADVERTISING AND PROMOTION	12	(1,967)	(1,385)
GENERAL EXPENSES	13	(9,795)	(8,389)
DEPRECIATION	16	(11,866)	(8,890)
AMORTIZATION			
TOTAL EXPENSES		291,674	299,829
OPERATING PROFIT/(LOSS)		(1,036)	9,342
FINANCE INCOME	6	23,561	20,872
FINANCE COSTS	14	(1,009)	(2,526)
EARNINGS BEFORE EXTRA ORDINARY ITEMS		21,517	27,688
PROFIT/(LOSS) BEFORE TAX		21,517	27,688
INCOME TAX EXPENSE/(CREDIT)			
PROFIT AFTER TAX		21,517	27,688



KENYA SAFARI LODGES AND HOTELS LIMITED
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For The Year Ended June 30, 2020

14. STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2020

	Notes	2020	2019
ASSETS		Shs'000	Shs'000
NON-CURRENT ASSETS			
Properties, Plant and Equipment	16	629,037	650,221
Intangible assets	17	0	0
CURRENT ASSETS			
Inventories	18	10,983	9,783
Trade and other receivables	19	173,366	186,378
Short term Deposits	29	21,029	0
Cash and Bank equivalent	25	63,626	54,217
Sub-total		269,004	250,378
TOTAL ASSETS		898,041	900,599
EQUITY AND LIABILITIES			
OWNERS' EQUITY			
CAPITAL AND RESERVES			
Share Capital	20	100,954	100,954
Revaluation Reserve	22	486,727	505,722
Retained Earnings	21	(404,288)	(425,805)
Shareholders' Funds		183,393	180,871
NON-CURRENT LIABILITES			
Borrowings -long term	23	8,728	10,588
Contingent Liabilities	28	4,000	5,000
Sub-total		12,728	15,588
CURRENT LIABILITIES			
Borrowings-short term	26	0	4,112
TFC Loan	26	3,610	4,125
Trade and other payables	24	698,310	695,903
Total Liabilities		701,920	704,140
TOTAL OWNERS' EQUITY AND LIABILITY		898,041	900,599

The financial statement were approved by the Board of directors on the ^{2ND}.....day ^{DECEMBER}..... of 2020 and signed on its behalf by:

.....
 Ag. General Manager
 Victor Mwambui

.....
 Ag. Finance Manager
 Lillian Obura

.....
 Chairman of the Board of
 Directors

KENYA SAFARI LODGES AND HOTELS LIMITED
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15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Ordinary Shares Kshs'000	Revaluati on Reserve Ksh'000	Profit & Loss Account Ksh.'000	Total Kshs'00 0
As at 1 July 2018	100,954	527,415	(453,493)	174,876
Rights Issue				-
Prior year adjustment				-
Revaluation surplus				-
Net Profit for The year			27,688	27,688
Prior year adjustment on revaluation				-
Transfer To Depreciation Equivalent		(21,693)		(21,693)
As at June 30, 2019	100,954	505,722	(425,805)	180,871
As at 1 July 2019	100,954	505,722	(425,805)	180,871
Rights Issue				-
Prior year adjustment				-
Revaluation surplus				-
Net Profit for The year			21,517	21,517
Prior year adjustment on revaluation				-
Transfer To Depreciation Equivalent		(18,995)		(18,995)
As at 30 June 2020	100,954	486,727	(404,288)	183,393

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16.STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019-2020	2018-2019
		<u>Kshs'000</u>	<u>Kshs'000</u>
Operating activities			
Profit/(Loss) before tax		21,517	27,688
Adjustments for:-			
Gain on sale of fixed assets		-	-
Depreciation	16	11,866	8,890
Amortization		-	-
Rounding off difference		(5)	-
Interest income (from KCB fixed deposit)	6	(1,125)	(1,118)
Finance cost	14	1,009	2,526
Cash flow from/(used in) operations before		33,262	37,986
Working capital changes:			
(Increase)/Decrease in inventories	18	(1,201)	(3,740)
(Increase)/Decrease in Trade and receivables	19	13,012	(41,529)
Increase/(Decrease) in Payables and accruals	24	2,407	53,445
Sub-Total		14,219	8,176
Net cash flow from operating activities		47,481	46,162
Investing activities			
Short term Investment	29	(21,029)	0
Purchase of fixed assets	16	(9,672)	(4,384)
Proceed from sale of Fixed Assets		-	-
Interest received	6	1,125	1,118
Net cash flow from investing activities		(29,576)	(3,266)
Financing activities			
Rights Issue proceeds		0	0
Loan repayment	23,26	(2,375)	(1,288)
Contingent liability	24	(1,000)	(7,765)
Bank overdraft	26	(4,112)	(1,688)
Payment of Finance cost	14	(1,009)	(2,526)
Net cash flow from financing activities		(8,496)	(13,267)
Net Cash Flow from the year 2020		9,409	29,629
Cash and cash equivalents at the beginning of the year		54,217	24,588
Cash and Cash Equivalents at the End of the Year	25	63,626	54,217

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17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2020

	Original Budget	Adjustments	Final Budget	Actual On Comparable Basis	Performance Difference	% Variance
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	
Sales	472,000	0	472,000	401,925	(70,025)	15%
Cost Of Sales	104,820	0	104,820	87,726	17,094	
		0				
Gross Profit	367,180	0	367,180	314,199	52,981	14%
		0				
Expenditure		0				
Salaries Wages	137,221	0	137,221	112,504	(24,717)	
Staff Expenses	65,605	0	65,605	45,691	(18,234)	
Staff Travel	11,970	0	11,970	10,170	(1,501)	
Property Upkeep & Expenses	11,380	0	11,380	9,795	(2,962)	
Repairs & Renewals	14,675	3,428	18,103	18,103	(3,428)	23%
Operating Costs	68,022	(3,428)	64,594	64,254	3,768	6%
Office Expenses	7,778	0	7,778	6,693	(1,084)	
Administration Expenses	3,575	0	3,575	2,709	(1,466)	
Directors Fees/Expenses	6,469	0	6,469	3,966	(2,503)	
Advertising & Promotion	3,000	0	3,000	1,967	(1,033)	
General Charges	9,644	0	9,644	3,954	(5,712)	
Depreciation & Amortization	14,668	0	14,668	11,866	(2,802)	
Interest & Other Charges	2,680	0	2,680	1,009	(1,671)	
Total Operating Expenses	356,708	0	356,708	292,682	(64,026)	
	0	0	0			
Operating Profit	10,494	0	10,494	21,517	11,045	105.25%

Notes to budget variances

Repairs and renewals surpassed the budget by 23%. The cost incurred was due to aging facilities, we noted that, the cost of repairs & renewal went above the budget as shown on the table above. The cost incurred was necessary to keep the product in saleable state and minimize guest complaints.



