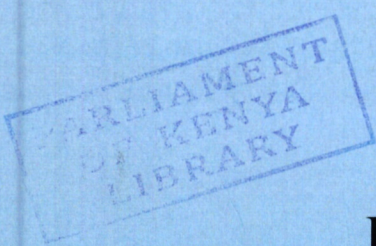


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



*paper laid by
Leader of Majority
on 13/09/2017
Zuhair*

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
TOURISM FINANCE CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2016**





TOURISM FINANCE CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

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

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016



KEY CORPORATE INFORMATION

The main Corporate information of the Corporation is as follows;

BACKGROUND INFORMATION

The Corporation derives its operating mandate from section 75(1) of the Tourism Act No. 28 of 2011 which commenced on 1st of September 2012 and which replaced the KTDC Act Cap. 382.

At cabinet level, the Corporation is represented by the Cabinet Secretary Ministry of Tourism who is responsible for the general policy and strategic direction of the Corporation.

PRINCIPAL ACTIVITY

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

BOARD OF DIRECTORS

As indicated in the statement of Directors' Responsibilities on page 2 the Corporation's Board of Directors was appointed during the current financial year 2015/2016.

These appointments were with effect from 02/10/15 vide Gazette Notice No. 7453 of 02/10/2015 and No. 9444 of 17/12/2015 for the Directors and Gazette Notice No. 4649 of 23/06/2016 for the Chairman.

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

CORPORATION SECRETARY

Maonga Ndonye Associates who were the Corporation Secretary at the beginning of the financial year were discontinued thereafter.

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

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

REGISTERED OFFICE

Utalii House,
Uhuru Highway,
P.O Box 42013,
NAIROBI, KENYA.

Telephone: +254 20 311474
Email: info@tourismfinance.go.ke
Website: www.tourismfinance.go.ke

INDEPENDENT AUDITORS

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

CORPORATE BANKERS

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

PRINCIPAL LEGAL ADVISER

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

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BOARD OF DIRECTORS

 <p>PATRICK OSERO CHAIRMAN</p>	<p>DoB: 29th January 1963</p> <p>Mr. Osero is the current Chairman of Tourism Finance Corporation having been appointed on 24th June 2016. He has vast experience in leadership of Development Financial Institutions having served as the Chairman of Agricultural Finance Corporation between 2013 and 2015 and the Vice Chairman of Agriculture Development Corporation (ADC) between 2009 and 2012. He also held the position of Assistant Complex Manager in various stations at the Agriculture Development Corporation.</p> <p>Mr. Osero holds a Master’s of Science in Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology and a Bachelor of Science in Agriculture from the University of Baraton.</p>
 <p>SAID ATHMAN MTWANA Alternate to the Principal Secretary, Ministry of Tourism</p>	<p>DoB: 10th September 1965</p> <p>Mr. Said Athman is the Tourism Secretary in the Ministry of Tourism. He was appointed to the Board on 8th August 2016. He holds a Masters in Regional and Urban Planning and a Building Economics degree and studied at the Starehe Boys Centre. He is a Quantity Surveyor, Planner, and Associate Arbitrator, Institute of Arbitrators of Kenya.</p> <p>Mr. Athman has had a distinguished career in private, public and development sectors leaving legacy footprints in his contribution. He has previously served in various positions as Advisor to the Cabinet Secretary, Mining Secretary in the Ministry of Mining, Housing Secretary in the Ministry of Housing and Culture Secretary in the Ministry of National Heritage and Culture and as the CEO of the Consortium for the Empowerment and Development of Marginalised Communities (CEDMAC), Director of Association of the St. John Ambulance in Kenya amongst others. He has also served in senior management of several organizations as well as been a member and chair of national and regional bodies.</p>

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**FRANKLIN NDII
DIRECTOR**

DoB: 25th May, 1952

Mr. Ndii is a career accountant having worked in various organizations; the most recent being Kenya Utalii College where he was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd. He holds a Master of Business from the University of Free State, is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.

He was appointed to the Board on 2nd of October 2015 and brings on board a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management & Administration.



**PAULINE RWAMBA
DIRECTOR**

DoB: 29th December 1972

Ms. Pauline Rwamba is a career Social/Community Development Specialist. She was appointed to the Board on 2nd October, 2015. She is a consultant with Polypat Consultancy Firm offerings training on Donor Relations, Youth and Women Empowerment, Table Banking and Revolving Fund, Strategic Plans, Market and Value Chains, Group Dynamics and Conflict Resolution, Psychosocial Support, Impact Evaluation and Documentation, Financial Literacy and Resource Mobilization.

She holds a Master's degree in Business Administration, Marketing Option and an undergraduate degree in Business Administration, Entrepreneurship option.






**PAUL KURGAT
DIRECTOR**

DoB: 9th May 1969


Mr. Kurgat was appointed to the Board on 2nd October, 2015. He is the current General Manager of Somak Safaris Kenya. He has served in senior positions in several hospitality institutions and brings on the Board over twenty-one (21) years' experience in the Tourism and Hospitality industry.