KENYA SAFARI LODGES AND HOTELS LIMITED
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18. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

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

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

a) Revenue Recognition

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Property, Plant and Equipment

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

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

The annual rates used are as follows: -

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

c) Intangible Assets

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

d) Inventories

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

e) Foreign Currency

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

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



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Trade Receivables

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

g) Loans/Bank Borrowings

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

h) Trade Payables

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

i) Taxation

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

j) Employee Benefit Costs

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

Being a Defined Contributions Scheme, liability is limited to the contribution and the Company has no obligation if the fund does not have sufficient funds to pay members



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

retirement funds. Employer and Employee contribution rate is 10% and 5% respectively.

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

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

Provision for staff leave and service pay

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

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

k) Dividends

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

l) Cash & Cash Equivalents

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

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



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NOTES TO THE FINANCIAL STATEMENTS

	2019-2020	2018-2019
	Shs'000	Shs'000
4.TURNOVER		
Accommodation	109,502	105,165
Food	178,671	203,219
Beverage	37,576	44,201
Tobacco	320	292
Telephone	0	5
Laundry	271	245
Business Center	741	1,210
Functions	41,466	51,576
Petrol and oil	1	6
Sporting Facilities	1,224	2,016
	369,773	407,935
5.OTHER INCOME		
Rent	1,247	1,351
Sales of Fixed Assets	0	0
Other income	7,344	5,791
	8,591	7,142
6.FINANCE INCOME		
Foreign Exchange Gain	22,436	19,754
Interest Income	1,125	1,118
	23,561	20,872
7.COST OF SALES		
Food	73,994	87,599
Drinks	8,687	10,374
Tobacco	268	266
Telephone	0	0
Functions	4,426	7,187
Laundry	1	0
Business Center	323	295
Petrol and Oil	0	0
Sporting Facilities	28	184
	87,726	105,905

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8. OPERATING COSTS		
Electricity	20,211	21,448
Fuel and gas	14,418	16,526
Water	5,396	6,886
Laundry & cleaning	10,432	8,277
Vehicle operating costs	3,107	4,524
Guest entertainment	4,405	4,675
Others	4,523	4,557
	62,492	66,893
9. STAFF COSTS		
Salaries and Wages	112,504	116,179
Staff Expenses	45,691	46,306
Staff Travel	10,170	10,182
	168,365	172,667
10. ADMINISTRATIVE EXPENSES		
Audit Fees	1,500	2,478
Professional Fees	741	323
Directors Expenses	3,966	3,860
Bad Debts provision	(2,904)	3,726
Service pay provision	0	0
Legal Fees	468	(4,199)
Office Expenses	6,693	6,951
General Expenses	6,859	6,354
	17,322	19,493
11. REPAIRS & RENEWALS EXPENSES		
Building	5,327	7,146
Plant & Machinery	7,635	9,146
Motor Vehicles	1,763	1,184
Others	5,142	4,637
	19,866	22,113
12. ADVERTISING & PROMOTION		
Advertising Expenses	941	410
Sales Promotion	1,026	975
	1,967	1,385



KENYA SAFARI LODGES AND HOTELS LIMITED
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13. GENERAL CHARGES		
Rent & rates	5,033	4,162
Insurance	3,099	2,811
Gardens & Grounds	102	46
Maintenance Contracts	1,561	1,369
	9,795	8,389
14. FINANCE COSTS		
Long/Short -term interest	0	1,063
Bank charges including overdraft	1,009	1,463
	1,009	2,526

15. TAXATION

a) Current Tax

Tax charge for year

Deferred tax

There was no tax charge for the year due to

Accumulated tax losses

KENYA SAFARI LODGES AND HOTELS LIMITED
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Notes to the financial statements (Continued)

16. PROPERTIES, PLANT AND EQUIPMENT

2020	LAND & BUILDINGS Kshs'000	PLANT & MACHINERY Kshs '000	FURNITURE & FITTINGS Kshs '000	MOTOR VEHICLE Kshs '000	COMPUTERS Kshs '000	WIP Kshs '000	Total
COST/VALUATION							
TOTAL as at 01/07/2019	1,057,813	77,054	46,286	14,621	19,390	0	1,215,164
Disposal	-	-	-	-	-	-	-
Additions	-	8,114	796	-	762	-	9,672
TOTAL as at 30/06/2020	1,057,813	85,168	47,082	14,621	20,152	-	1,224,836
Comprising							-
Cost	169,014	30,817	7,971	14,621	20,152	-	242,575
Valuation	390,140	31,022	15,781	-	-	-	436,943
Valuation 2010	498,659	23,329	23,330	-	-	-	545,318
DEPRECIATION							
Balance as at 01/07/2019	421,231	64,577	45,884	14,621	18,630	-	564,943
Charge for the year (Cost)	5,935	4,897	225	-	809	-	11,866
Charge for the Year (Valuation)	18,991	-	-	-	-	-	18,991
Total	24,926	4,897	225	-	809	-	30,857
Total accumulated depreciation	446,157	69,474	46,109	14,621	19,439	-	595,800
At June 30,2020	636,582	12,477	402	0	761	-	650,221
NET BOOK VALUE At June 30,2020	611,656	15,694	973	0	714	-	629,036

NB	Fully depreciated	depreciating	rate	charge
Leasehold	-	40,000	2%	800
Building	-	345,425	3.30%	11,399
Building	76,703	235,685	5.40%	12,727
Plant & Mach	45,992	39,176	12.50%	4,897
Furniture & Fit	45,282	1,800	12.50%	225
Computers	13,878	2,429	33.30%	809
MV	14,621	-	25%	-
S-Total	196,476	668,360		30,857
Freehold		360,000		
G-Total		1,224,836		

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. PROPERTIES, PLANT AND EQUIPMENT