He holds a Bachelor's Degree in Hospitality and Events Management from Moi University and is currently pursuing a Masters in Tourism Management at the Moi

**TOURISM FINANCE CORPORATION
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	<p>University. He is also a graduate of the Kenya Utalii College. Mr. Kurgat is a member of the General Assembly of Action Aid and is the National Chairman of the Kenya Utalii College alumni.</p>
 <p>ALICE MANYALA Alternate to the Principal Secretary, The National Treasury</p>	<p>DoB: 23rd September 1960</p> <p>Ms. Alice Ogwel Manyala is the Alternative Director to the Cabinet Secretary, The National Treasury. She is the Senior Assistant Secretary, the National Treasury and was appointed to the Board on 14th October, 2015.</p> <p>She holds a Post Graduate Diploma in International Relations and Bachelor of Arts Degree both from the University of Nairobi. Ms. Manyala brings on the Board over twenty-five (25) years of Public Sector experience gained in her distinguished career as a civil servant having worked in various capacities at the headquarters of the Ministry of Foreign Affairs and Kenya Missions abroad and the National Treasury.</p>
 <p>SAID MWANGI ALI DIRECTOR</p>	<p>DoB: 9th November 1967</p> <p>Mr. Said M. Ali, is a Marketing Consultant with over twenty (20) years' experience in Marketing. He is the current Chairman of Kenya Safari Lodges and Hotels Limited and Rodex E.A Ltd</p> <p>He is the founder of Kenya Motor Repairers Association and a former Board Member of Hotel & Restaurant Board (now TRA) and the former Secretary of Culture Kenya Arab Friendship. He was appointed to the Board on 2nd October, 2015.</p>
 <p>EDITH ALUSA DIRECTOR</p>	<p>DoB: 9th December, 1974</p> <p>Ms. Alusa is currently a Principal Partner at EED Advisory, a consultancy firm offering service in the energy and environment space. She is a seasoned consultant in tourism and has held senior positions at Camco Clean Energy, NIRAS Consulting, Homegrown Ltd (now Finlays) and the Ecotourism Society of Kenya.</p> <p>Ms. Alusa, who has been a member of the Commission on Education and Communication of the IUCN since 2014 and sits on the board of Ecotourism Kenya,</p>

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	<p>Edith was appointed on 2nd of October, 2015 and brings on the Board over nineteen (19) years' experience in Natural Resource Management, Environmental Policy Planning, Environmental Assessments and Sustainable tourism management.</p> <p>She holds a Master of Science Degree in Water and Environmental Management from Loughborough University (UK) and a Bachelor of Arts Degree (Geography) from Baraton University (Kenya). She is a Chevening Scholar, with training in applied environmental economics at the Imperial College London (UK).</p>
 <p>DR. HANNINGTON GAYA DIRECTOR</p>	<p>DoB: 5th January, 1958</p> <p>Dr. Hannington Joel Gaya is the Managing Director and CEO of Media Seven Group (Kenya) Ltd and the founder of Hannington Gaya Consultants (K) Ltd He is the current chairman of the Media Owners Association of Kenya and is the immediate former chairman of the Brand Kenya Board of Directors on which he served from 2008 to 2015. He was appointed to the Board on 2nd of October, 2015.</p> <p>Dr Gaya holds a PhD Business Management from Nelson Mandela Metropolitan University, a Master Business Administration (Strategic Management) and a Bachelor of Commerce Degree (Marketing Option) both from the Catholic University of Eastern Africa. He holds a Post Graduate Diploma in Management Studies from the Kenya Institute of Management and is a Fellow (FIMI) of the Institute of Motor Industry, Brickendon, London.</p>

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MANAGEMENT TEAM AS AT 30 JUNE, 2016

 <p>ORUMOI. T. JONAH Ag. Managing Director</p>	<p>Mr. Orumoi holds a Master of Science in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He is a graduate of BA (Hons) in Accounting & Finance of the East London University, UK. He was the Head of Finance & ICT at the Kenya Tourism Board and has previously worked as Finance & Leasing Contracts Manager/ acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.</p>
 <p>CAROLYNE MISOI Head of Human Resources & Administration</p>	<p>Carolyn Misoi has an MBA from the University of Salford (UK), a Bachelor of Arts and a Diploma in PR and Personnel Management. She is a member of the IHRM and KIM. She has 24 years of experience in Human resources and joined TFC in January 2011. She has worked at K.C.A University and National Oil Corporation of Kenya.</p>
 <p>DOMINIC NDEWA Head of Investments</p>	<p>Dominic Ndewa holds a Masters in Economic Policy Management and a Bachelor of Economics. He is a CPA (K), and a Certified Investments and Securities Analyst. Mr. Ndewa joined TFC in December 2010 from the Ministry of Finance (Treasury) where he was a Principal Economist for over 15 years.</p>

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NORAH RATEMO
Ag. Head of Credit

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



SABINA NYAMU
Ag. Head of Finance

Sabina Nyamu holds a Master of Business Administration and Bachelor of Business Administration. She is a Certified Public Accountant (K) and a member of the Institute of Certified Public Accountants. She joined the Corporation in 2004.



ANGELITA KARIUKI
Ag. Senior Legal Officer

Angelita Wamuyu is an Advocate of the High Court of Kenya and holds Bachelor of Laws Degree from the University of Nairobi (Hons.) and a Post Graduate Diploma in Laws from the Kenya School of Law. She joined the Corporation in 2011.

CHAIRMAN'S STATEMENT



**Mr. Patrick Osero
Chairman**

During the Financial Year FY 2015/16, the Global economy registered a growth of 3.1% compared to a revised growth of 3.4% registered in 2014/15. Whereas various major economies and regions reported divergent levels of economic growth, global growth was supported by a fall in crude oil prices, lower interest rates and increased internal demands in individual economies. Kenya's economy is estimated to have expanded by 5.6% in the year 2015/2016 compared to a growth of 5.3% in the year 2014/2015.

From the demand side, growth was mainly driven by an increase in private final consumption and a rapid growth in capital investment. The major drivers of the economy were supported by a stable macroeconomic environment, improved output in agriculture, tourism, forestry, fishing, construction and real estate; wholesale and retail trade; education; and finance and insurance.

It is in this context that I am pleased to report the performance of Tourism Finance Corporation during the financial year 2015/2016. The growth of Kenya's economy was driven by positive contributions from a wide range of sectors. In Tourism sector the number of international visitor arrivals continued on a downward trend, contracting by 12.6% from 1.35 million in 2014 to 1.18 million in 2015. Tourism earnings declined by 2.9% from Kshs. 87.1 billion to 84.6 billion over the same period.

The sector's suppressed performance was mainly due to; security concerns; negative travel advisories; and Health concerns associated with spread of Ebola. The number of bed nights occupied decreased by 6.4% in 2015 while the number of international conferences decreased by 9.5% from 241 in 2014 to 218 in 2015.

Operating Environment:

During the Financial year under review, the main macroeconomic indicators remained relatively stable. The Kenya shilling generally held firm against the major trading currencies despite its depreciation against the US dollar, Sterling Pound, and Euro. A significant decline in the international tourism earnings and a widening trade deficit worked against the shilling over the period. Weighted average commercial banks' lending rate remained relatively high but stable to reach a maximum of 15.99 per cent in 2015/2016.

During the period, the Central Bank Rate (CBR) increased gradually from 8.5% to 10% and settled at 11.5% by July 2015. This move was occasioned by the desire to contain incipient inflationary pressures and control exchange rate volatility. The Commercial Banks interest rates on loans and

**TOURISM FINANCE CORPORATION
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advances rose from 15.99% in December 2014 to 17.45% in December 2015. However, the total domestic credit grew by 19.2% by December 2015 compared to 16.1% in December 2014. The high interest rates slowed the uptake of credit facilities from Commercial Banks and other non-banking institutions.

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

It is worth mentioning that TFC has been operating without a Board for the last four years, a scenario which posed a great challenge in the delivery of its mandate. Now that the Board is fully constituted, the Corporation will make every effort to fulfill its mandate by identifying and supporting viable business proposals and partnering with them by way of loans, equity investments; advisory services and enhanced product diversification and development.

As I present this Financial Statement, I wish to recognize the role played by various entities in realizing the results reported in this Financial Statement FY2015/2016. I take cognizance of the continued commitments of the Corporation's staff to hard work,

resilience and team spirit. I appreciate our esteemed customers, the parent Ministry of Tourism, The National Treasury, our business partners, clients and other stakeholders for their support and contributions to the Corporation's success. Finally, I would like to sincerely thank my fellow Board members for their commitment to duty and the support they have accorded me.



PATRICK OSERO
CHAIRMAN, BOARD OF DIRECTORS

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

REPORT OF THE MANAGING DIRECTOR



**Mr. Orumoi T. Jonah
Ag. Managing Director**

Tourism has been selected as one of the leading sectors in achieving the goals of the Vision 2030 and one of the main pillars contributing to over 10% of the country's Gross Domestic Products. Kenya aims to be among the ten long haul tourist destinations in the world, offering a high-end, diverse and distinctive visitor experience that few of her competitors can offer.

To fulfill the above objective, Tourism finance Corporation has been positioned in the market to effectively facilitate the development and expansion of bed capacity, development of new products and rehabilitation of the existing accommodation facilities in the country.

With the current tourism trend and increased demand for tourist attraction, there is no doubt that TFC will be expected to play a catalytic role in the development and investment in tourism to increase bed capacity to 65,000 by the year 2030.

Kenya has enjoyed a unique combination of spectacular tourist attractions and a liberalized economy making it an ideal investment location, especially for investors interested in the development of sustainable and quality tourism. It is with this in mind that TFC was created 1965 and now enshrined in the New Tourism Act No. 28 of 2011 as Tourism Finance Corporation, with the mandate of providing development funding for long term investment and business advisory services to entrepreneurs in the tourism sector.

The performance of the Corporation during the financial year 2015/2016 presents a brighter outlook with the total non-performing loans improving from **70%** in 2014/2015 to close at **42%** in 2015/16. This further translated into a loan recovery level up from

Kshs **28,376,145** in 2014/2015 to Kshs **74,734,997** in 2015/2016. During the year, the Corporation recorded a remarkable improvement in cost reduction from 56% to 122% attributable to prudent management of operational costs.

As a state owned DFI, the Corporation shall continue to operate in a manner that meets the socio-economic and development goals of the Government by realigning its strategy to the National Development agenda. Operations of the corporation shall continuously be geared towards addressing some of the social and economic challenges facing the country such as wealth creation, unemployment and value addition.

The Corporation is currently reviewing its strategic plan to reposition herself as one of the main development financial intermediaries focusing on the provision of financial solutions to the tourism sector, a position which has already been identified in the Kenya Vision 2030. Additionally, the corporation is targeting on supporting new investments and tourist facilities and initiatives that are aimed at placing Kenya among the top ten long-haul tourist destinations globally.