2019	LAND & BUILDINGS Kshs'000	PLANT & MACHINERY Kshs '000	FURNITURE & FITTINGS Kshs '000	MOTOR VEHICLE Kshs '000	COMPUTERS Kshs '000	WIP Kshs '000	TOTAL Kshs '000
COST/VALUATION							
At July 1,2018	1,057,813	73,780	46,032	14,621	18,534	-	1,210,780
Additions	-	3,274	254	-	857	-	4,384
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At June 30,2019	1,057,813	77,054	46,286	14,621	19,390	-	1,215,164
DEPRECIATION							
At July 1,2018	396,246	60,009	45,681	14,621	17,804	-	534,361
Charge for the year(cost)	3,293	4,568	203	-	826	-	8,890
Charge for the year (valuation)	21,692	-	-	-	-	-	21,692
Impairment Loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
At June 30,2019	421,231	64,577	45,884	14,621	18,630	-	564,943
NET BOOK VALUE							
At June 30,2019	636,582	12,477	402	-	761	-	650,221

NB	Fully depreciated	depreciating	rate	charge
Leasehold	5,000	35,000	2%	700
Building	-	345,425	3.30%	11,399
Building	73,755	238,633	5.40%	12,886
Plant & Mach	40,507	36,547	12.50%	4,568
Furniture & Fit	44,663	1,623	12.50%	203
Computers	16,912	2,478	33.30%	826
MV	14,621	-	25%	-
S-Total	195,418	659,706		30,582
Freehold		360,000		
G-Total		1,215,164		



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. INTANGIBLE ASSETS

	2019-2020	2018-2019
	Kshs'000	Kshs'000
COST/VALUATION		
At July 1	3,845	3,845
Additions	-	-
Disposal		
At June 30	3,845	3,845
AMORTISATION		
At July 1	3,845	3,845
Charge for the year		
Disposal		
Impairment loss	-	-
At June 30	3,845	3,845
NET BOOK VALUE AT JUNE 30	-	-

NB

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

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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2019-2020	2018-2019
		Shs'000	Shs'000
18. INVENTORIES			
Food		2,309	1,499
Beverage		2,235	1,438
Tobacco		18	21
Stationary		837	808
Others		5,584	6,017
Total		10,983	9,783
19. TRADE AND OTHER RECEIVABLES			
Trade debtors,		140,459	149,026
Bad debts provisions		(6,081)	(8,985)
Other debtors and prepayments		38,988	46,337
		173,366	186,379
20. SHARE CAPITAL			
Authorized, issued and fully paid 5,047,724 Ordinary shares of Kshs. 20/= each.		100,954	100,954
SHAREHOLDERS			
Tourism Finance Corporation.	82.45%		
Mountain Lodge	17.53%		
Kenya Wildlife Service Trustees	0.02%		
21. RETAINED EARNINGS			
		(404,288)	(425,805)
22. REVALUATION RESERVE			
Balance b/f		505,722	527,415
Depreciation transferred to retained earnings relates to revaluation gain on assets (crystal valuers 2010)		(18,991)	(21,693)
Balance C/F		486,731	505,722
23. BORROWING LONG TERM			
Loan TFC		8,728	10,588
Total		8,728	10,588

KENYA SAFARI LODGES AND HOTELS LIMITED
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24. TRADE AND OTHER PAYABLES			
Trade creditors		108,323	123,569
Unearned income		24,099	21,774
Accruals		1,818	4,603
Audit fees		6,066	4,566
Other Payables including VAT & CLT		513,204	491,208
Service Gratuity		44,799	50,182
		698,310	695,903
25. CASH AND CASH EQUIVALENT			
Cash in hand (float)		597	547
Dollar equivalent KCB \$ A/C		29,754	28,089
Cash in Bank BBKA/C		19,158	2,198
Cash in KCB KSH A/C		14,117	3,479
Total		63,626	34,313
Cash Equivalent include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when acquired.			

Detailed analysis of the cash and cash equivalent

Financial Institution	Account Number	2019-2020	2018-2019
a) Current account			
Kenya Commercial Bank (Ksh)	1106515188	14,117	3,479
Kenya Commercial Bank (USD)	1107647819	29,754	28,089
Barclays bank account(Ksh)	8207166	19,158	2,198
Sub-total		63,029	33,766
b) On call deposits			
c) Staff car loan/Mortgage		-	-
d) Others		-	-
Cash in hand(Float)		597	547
Sub –total		597	547
Grand total		63,626	34,313



KENYA SAFARI LODGES AND HOTELS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. BORROWING SHORT TERM			
Bank Overdraft		-	4,112
BBK A/C		-	-
TFC Loan		-	-
12 months @ 343,779		3,610	4,125
		3,610	8,237
The Bank overdraft is secured by cash investments in form of Fixed deposit.			
KTDC Loan relates to amount payable within the next one year.			
27. DIVIDENDS			
No dividends were declared during the year.			
28. CONTINGENT LIABILITIES			
Legal Fee		4,000	5,000
		4,000	5,000

The legal case H.C petition No. 64 of 2015-Mombasa, Kenya Safari Lodges & Hotels Limited-Vs. Kenya Revenue Authority is yet to be concluded. In relation to the same the company submitted a written request for arbitration to the registrar of the Nairobi Centre for International Arbitration (N.C.I.A) to commence the arbitration process. This was done to comply with the directive of the office of the Attorney General to having all disputes involving inter-governmental agencies court be referred to the (N.C.I.A). Due to this risk exposure, KSLH has made a provision of Kshs. 4,000,000 on all legal matters pending in courts.

The company is likely to also incur liability relating to penalty for non submission of staff Saccos amounting to Kshs 3,716,200 VAT, CLT and PAYE amounting to Kshs.513,204,000 and long outstanding trade creditors' balances amounting to Ksh.108,339,000

No loans were guaranteed by the company to its staff, directors or any other entity in the year.

29. SHORT TERM DEPOSIT			
Cash investments(FD at KCB TRY SQ Acc No 1124550186)		21,029	19,904
		21,029	19,904

The cash investments (Fixed deposit at KCB treasury square account) held in Kenya Commercial bank of Ksh. 21,029, 000 are funds held as Sinking fund. This was

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

formed after the Board granted its approval. This has been separated from cash and cash equivalent to short term investments based on the recommendation by Auditor General as best practice (Refer statement of cash flows)

Fixed deposit account			
Kenya Commercial bank (Ksh)	MM1721487681	21,029	19,903
Sub-total		21,029	19,903

30. SUBSEQUENT EVENTS

The leasehold land for Voi and Ngulia Safari Lodges expired in November 2018 and March 2019 respectively. The company applied to Kenya Wildlife Service for the renewal of the leases and is continuously following up on the same.