**TOURISM FINANCE CORPORATION
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In an effort to strengthening the stakeholder engagements in tourist investment activities, the Corporation will continue to build strong partnerships with other Government agencies and private sector players through PPP arrangements towards the realization of the Vision.

Another critical point of focus for the Corporation is partnership with the County Governments. The Corporation has commenced deepening her strategic engagements and partnerships with devolved units to support them through undertaking feasibility studies; resource mapping and establishing an investment vehicle that will help drive the tourism development agenda for the County Governments.

Going forward, the Corporation will continue to implement a growth strategy that focuses on delivering value and playing a lead role in fostering an enabling investment environment to Kenya's tourism sector.

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



**ORUMOI T. JONAH
MANAGING DIRECTOR**

CORPORATE GOVERNANCE STATEMENT

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

Section 77(4) of the Tourism Act CAP 383 of the Laws of Kenya sets out the Corporation's Board's responsibilities as to "...ensure proper & effective performance of the functions of the Corporation". The Board of Directors of the Corporation has embraced the responsibility to direct, control and to be held accountable by the government and the people of Kenya to ensure the Corporation undertakes its mandate in full compliance with the law, regulations, the highest standards of Corporate Governance and business ethics.

The Corporation continues to operate under tenets of the Constitution of Kenya, and in compliance with the governing law being the Tourism Act CAP 383 of the Laws of Kenya. It also complies with the provisions of other relevant statutes such as the State Corporation's Act CAP 446 of the Laws of Kenya.

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

Board Charter

The Board Charter guides the Board in the exercise of its responsibilities. It enables Board members understand their individual and collective roles to ensure they help the Corporation fulfill its mandate. It provides an overview of:

- The roles, functions, responsibilities and powers of the Board and individual directors.
- The functions and powers of the Board Committees and the Full Board
- The policies and practices of the Board.

The principles and policies contained in the Charter are in addition to and are not intended to change or interpret any statute, law or regulation.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Board Composition

The Corporation's Board is made up of ten (10) members led by a non-executive and independent Chairman, one executive Managing Director, one director representing the Cabinet Secretary; National Treasury, one director representing the Principal Secretary; Ministry of Tourism and six independent and non-executive directors. The composition of the Board is as outlined in Section 77 of the Tourism Act CAP 383 of the Laws of Kenya.

The Directors who held office during the year under review to the date of this report are listed under the Board of Directors section in this report.

Committees of the Board

The Board has four standing committees which meet on a quarterly basis or more frequently as deemed necessary. These committees are;

- **Finance, Human Resource & Administration Committee:** The committee is responsible for the Corporation's Finance, Human Resource & Administration issues. The committee provides financial strategy and oversight for the Corporation, monitors the policies and practices of the Corporation in relation to human resources and offers advice and recommendations of the Corporation's human resource strategies and policies. It also provides oversight to the legal, ICT, Procurement and Public Relations departments. It consists of five members chaired by a non-executive director.
- **Credit Committee** The committee is responsible for the Corporation's Credit issues. The committee determines the Credit Policy of the Corporation. The Credit Committee has the authority to make decision on approval or rejection of credit facilities. It consists of five members chaired by a non-executive director.
- **Investment Committee:** The committee is responsible for the Corporation's Investment's issues. The role of the committee is to maintain the prudent and effective investment of the Corporation's resources and to formulate and oversee the investment policies and management of the Corporation Investments. It consists of five members chaired by a non-executive director.
- **Audit Committee:** The committee is responsible for the Corporation's Internal Audit & Risk Management function. It assesses the effectiveness of the Corporation's internal control and risk management framework, reviews the impact of significant accounting and reporting issues, meets the management, external and auditors to review the financial statements and results of the audit process by ensuring management acts on audit and risk management reports issues. It consists of four members chaired by a non-executive director.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As reported in the previous financial year, the Corporation now has a functional board.

The Corporation has put together a draft Corporate Social Responsibility (CSR) Policy that will be presented to the Board for consideration and approval. The Corporation however continues to sponsor events that are socially driven on a case by case basis pending approval of the policy by the Board.

The Draft Policy once approved will ensure that Corporate Responsibility is a key aspect that should be embedded in the Corporation's business practices. TFC as a corporation will therefore ensure formation of relevant partnerships with appropriate bodies, stakeholders and organizations in order to be involved in sustainable projects.

The draft policy is three fold;

- i) To Improve the Environment where TFC has invested in the counties,
- ii) To Interact with members of the Community and improve their welfare, and
- iii) To Build TFC's Corporate Image and reputation.

This will ensure that the corporation fully gives back to the society in the areas where its presence is felt.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Tourism Finance Corporation's affairs.

PRINCIPAL ACTIVITY

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

RESULTS

The results of the Corporation for the year ended June 30, 2016 are set out on page 4.

DIVIDENDS

The Director's do not recommend payment of dividend.

DIRECTORS

The Corporation did not have a duly constituted Board of Directors at the beginning of the current 2015/2016 financial year. However, a new Board of Directors was appointed within the financial year as follows;

a) As Directors vide Kenya Gazette Notice No. 7453 of 02/10/2015 (effective 02/10/2015),

1. Edith Alusa
2. Paul Kurgat
3. Rwamba Pauline
4. Franklin Ndi
5. Evanson Njoroge Kamuri (Dr.)
6. Hannington Joel Gaya (Prof.)

b) As Director vide Kenya Gazette Notice No. 9444 of 17/12/2015 (effective 02/10/2015),

1. Said A. Mwangi

The same Gazette Notice No. 9444 revoked the appointment of the following as a Director effective 02/10/2015;

1. Evanson Njoroge Kamuri (Dr.)

c) As Non- Executive Chairman vide Kenya Gazette Notice No. 4649 of 23/06/2016 (effective 24/06/2016),

1. Patrick Osero

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

AUDITORS

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

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's Board sitting on 7th September 2016

By Order of the Board



.....

Corporation Secretary

Date: 29/9/17

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Tourism Finance Corporation's Board of Directors was duly constituted within the current financial year as provided for under section 77 of the Tourism Act 2011, CAP 383 of the Laws of Kenya. The term of the previous Board of directors had expired on 17th April 2013. The current Board of Directors was appointed with effect from 02/10/2015 vide Gazette Notice No. 7453 of 02/10/2015 and Gazette Notice No. 9444 of 17/12/2015. The Chairman was appointed vide Gazette Notice No. 4649 of 23/06/2016.

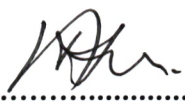
The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept the responsibility for the Corporation's Financial Statements for the financial year ended 30th June 2016. These have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards, in the manner required by the PFM Act, the requirements of the Tourism Act and the February 1991 Treasury guidelines on Investment. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and its operating results. The Directors further confirm the completeness of the accounting records maintained by the Corporation, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

Director: 

Date: 12/4/2017

Director: 

Date: 12/4/17

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF TOURISM
FINANCE CORPORATION FOR THE YEAR ENDED 30TH JUNE, 2016**



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TOURISM FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tourism Finance Corporation set out on pages 1 to 48, which comprise the statement of financial position as at 30 June 2016, and the statement of 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for such 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.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and to submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant

to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Investments - Unsupported Share Certificates

The Corporation has investment in subsidiaries, associates and other entities with a book value of Kshs.397,742,463 which includes some 245,000 and 22,289 shares in Kabarnet Hotel and Mt Elgon Hotel worth Kshs.4,900,000 and Kshs.445,780 respectively that were not supported by share certificates. Consequently, the authenticity of ownership could not be ascertained as at 30 June 2016.

2. Work-in-Progress

The investment property balance of Kshs.3,121,997,694 as at 30 June 2016 includes capital work-in-progress amounting to Kshs.21,997,694 which had been carried forward since the year 2011. Further, the amount includes a 10% deposit of Kshs.3,500,000 paid on 3 February 2012 for Marina project land valued at Kshs.35,000,000. The project is yet to take off and the land purchase deal appear to have stalled.

Consequently, the capital work-in-progress balance of Kshs.21,997,694 may be misleading because it represents contracts that have already lapsed and thus may never crystalize.

3. Irregular Award of Provision of Secretarial Services

As previously reported, the Corporation contracted a local firm to provide various secretarial services which included custodial services for statutory records, maintenance of registers for members, directors and secretaries, processing of minutes and keeping the minutes book, preparation and filling of annual returns, convening and attending board committee meetings among other services. However, all the above functions ought to be handled internally by the Managing Director's office in conjunction with the legal department which has a full time company secretary. The Corporation has therefore been releasing confidential information to third parties by way of exposing the deliberations and resolutions made at various meetings.

In the circumstance, the amount of Kshs.50,850 paid for secretarial services as at 30 June 2016 is not a fair charge on public funds.

Qualified Opinion

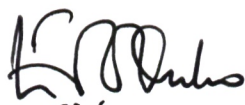
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Tourism Finance Corporation as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Tourism Act, 2011 of the Laws of Kenya.

Emphasis of Matter

Loan to Buffalo Springs

As previously reported and as indicated in Note 7 to the financial statements, included in the loan balance of Kshs.800,876,184 is an amount of Kshs.12,120,276 (2014/2015-Kshs.11,080,819) loaned to Buffalo Springs Limited, an associate of Tourism Finance Corporation. According to information available, the premises in which the company operated were leased to another tenant by the then Isiolo Town Council due to failure by the Corporation to pay land rent arrears. This effectively crippled operations of the associate company leading to its inability to repay the loan. In the circumstances, the recoverability of the loan amounting to Kshs.12,120,276 is doubtful.

My opinion is not qualified in respect of this matter.



FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

24 May 2017

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2016

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

		2016	2015
	Note	<u>KShs</u>	<u>KShs</u>
ASSETS			
Non-Current Assets			
Investment Property	3	3,121,997,694	3,121,997,694
Property, Plant and Equipment	4	39,020,760	53,361,124
Intangible Assets	5	41,623	1,524,871
Investments	6	397,742,463	322,188,840
Loans	7	719,361,224	676,148,640
Deferred Tax Asset	22	42,604,474	42,947,734
		4,320,768,238	4,218,168,903
Current Assets			
Trade and other receivables	8	192,098,920	176,245,591
Cash and Cash Equivalents	9	300,982,173	417,544,135
		493,081,093	593,789,726
TOTAL ASSETS		4,813,849,331	4,811,958,629
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity Funds	28	106,000,000	106,000,000
Pre-Investment Studies Grant	29	281,212	281,212
GOK Grant	25(i)	857,722,200	857,722,200
Capital Reserve	10 (a)	20,506,020	20,506,020
Retained Earnings	10 (b)	3,538,579,837	3,558,051,622
Restructuring Reserve	11	88,580,842	88,580,842
		4,611,670,111	4,631,141,896
Non-Current Liabilities			
Irredeemable GOK Revolving Fund Loan	12	48,000,000	48,000,000
Employees Benefits Provision	39	44,938,777	46,582,234
		92,938,777	94,582,234
Current Liabilities			
Trade and other Payables	13	109,240,443	86,234,499
		109,240,443	86,234,499
TOTAL EQUITY AND LIABILITIES		4,813,849,331	4,811,958,629

These financial statements were approved by the Board on 7th September 2016 and signed on their behalf by:

.....