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

31. RELATED PARTY TRANSACTIONS

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

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

During the year KSLH continued to service an interest free loan granted by TFC in the prior year to cater for fifty (50) Air condition units for Mombasa Beach Hotel amounting to Ksh 1.5M. Also through TFC, KCB continued holding a bank guarantee to Judiciary of Kenya, Mombasa law courts in respect to KRA TAX CASE (H.C PETITION No. 64 of 2015 Kshs 38M). TFC Lien F/D was not renewed upon maturity on 26th March 2020.

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



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Organization	Amount Kshs.
Ministry Of health	1,701,000
National Treasury	9,982,390
Kenya Medical Training College	15,176,690
Makueni County	6,320,395
Kenya National Highways Authority	2,438,500
Taita Taveta County	8,729,533
Kenya Revenue Authority	1,238,410
Kenya National Bureau of Statistics	2,438,500
Cabinet office	3,509,000
Ministry of Livestock	2,190,595
State department for Culture & Heritage	5,094,650
Kilifi County	3,221,297
Kenya Ports Authority	3,438,900
Ministry of Environment & forestry	3,3361,500

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

32. RISK MANAGEMENT

Going Concern

The company is facing a liquidity risk due to the negative working capital of Ksh.(432,916,000) with current assets of Kshs. 269,004,000 as compared to current liabilities of Kshs.701,920,000. This state of affairs is attributed mainly by cumulative losses in the last three years and recently reduced profitability due to COVID 19 pandemic.

Performance analysis

Kshs '000	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Revenue	259,822	235,689	300,951	435,949	401,925
Profit/Loss	(87,097.00)	(73,937.00)	(35,781)	27,688	21,517

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

Management is hopeful that the company is going to maintain profitability as indicated by the attained profit compared to previous years if COVID 19 pandemic curve is fully flattened and Government opens the economy back to normal business. Meanwhile, Management is

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

reviewing its marketing strategies, putting more focus to the lodges to ensure revenues from the lodges start rising to enable the company reduce its trade creditors and other liabilities. Out of court settlement and negotiations on payment modalities have also been undertaken between trade creditors and KSLH, the company having been issued with demand letters.

	Principal	Interest	Totals	Remarks
VAT	248,844,173			Ongoing engagement
WITHOLDING TAX	9,900,668			''
PAYE	165,033,163			''
CLT	38,335,000			''
PENSION	24,729,040			''
SACCO	3,716,200			''
TRADE CREDITORS	108,323,000			''

33. MANAGEMENT FRAUD

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

34. DISCLOSURE ON LONG TERM BORROWING

We have disclosed the following information in relation to the long term loan indicated on note 23.

Lender: Tourism Finance Corporation

Repayment Terms: 36Months

Collateral: None (Shareholders loan)

Interest Rate: 0%

Purpose of Loan: - To settle staff liabilities, purchase of generator and air conditioners in Mombasa Beach Hotel

Currency:-Kenya Shillings

KENYA SAFARI LODGES AND HOTELS LIMITED

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APPENDIX I

PROGRESS REPORT ON FOLLOW-UP OF DRAFT AUDIT RECOMMENDATIONS ON KSLH FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
1.0	<p>Presentation issues</p> <ul style="list-style-type: none"> i. Age of Acting General Manager is not indicated ii. Internal Auditor is listed as part of management team iii. Report of Directors erroneously indicates results for the year are set out on pages 1 to 22 instead of page 1 iv. Statement of Directors responsibilities refers to year 2017 and 2018 instead of 2019. The report also refers to year/ period instead of year v. Note 15 is omitted from statement of profit and loss and other comprehensive income. vi. The statement of financial position indicates the note on borrowings-long term is disclosed at note 13 	<p>HIGH RISK</p> <p>Recommendations Effect change on financial statements regarding the anomalies listed.</p>	<p>The financial statements have been amended as recommended in clauses i, iii to ix. On item (ii) the Internal Auditor position falls under Grade IIB in Terms and Conditions of Service for management of</p>	FM	Resolved	November 2019

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>instead of 23</p> <p>vii. No disclosure has been made on prior year adjustment of kshs.1 in the statement of changes in equity for the year ended 30th June 2019</p> <p>viii. Statement of compliance does not indicate that amounts have been rounded off to the --+*/89+7nearest thousands, yet all figures in the financial statement are rounded off.</p> <p>ix. Information on share capital is indicated under note 21 retained earnings instead of note 20 share capital</p> <p>Risks</p> <p>Noncompliance with recommended format of presentation prescribed by Public Sector Accounting Standards Board.</p>		<p>KSLH. This position reports functionally to the Board Audit Committee of KSLH</p> <p>Mwongozo Chapter 3(3.4) says that the Board Audit Committee shall:</p> <p>Ensure that the Head of Internal Audit holds a senior position in the management team is professionally qualified and is a member in good standing of the professional body</p>			

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For The Year Ended June 30, 2020

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
2.0	<p>Going concern The statement of Financial position as at 30th June 2019 reflects current liabilities balance of kshs.704,140,000 which exceeded current assets balance of kshs.250,378,000 by Kshs. 453,762,000</p> <p>The company has accumulated loss of Kshs. 425,805,000 as at 30th June 2019</p>	<p>HIGH RISK Recommendations Upscale financial performance of the company to raise funds for settling statutory obligations and</p>	<p>responsible for regulating Auditors. The SCAC document on guidelines on Terms and Conditions of Service for State Corporations does not guide on Internal Auditor position. The recommendation to restructure the current TFC loan is well noted and shall be communicated to the Board of Directors. The company</p>	Accounting officer	Ongoing	Continuous

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>Trade and other payables of K.shs.695,903,000 include payroll deductions amounting to K.shs. 208, 162,568 due to various agencies which have been outstanding for long period. Penalties and effects of other administrative actions for default have not been factored in the financial statements.</p> <p>The company is behind schedule on repayment of TFC loan by kshs.4,358,656 as at 30th June 2019 yet the loan repayment schedule has not been restructured.</p> <p>Risks</p> <p>Inability to meet financial obligations as and when they fall due and its continued existence as a going concern depends on continued support from the government, bankers and creditors.</p>	<p>trade liabilities.</p> <p>Engage with creditors to restructure prepayment schedules and have a realistic payment plan for settling long outstanding financial obligations</p>	<p>performance had started to improve and we were settling long outstanding liabilities as discussed and agreed with creditors and agencies owed by KSLH however, COVID 19 pandemic happened in March 2020 and with that down turn of events with absolutely zero profitable business. We lost both local & international business. But we're hopeful that business will</p>			