DIRECTOR

..... 12/4/2017

DATE

.....


DIRECTOR

..... 12/4/2017

DATE

The Statement of Financial Position, Statement of Comprehensive Income, Statement of changes in Equity and Cash Flow statement are to be read in conjunction with the accounting policies and the notes which form part of these financial statements.

TOURISM FINANCE CORPORATION
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2016	2015
	Note	<u>KShs</u>	<u>KShs</u>
REVENUES			
Interest From Loans	30	65,947,508	56,022,269
Rental Income	27	126,553,176	124,714,269
Dividend Income	17	-	1,600,000
Other Income	19	77,402	48,482
TOTAL REVENUES		<u>192,578,086</u>	<u>182,385,020</u>
OPERATING EXPENSES			
Administration Costs	23	75,260,029	126,200,036
Personnel Costs	24	133,870,218	135,633,363
Directors' Emoluments and Expenses	26	11,664,165	99,530
Depreciation	4 & 5	15,868,647	22,620,963
TOTAL OPERATING EXPENSES		<u>236,663,059</u>	<u>284,553,892</u>
OPERATING PROFIT/ (LOSS)		(44,084,973)	(102,168,872)
Surplus on Revaluation of Investment Property	31	-	970,000,000
Finance Income(Bank Deposit Interest Income)	18	29,360,527	22,327,317
Profit/(Loss) Before Taxation - see page 37		<u>(14,724,446)</u>	<u>890,158,445</u>
<u>Income Tax Expense/ (credit)</u>			
Deferred Tax (Income)/Expense	22	343,260	(17,646,178)
Withholding Tax Paid	10	4,404,079	3,349,098
Profit/(Loss) After Taxation		<u>4,747,339</u>	<u>(14,297,080)</u>
RETAINED PROFIT/(LOSS) FOR THE YEAR		<u>(19,471,785)</u>	<u>904,455,525</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Equity Funds Kshs.	Pre-investment Studies-Grant Kshs.	GOK Grant Kshs.	Capital Reserve Kshs.	Retained Earnings Kshs.	Restructuring Reserve Kshs.	Total Equity Kshs.
As at 1 st July 2014	106,000,000	281,212	857,722,200	20,506,020	2,654,621,778	88,580,842	3,727,712,052
Reversal of Deferred Tax Note 10(b)	-	-	-	-	(1,025,681)	-	(1,025,681)
Retained Profit/(Loss) For the Year	-	-	-	-	904,455,525	-	904,455,525
As at 30 th June 2015	106,000,000	281,212	857,722,200	20,506,020	3,558,051,622	88,580,842	4,631,141,896
Retained Profit/(Loss) for the Year	-	-	-	-	(19,471,785)	-	(19,471,785)
As at 30 th June 2016	106,000,000	281,212	857,722,200	20,506,020	3,538,579,837	88,580,842	4,611,670,111

TOURISM FINANCE CORPORATION
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STATEMENT OF CASH FLOWS

		2016	2015
	Note	KShs	KShs
Cash Flows From Operating Activities			
Net Income/(Loss) for the year after Exceptional Item but before Taxation		(14,724,446)	890,158,445
Adjustments:			
Depreciation	3 & 4	15,868,647	22,620,963
Increase/(Decrease) in Loans' Provision	15	(820,000)	18,543,448
Increase/(Decrease) in Employees Benefits Provision	39	(1,643,457)	3,365,586
(Surplus)/Deficit on Revaluation of Investment Property	3 & 31	-	(970,000,000)
Income from Investment (Dividend)	17	-	(1,600,000)
Interest From Bank Deposits	18	(29,360,527)	(22,327,317)
Operating Income/(Loss) before Working Capital Changes		(30,679,783)	(59,238,875)
(Increase) in Debtors	8	(15,853,329)	(20,058,724)
Increase in Creditors	13	23,005,944	9,824,100
Cash generated from Operations		(23,527,168)	(69,473,499)
Corporation & Withholding Taxes for the year Paid	10	(4,404,079)	(3,349,098)
Loans Interests' Recovered/(Capitalized) 40(a)		(13,413,198)	(5,267,054)
Net Cash Inflow/(Outflow) From Operating Activities		(41,344,445)	(78,089,651)
Cash Flows From Investing Activities:			
Dividends Received	17	-	1,600,000
Interest from Bank Deposits	18	29,360,527	22,327,317
Purchase of Fixed Assets	4	(45,035)	-
Principal Loans Disbursed	40(b)	(135,493,190)	(98,733)
Principal Loans Recovered	40(c)	30,960,181	127,113,440
Net Cash Inflow/(Outflow) From Investing Activities		(75,217,517)	150,942,024
Cash Flows From Financing Activities:			
GOK Grant Received	25	0	0
Net Cash Inflow/(Outflow) From Financing Activities		-	-
Net Increase/ (Decrease) in Cash and Cash Equivalents		(116,561,962)	72,852,373
Cash & Cash Equivalents at Beginning of the Period		417,544,135	344,691,762
Cash & Cash Equivalents at End of the Period	9	300,982,173	417,544,135
NOTE:Cash & Cash Equivalents are reconciled below			
Cash at Bank		231,490,368	24,987,978
Cash in Hand		8,733	11,776
Flexi Treasury Bills and Fixed Deposits		69,483,072	392,544,381
Cash & Cash Equivalents at end of the period	9	300,982,173	417,544,135

TOURISM FINANCE CORPORATION
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COMPARISON OF BUDGET AND ACTUAL

INCOME	A	B	C=B-A	D=C/B	Remark	
ITEM	2015/2016 FINAL APPROVED BUDGET KSHS.'000'	CURRENT YEAR 2015/2016 ACTUAL KSHS.'000'	VARIANCE BUDGET TO ACTUAL YEAR KSHS.'000'	VARIANCE IN PERCENTAGE (%)	U/F	REMARKS
Interest from Loans	65,455	65,948	493	1%	F	Two loans KHP & KSLH were disbursed
Rental Income	125,024	126,553	1,529	1%	F	Rent more due to annual escalation clause
Dividend Income	2,000	-	(2,000)	-100%	U	No dividend was declared within the year
Interest on Fixed Deposits & TB	39,850	29,361	(10,489)	-36%	U	Deposit funds were lower than anticipated
Surplus on Revaluation of Invest. Property	-	-	-	-	F	
Other Income	701,389	77	(701,312)	-910795%	U	No revaluation of investment property was carried out
TOTAL INCOME	933,718	221,939	(711,779)	-321%	U	
EXPENDITURE						
Personnel Costs	188,156	133,870	(54,286)	-41%	F	Key managerial and other positions remained unoccupied
Directors' Emoluments & Expenses	15,447	11,664	(3,783)	-32%	F	Directors appointed in Oct 2015, hence not in office full year
Entertainment	360	343	(17)	-5%	F	Favourable since some managerial positions not filled.
Local Travelling Costs	16,000	12,452	(3,548)	-28%	F	Lower than budget as it was well controlled
Overseas Travelling Costs	13,000	10,532	(2,468)	-23%	F	Lower than budget as it was well controlled
Motor Vehicle Expenses	3,556	1,522	(2,034)	-134%	F	Breakages were not witnessed as vehicles are well serviced thus cutting costs
Depreciation	24,277	15,869	(8,408)	-53%	F	Budgeted items not bought and also most items are fully depreciated, hence savings
Office Expenses	23,934	10,307	(13,627)	-132%	F	PR activities were controlled, Printing and telephone were also under control
Properties Maintenance	18,587	825	(17,762)	-2153%	F	No major repairs were carried out to utalii hse as it awaits rehabilitation

TOURISM FINANCE CORPORATION
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Security	8,588	6,058	(2,530)	-42%	F	No additional fees were charged by the contracted firm
Cleaning Costs	7,223	4,165	(3,058)	-73%	F	No additional fees were charged by the contracted firm
Lifts Maintenance	3,000	1,924	(1,076)	-56%	F	No additional fees were charged by the contracted firm
Electricity Cost	22,080	12,674	(9,406)	-74%	F	No tariff hike was witnessed, power usage was also well controlled
Water and Conservancy	1,758	997	(761)	-76%	F	Water usage was well controlled, no frequent water purchase from lorry vendors
Auditors' Remuneration	562	406	(156)	-38%	F	No review upwards of fees was witnessed
Legal Fees	20,000	2,946	(17,054)	-579%	F	All fees charged and invoices received were accrued
Valuation Fees	10,000	-	(10,000)	-100%	F	No valuation of property was carried out
Consultancy Fees	6,500	6,374	(126)	-2%	F	Fees paid to IFC for advisory services for conference facility was lower than budget
Bank Charges	445	223	(222)	-100%	F	These were well within budget as fewer T/Bills were purchased
Rent and Rates	2,852	2,643	(209)	-8%	F	These were well within budget and were paid as budgeted
Provision for Bad Debts	5,000	(820)	(5,820)	710%	F	Only write back of recoveries previously provided, no new provision made.
Insurances	2,166	1,689	(477)	-28%	F	This was paid as invoiced and was well within budget.
TOTAL EXPENSES	393,491	236,663	(156,828)	-66%	F	
Profit/(loss) before Tax	540,227	(14,724)	(554,951)	3769%	U	
Less: Withholding Tax	5,978	4,404	(1,574)	-36%	U	
Less: Deferred Tax	-	343	343	100%	U	
Net profit /(loss) after Tax	534,250	(19,471)	(553,721)	2844%	U	

* U = Unfavourable variance

F = Favourable variance

Budgeted Other Income had projected for the valuation of Bomas land at Kshs. 694,920,000 but this was not carried out during the year.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of Compliance

The Public Finance Management (PFM) Act 2012 section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval of the adoption of the International Financial Reporting Standards (IFRS) for State Organs operating as commercial business entities, the pronouncements made by the Board have no significant impact on the Corporation's Financial Statements as Tourism Finance Corporation has been preparing its Financial Statements in accordance to IFRS.

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

b) Basis of Presentation

The accounting policies adopted have been applied consistently. They are presented in the functional currency Kenya shillings (KShs) and are prepared under the historical cost convention as modified by the revaluation of certain Property, Plant and Equipment.

c) Changes in accounting policy and disclosures

New and amended standards adopted by the Corporation:

- i. The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As the Corporation does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Corporation Financial Statements.