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For The Year Ended June 30, 2020

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
3.1	<p>Fully depreciated assets Intangible assets with a total cost of Kshs.3,845,000 disclosed under note 17 have Nil balance. Property, Plant and Equipment with a total cost of Kshs.195,418,000 disclosed under note 16 have nil balance yet some of the assets were in use as at 30th June 2019.</p>	<p>HIGH RISK Recommendation Carry out revaluation on assets regularly.</p>	<p>soon pick up and we'll honour existing payment plans as and when they fall due. We're continuously engaging with the creditors and the existing support from these agencies and creditors is very positive. This will be applied for all trading units of KSLH upon receipt of Assets revaluation report from Privatization Commission and</p>	FM	Not resolved	June 2021

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For The Year Ended June 30, 2020

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>Risks</p> <p>Noncompliance with IFRS No. 16 as prescribed by the Public Sector Accounting Standards Board.</p>		<p>TFC. The same shall be applied to the financial statements for the year ending 30th June 2021.</p>			
3.2	<p>Non compliance with Terms of Leasehold agreement</p> <p>The company operates Voi and Ngulia Safari lodges on Leasehold agreement with Kenya Wildlife Service. Voi Safari Lodge lease expired in November 2018 and Ngulia one expired in March 2019. Management has applied for renewal of the leases but documentary evidence that the request has been accepted by KWS was not availed for audit verification.</p> <p>Risks - Possible loss of the two lodges may adversely impact on the company's future revenue generating capacity</p>	<p>HIGH RISK</p> <p>Recommendation</p> <p>Fast track the process of renewal of the two leases.</p>	<p>The process of renewal of leases is ongoing.</p>	<p>Accounting officer</p>	<p>Not resolved</p>	<p>June 2021</p>
3.3	<p>Freehold land</p> <p>Note 16 to the financial statements for the year ended 30th June 2019 reflects land and buildings balance of kshs.</p>	<p>HIGH RISK</p> <p>Recommendations</p>	<p>The Registrar of Title is in the process of removing Caveat</p>	<p>Accounting officer</p>	<p>Not resolved</p>	<p>June 2021</p>

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point to resolve issue- Name & designation	Status	Timeframe
	650,221,000. This includes freehold land balance of Kshs. 360,000,000 for Mombasa Beach Hotel whose support lease title was not availed. Further we were not shown beacons demarcating the land.	Avail lease title for review	charged by Anurali Jaferali M as evidenced by the attached correspondence.			
3.4	Furniture and Fittings Additions Included in furniture and fittings balance of Kshs. 402,000 as at 30 June 2019 and as disclosed in note 16 to the financial statements are additions of Kshs.254,000. However, these additions included mattresses and plastic chairs totalling to kshs.130,522 contrary to IFRS No. 16 as prescribed by the Public Sector Accounting Standards Board.	MEDIUM RISK Recommendations Adhere to the provisions of IFRS No. 16 as prescribed by the PSASB.	KSLH accounting practice classifies the above items as furniture, fixtures and fittings, IFRS calls for consistency.	FM	Resolved	June 2020
3.5	Depreciation The statement of financial position as at 30 June 2019	HIGH RISK	The depreciation of buildings policy being	FM	Resolved	June 2020

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>reflects property, plant and equipment balance of Kshs. 650,221,000 disclosed in note 16. However, the balance is net-of depreciation charge for the year of Kshs. 8,890,000 out of which Kshs.3,293,000 is in respect of depreciation charge on buildings computed at the rate of 4.5% instead of 2% as disclosed under note 3(b) on significant accounting policies This results in depreciation overcharge of Kshs. 2,073,370 and understatement of land and buildings balance of Kshs.421,231,000 by Kshs.2,073,370</p> <p>Risks Ownership, valuation, accuracy and completeness of plant, property and equipment is doubtful</p>	<p>Recommendations Review depreciation charge on buildings</p>	<p>applied is 30years or the remainder of the lease period. The buildings for lodges were re-valued in 2010 when the lease had remainder of 18 years to end. Amortizing the re-valued amount of the buildings over the remainder period of lease which is 18 years is equivalent to 5.4%</p>			
4.1	<p>Long outstanding trade debtors As at 30 June 2019, there were 295 trade debtors totalling to Kshs.53,735,501 which have remained dormant for two</p>	<p>HIGH RISK Recommendations Have specific</p>	<p>Management has implemented several strategies to collect</p>	<p>Accounting Officer</p>	<p>Ongoing</p>	<p>Continuous</p>

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point to resolve issue- Name & designation	Status	Timeframe								
	<p>years with no payment received during the period under review. Management has not demonstrated efforts to recover these debts</p> <p>Trade and other Receivables of Kshs.186,378,000 is net-of general provision for bad and doubtful debts amounting to Kshs.8,985,096 which is 10% on the outstanding debtors of more than 180 days. There is no specific provision for the impairment of debts that have been outstanding for more than two years which may never be recovered.</p> <p>Further the list of outstanding debtors includes four entities with a total of Kshs. 9,134,671 which ceased to exist as tabulated below</p> <table border="1" data-bbox="1173 1288 1364 1982"> <thead> <tr> <th>No.</th> <th>Name</th> <th>Bal at 30.6.2019</th> <th>Bal at 30.6.2018</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Office of the Prime Minister</td> <td>1,290,925</td> <td>1,290,925</td> </tr> </tbody> </table>	No.	Name	Bal at 30.6.2019	Bal at 30.6.2018	1	Office of the Prime Minister	1,290,925	1,290,925	<p>provision for impairment of debtors.</p> <p>Make follow ups to collect long outstanding debts</p>	<p>the old debts</p> <p>a) Reminder letters from both KSLH management and main shareholder (TFC)</p> <p>b) Personal visits and follow ups, e-mails and telephone calls being done by credit control staff.</p> <p>c) Use of debt collectors. List of debt</p>			
No.	Name	Bal at 30.6.2019	Bal at 30.6.2018											
1	Office of the Prime Minister	1,290,925	1,290,925											

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point to resolve issue- Name & designation	Status	Timeframe																												
	<table border="1"> <tr> <td>2</td> <td>Transition Authority</td> <td>16,463</td> <td>16,463</td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td>Kenya Coconut Development Authority</td> <td>16,830</td> <td>16,830</td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td>Mombasa Paradise Hotel</td> <td>7,810,453</td> <td>7,810,453</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>TOTAL</td> <td>9,134,671</td> <td>9,134,671</td> <td></td> <td></td> <td></td> </tr> </table>	2	Transition Authority	16,463	16,463				3	Kenya Coconut Development Authority	16,830	16,830				4	Mombasa Paradise Hotel	7,810,453	7,810,453					TOTAL	9,134,671	9,134,671					<p>collectors attached.</p> <p>The provision for bad debts is based on list of debtors that we have reason to believe that they may not be recovered and not the whole figure of debtors outstanding beyond two years. The main debts are government based and we believe that they shall be paid.</p>			
2	Transition Authority	16,463	16,463																															
3	Kenya Coconut Development Authority	16,830	16,830																															
4	Mombasa Paradise Hotel	7,810,453	7,810,453																															
	TOTAL	9,134,671	9,134,671																															
4.2	<p>Risks</p> <p>Financial loss due to failure to recover the debts Adequacy of the provisions for bad debts of Kshs.8,985,096 is doubtful</p> <p>Other Debtors and Prepayments</p> <p>Note 19 reflects other debtors and prepayments balance of</p>	HIGH RISK	There are no set offs under the list of	FM	Resolved	Nov 2019																												

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>Kshs.46,337,000. This balance has been arrived at after set off with credit balances amounting to kshs.477,137</p> <p>Risks Misstatement of other debtors and prepayments balances in the financial statements.</p>	<p>Recommendations Review other debtors and prepayments balance</p>	<p>debtors under debtors and prepayments. The schedules supporting these items are attached herein for review.</p>			
5.0	<p>Trade and Other Payables Trade and other payables as at 30 June 2019 includes long outstanding amounts payable to various statutory bodies in respect of payroll deductions, VAT and other levies amounting to Kshs.479,059,000. No provisions for penalties arising out of these deductions have been provided for in the financial statements.</p> <p>Service gratuity balance of Kshs.50,182,000 was not supported with a schedule showing provisions per staff and amount paid to each staff</p>	<p>HIGH RISK Recommendations Have a realistic plan in settling trade and other payables</p>	<p>We have payment agreements/modalities with existing trade & other creditors. These agreements are being honoured therefore the imposition of interests and penalties is on hold.</p>	FM	Resolved	Continuous

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>Risks</p> <p>Accuracy, completeness and validity of trade and other payables balance of Kshs.695,093,000 is doubtful</p>					
6.0	<p>Share Capital</p> <p>The share capital of the company was increased kshs. 9,319,000 to Kshs.100,954,000 through creation of 4,581,785 of kshs. 20. The additional shares were issued through rights issue to existing shareholders in October 2013 at a price of kshs.20 per share based on par value. However, the net assets of the company as at 30 June 2013 amounted to kshs. 667,399,000 resulting to an approximate value of Kshs. 1,432 per share, clearly showing that the rights issue price of Kshs. 20 per share was way below their value. The share holding of the company as at 30 June 2019 is summarized below.</p>	<p>HIGH RISK</p> <p>Recommendations</p> <p>Review the valuation of the shares of the company.</p>	<p>During the incorporation of KSLH, Mountain Lodges Limited (MLL) was a state corporation since KTDC was the main shareholder. MLL therefore was allocated shares in KSLH since it was a state corporation. At the moment TFC is still the majority</p>	<p>Accounting Officer</p>	<p>Not resolved</p>	<p>June 2021</p>

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Ref No.	Description and Risk			Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	Share holder	Shares held	Proportion holding					
	TFC	4,161,855	82.45	State Corporation	shareholder owning 39.11% of MLL			
	Mountain Lodges Ltd	884,853	17.53	private company				
	KWS	1,016	0.02	State Corporation				
	<p>The company's Articles of Association do not allow issuance of shares to private investors which in this case is Mountain Lodges limited.</p> <p>Risks It is not clear how and why private enterprise acquired shares in a state corporation, hence accuracy, validity and legality of the share capital value of kshs.100,954,000 is doubtful</p>							

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For The Year Ended June 30, 2020

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe								
1.0	<p>Budgetary Control and Performance</p> <table border="1" data-bbox="742 313 821 985"> <thead> <tr> <th data-bbox="742 313 821 470">Expense</th> <th data-bbox="742 470 821 638">Final budget</th> <th data-bbox="742 638 821 817">Actual expenditure</th> <th data-bbox="742 817 821 985">Over absorption</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>During the year under review, the company had approved budget of Kshs. 295,315,000 for recurrent expenditure against actual expenditure of Kshs 302,355,000 resulting to over absorption of Kshs. 7,038,000 as detailed below;</p>	Expense	Final budget	Actual expenditure	Over absorption					<p>HIGH RISK Recommendations Management to review budget making process with a view to make it more effective</p>	<p>The Board of KSLH discussed the year performance and noted the variances as per the attached Board Minutes.</p>	FM	Resolved	June 2020
Expense	Final budget	Actual expenditure	Over absorption											

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For The Year Ended June 30, 2020

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point to resolve issue- Name & designation	Status	Timeframe																
	<table border="1"> <thead> <tr> <th></th> <th>Kshs'000'</th> <th>Kshs'000'</th> <th>Kshs'000'</th> </tr> </thead> <tbody> <tr> <td>Operating costs</td> <td>59,493</td> <td>68,078</td> <td>8,585</td> </tr> <tr> <td>Admin Expenses</td> <td>250</td> <td>1,398</td> <td>1,148</td> </tr> <tr> <td>Total Operating expenses</td> <td>295,317</td> <td>302,355</td> <td>7,038</td> </tr> </tbody> </table> <p>Management did not avail the Board's approval of the over expenditure of Kshs.7,038,000.</p> <p>Risks Preparation and approval of unrealistic budget</p>		Kshs'000'	Kshs'000'	Kshs'000'	Operating costs	59,493	68,078	8,585	Admin Expenses	250	1,398	1,148	Total Operating expenses	295,317	302,355	7,038					
	Kshs'000'	Kshs'000'	Kshs'000'																			
Operating costs	59,493	68,078	8,585																			
Admin Expenses	250	1,398	1,148																			
Total Operating expenses	295,317	302,355	7,038																			
1.0	<p>Failure to establish a sinking fund During the year ended 30 June 2019, the Board approved the company's budget without provision for the renewal of</p>	HIGH RISK Recommendations	The Sinking fund was discussed and approved by KSLH	Accounting officer	Resolved																	

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>depreciating assets contrary to Section 16(1) of the State Corporations Act, CAP 446</p> <p>Risks Breach of law Inability to replace/ renew fully depreciated assets</p>	<p>Establish a sinking fund</p>	<p>Board on 11th July 2019. The investment of Kshs. 19.9 million has now been converted to sinking fund. The same has been disclosed in the finance statements under note 25(page18)</p> <p>However the recent government directive (circular attached) has directed state corporation not to invest surplus funds anymore. It is not</p>			

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For The Year Ended June 30, 2020

Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point to resolve issue- Name & designation	Status	Timeframe
2.0	<p>Operations of the Trust Deed and Staff Retirement Benefits scheme During the year under review, the company did not remit insurance premiums for staff death benefits contrary to rule 2(d) and rule 4 of the scheme Trust Deed and rules which require the company to pay a special contribution as a premiums for death benefits for its staff. Further no budgetary provisions have been made in these financial statements.</p> <p>Risks Breach of Trust Deed Rules Intended family beneficiaries may not benefit incase of death of employee.</p>	<p>HIGH RISK Recommendations Honour the provisions in the staff Retirement Benefits Scheme Trust Deed</p>	<p>clear then how sinking fund shall be accumulated and preserved. The company insurance cover with ICEA LION is in place and it covers compensation when death occurs to any of its employees. A good example is that ICEA LION is processed compensation for Mr. James Njeru who passed on in the current financial year.</p>	FM	Resolved	

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
3.0	<p>Strategic Plan</p> <p>The Company's strategic plan for the period 2012-2018 was to expire in November 2018 yet none has been prepared for the next period 2018-2022 as at the time of audit November 2019. This is contrary to the Public Financial Management Act, 2012 Section 68(2) (g) which requires an accounting officer of a National Government Entity to prepare a strategic plan in conformity with the medium term fiscal framework and fiscal policy objectives</p> <p>Risks</p> <p>Breach of law</p>	<p>HIGH RISK</p> <p>Recommendations</p> <p>Fast track the process of preparing a strategic plan</p>	<p>The Draft strategic plan (shared in soft) is in place. It was presented to the Board meeting held on 11th July 2019. The final version shall be discussed & finalized by board of directors as scheduled.</p>	<p>Accounting Officer</p>	<p>Not resolved</p>	<p>June 2021</p>
4.0	<p>Audit Fees</p> <p>Audit Fees amounting to Kshs. 2,478, 000 has been outstanding for more than three years contrary to section 41 of the Public Audit Act, 2015 which provides that funds for the Auditor General shall consist of the audit fees charged at rates prescribed by the Auditor General.</p>	<p>HIGH RISK</p> <p>Recommendations</p> <p>Review audit fees balance and pay in time.</p>	<p>The Audit fees reported in the financial statements is based on the fee notes received from OAG. The past audit fees</p>	<p>FM</p>	<p>Not resolved</p>	<p>June 2021</p>

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	<p>In addition, according to audit confirmation by the OAG, audit fees due from KSLH is Kshs. 6,285,750 as at 30 June 2019 resulting to un reconciled variance of Kshs.3,807,750</p> <p>Risks Breach of law Understatement of expenses</p>		<p>were being paid. Also a team from OAG Nairobi visited us at MBH where we raised reservations on incorrectness of their statement. They promised to reconcile then revert back.</p>			
1.0	<p>Manual Receipting of Revenue The company has Fidelio system which can do process reservation, bill and generate invoices while receipts are manually written.</p> <p>Risks Manual receipting exposes the company to misappropriation</p>	<p>HIGH RISK Recommendations Upgrade the system to have receipting function.</p>	<p>The current Fidelio system V7 which is in place does not have an internal module for receipting (manual booklet shared in soft) Also see the response</p>	Accounting officer	Not resolved	June 2021

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	of revenue, theft and inaccuracies due to unreliable records		from Novacom to support this. However, we are in the process of procuring an ERP which shall have receiving function.			
2.0	Control on printing of accountable documents The company use manually printed accountable documents including receipts and local purchase orders among others. Information available indicates that the company contracted a printing firm whose contract expired 5 years ago Further information available indicates that even though the contract expired, the firm continues receiving orders for printing from the hotel thus putting the hotel at risk incase of dispute. Furthermore it was noted that the printer plates of the accountable documents are in custody of the supplier	HIGH RISK Recommendations Institute proper controls on printing of accountable documents that will effectively address the highlighted issues	The existing supplier for accountable documents is a valid prequalified and registered supplier and has an award letter to supply the said documents for 2019/ 2020 FY	FM	Resolved	

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
	<p>without any control on the usage.</p> <p>Risks Exposure to fraud where parallel receipts/ LPO may be used to process unauthorized transactions.</p>					
3.0	<p>Non integration of accounting system Information availed for audit indicates that the hotel uses Sun system for maintaining books of accounts at Mombasa Beach hotel. The system has capability of being operated in multiple locations via network. However it has not been rolled to Voi and Ngulia Safari lodges forcing the lodges to maintain their books in excel workbooks which are then physically transferred to MBH on flash disk for uploading in Sun accounting system.</p> <p>Risks Exposure of accounting data to manipulation, damage or even loss Possible loss of business opportunities due to lack of up to</p>	<p>HIGH RISK</p> <p>Recommendations Integrate the accounting system for the three units</p>	<p>The connectivity of Sun system has been tried through technology called Citrix and internet connection done via VSAT. This did not work due to terrain and weather affecting the VSAT connectivity.</p> <p>We have approached Safaricom to install</p>	Accounting Officer	Not resolved	Ongoing

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	date information to facilitate instant decision making.		communication mast able to support 3G network for the connectivity of Sun system to be realized.			
4.0	<p>Weak controls on debt management</p> <p>Note 19 to the financial statements for the year ended 30 June 2019 reflects trade debtors balance of Kshs.149,026,265 which includes Kshs.117,471,125 which have been outstanding for more than six months which represents 79% of the total trade debtors.</p> <p>However, section 2.3.2 of the Company's draft Credit Policy provides that customers shall be allowed credit upon payment of a 50% deposit of the quotation amount and settle the balance on departure or within 30 days.</p> <p>The long outstanding debts are an indication that the Company has contravened its own policy on debt</p>	<p>HIGH RISK Recommendations</p> <p>Adhere to the provisions of the credit policy</p> <p>Have a functional credit committee in place.</p>	<p>The existing credit policy has been reviewed (copy attached). It is a fact that government state departments rarely pay deposit as they are supposed to comply with all procurement processes before settling any bill for service or goods.</p>	FM	Not resolved	Continuous
					Resolved	

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe								
	<p>management. Further, at the time of audit, the credit committee had not been constituted.</p> <p>Risks Contravention of provisions of the Company's Credit policy Exposure to cashflow constraints</p>		The credit committee members exist as evidenced by attached letters. Vetting of the clients is happening and it's good to note that it's a continuous exercise.											
5.0	<p>Food cost The Company's financial manual provides that the ratio of cost of food against food income should not be above 35%. However, audit analysis of cost of food against food income during the period under audit revealed unsatisfactory state of affairs as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>FOOD INCOME(KSHS)</th> <th>FOOD COST (KSHS)</th> <th>% OF COST TO INCOME</th> </tr> </thead> <tbody> <tr> <td>UNIT</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		FOOD INCOME(KSHS)	FOOD COST (KSHS)	% OF COST TO INCOME	UNIT				<p>HIGH RISK Recommendations Review food cost controls to bring the cost to acceptable industry standards.</p>	Your MBH manual computations of food cost have not incorporated snacks revenue that is found in a schedule called 'functions' Our food cost target ratio is 40% which is	FM	Resolved	June 2019
	FOOD INCOME(KSHS)	FOOD COST (KSHS)	% OF COST TO INCOME											
UNIT														

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe												
	<table border="1"> <tr> <td>Mombasa Beach Hotel</td> <td>121,172,085</td> <td>55,511,486</td> <td>46%</td> </tr> <tr> <td>Voi Safari Lodge</td> <td>60,182,215</td> <td>24,239,929</td> <td>40%</td> </tr> <tr> <td>Ngulia Safari Lodge</td> <td>21,864,225</td> <td>7,848,069</td> <td>36%</td> </tr> </table>	Mombasa Beach Hotel	121,172,085	55,511,486	46%	Voi Safari Lodge	60,182,215	24,239,929	40%	Ngulia Safari Lodge	21,864,225	7,848,069	36%		in tandem with the hotel industry acceptable standards.			
Mombasa Beach Hotel	121,172,085	55,511,486	46%															
Voi Safari Lodge	60,182,215	24,239,929	40%															
Ngulia Safari Lodge	21,864,225	7,848,069	36%															
	<p>All the three units operated above the ratio of 35% in at least ten months out of twelve months.</p> <p>Risks</p> <p>High food cost that has adverse effects on the profitability of the business</p>																	
6.0	<p>Lack of marketing department</p> <p>Audit review of the staff establishment structure of the hotel revealed that all positions in the marketing department were vacant although the management recently advertised the positions of sales and marketing manager and assistant sales and marketing manager.</p>	<p>HIGH RISK</p> <p>Recommendations</p> <p>Fill the vacant positions in the marketing</p>	<p>There exists marketing department whose operations have been by sales and marketing executive. However,</p>	Accounting officer	Resolved	June 2020												

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	<p>It is therefore not clear how the company has been marketing its products to the potential customers.</p> <p>Risks - Negative effects on brand image, sales volume and profitability of the company.</p>	department	the staff deficiencies have been witnessed due to staff turnover and natural attrition and efforts to have the department equipped with the needed staffing is in place. The Board recruited Sales and Marketing Manager in March 2020. Two Sales and Marketing Executives were recruited in December 2019.			
7.0	Lack of Substantive General Manager The company is headed by an Acting General Manager who	HIGH RISK	The Board approved recruitment of	HRM	Not resolved	June 2021

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	<p>has been in the position since August 2018 and whose contract has been extended twice. Due to the nature of appointment, the acting Director-General may not provide effective administrative direction and leadership. It is not clear why the Board has delayed recruiting the General Manager or confirming the Acting appointment.</p>	<p>Recommendations Fast track recruitment of a substantive General Manager or else confirm the Acting Appointment.</p>	<p>substantive General Manager and Interviews were conducted in February 2020 however filling of the substantive position is pending due to adverse impact of COVID 19 Pandemic and the acting appointment contract was extended. However management notified Public service on the extraordinary circumstances brought about by</p>			

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Ref No.	Description and Risk	Level of Risk & Recommendation	Management Response	Focal Point person to resolve issue- Name & designation	Status	Timeframe
			COVID 19 Pandemic making the hiring difficult.			

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APPENDIX II – PROJECTS IMPLEMENTED BY THE ENTITY

No.	Name of the Project	Objective of the Project	Initial Project Cost	Actual Project Cost as at 30 th June, 2020	of Project Completion as at 30 th June, 2020	Remarks
1.	55 New Air conditioners	Comfort of guests' in the bedrooms to minimize guest complaints	8,960,000	2,326,000	100%	MBH
2.	142pcs 32" Digital Tv's & 7pcs 42" Digital Tv's	Entertainment in guests rooms	4,530,000	2,769,000.00 245,000.00	100%	MBH
3.	9 sets of outdoor Furniture and a Sample set from Mellar antiques	Enhancement of Guest facilities	450,000	62,060	100%	MBH
4.	Duvets	Enhancement of Guest rooms	424,000	277,530.00	50%	VSL
5.	Renovation of staff houses and Sample room	Comfort of staff and upgrade of existing guest rooms	1,400,000	1,500,000.00	80%	NSL
6	Borehole Repair	Water reserve/cost cutting measures	1,000,000	554,300(additional costs were incurred before completion)	85%	NSL
7.	24000 ltr water tank for Mombasa beach Hotel	Water reserve	1,360,000	255,000	50%	

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8.	100 conference chairs	Enhancement of guests' facilities	400,000	290,000	100%
	Total		18,524,000	8,727,090	

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APPENDIX III- INTER – ENTITY TRANSFERS

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APPENDIX IV- RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES



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