TOURISM FINANCE CORPORATION
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IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Corporation Financial Statements.

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of the amendments to IAS 36 has had no material impact on the disclosures or on the amounts recognised in the Corporation Financial Statements since the Corporation has had no impairment or reversal of impairment.

- ii. IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key Requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Directors of the Corporation anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities.

- iii. In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Corporation however derives a substantial amount of its revenue from cash sales, and the directors do not anticipate that the application of IFRS 15 will have a significant impact on the amounts reported in respect of the Corporation's revenue from contracts with customers.

- iv. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:
- a) when the intangible asset is expressed as a measure of revenue; or
 - b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Corporation uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Corporation do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

- v. The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a Corporation of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3

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

- vi. These IFRS improvements are effective for accounting periods beginning on or after 1 January 2016. The directors of the Corporation do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Corporation's financial statements.

(i) Early Adoption of Standards

The Corporation did not early-adopt any new or amended standards in the period.

d) Accounting for unquoted investments in subsidiary and associated companies

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

e) Classification of Funds

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

i) Equity Fund:

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

ii) Commercial Loans Fund:

Funds provided by the Government to lend on a commercial basis to tourism related companies and to be repaid to the Government over a period of fifteen years from January 1991. The Loan was fully repaid in the year 2000/2001.

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

iii) Revolving Loans Fund:

This fund was set up by the Government for the corporation to manage and provide loan finance to assist Kenyans to become established in the tourism industry. However, following Board approval on 21st of September 2010, these two Loan Funds were merged into one

TFC Loans Fund by opening a new Bank Account to manage it.

The Revolving and commercial Funds Bank Accounts were consequently closed to conform with this approval and also with the Revised Credit Policy and Manual. The closed bank accounts were replaced by the new Loan Fund bank account that was subsequently opened.

f) Accounting for Feasibility Studies Grant

The Corporation was granted funds by the Government to carry out feasibility studies. Payments made or to be made on completed feasibility studies are charged fully against this fund.

g) Provision for Doubtful Debts

The corporation is responsible for bad debts incurred on both Commercial and Revolving Fund Programs in accordance with the February 1991 Investment Guidelines.

The provisions made against possible losses are reduced from the Investments, Loans and Debtors to which they relate. Loans which are non-performing and which have no further recovery prospects are written off against their Specific Provisions upon approval by the Board.

h) Property, Plant & Equipment

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

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

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

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

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

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

i) Investment Property

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

Increase (or decreases) in the carrying amounts of assets arising from revaluation are credited (or debited) to income statement in the year of revaluation as the case may be. Capital works in progress (CWIP) relates mainly to the costs of ongoing but incomplete works on buildings, civil works and installations.

Land and Buildings, having been reclassified as investment property under IAS 40 since 2011/2012 financial year, are not depreciated. They are revalued after every three years.

j) Revenue

Revenue is recognised to the extent that it is probable that future economic benefit will flow to the Corporation and the revenue can be reliably measured.

Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities, net of Value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below:

k) Finance Income:

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

i) Loan Interest Income:

Interest receivable in respect of administering the Corporation's Loan fund programme.

ii) Rental Income:

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

iii) Other Income:

Major items in this category normally include Personnel Loan's interest, Loan Appraisal

and Commitment fees, proceeds received from sale of Tender documents and Directors fees received and receivable during the Financial Year.

iv) Dividend income

It is recognised in the income statement in the year it is declared/recommended

l) Intangible Assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, for over three years.

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

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

m) Trade and Other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts.

These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

n) Taxation

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

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

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

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financial reporting purposes.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three insignificant risk of changes in Bank account balances include amounts held at the Kenya Commercial Bank at the end of the Financial Year.

p) Trade and other payables

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

q) Comparative figures

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

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the Financial Statements for the year ended June 30, 2016.

s) Employee benefits

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

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

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The Corporation has provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving. This is payable to eligible employees who serve a continuous term not less than two (2) years from the date of employment to date of leaving.

Each employee earns twenty-one (21) terminal leave days per every served year. The Benefits due for current staff as at 30th June 2016 based on their accumulated terminal leave days and their basic Salaries.

t) Loans

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

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

2. FINANCIAL RISK MANAGEMENT

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

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

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

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

The key types of risk include:

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

Credit Risk:

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

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

Corporation incurs credit risk from loans and advances to customers. The credit risk exposure is, however, managed through assessment of each borrower taking into account financial position, past experience and other factors as well as monitoring the performance of borrowers' businesses during the loan term.

As at 30th June Non-performing loans from the Subsidiaries stood at 89% whereas loans to other borrowers stood at 66%. These results to an average non-performing loans of 77%. Based on a portfolio of Kshs. 800,876,184 as at 30th June 2016, this results into an average of Kshs. 616,674,662 as non-performing loans. As the Corporation has put in stringent measures for recovery purposes which includes Public Auctions of specific dormant borrowers, non-performing loans are expected to be reduced to 15%. This not forms the risk exposure which now amounts to Kshs. 92,501,200.

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Market Risk:

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

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

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

Liquidity Risk:

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

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

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

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3. INVESTMENT PROPERTY

4. PROPERTY, PLANT AND EQUIPMENT

5. INTANGIBLE ASSETS

	Land & Buildings	Capital Work In Progress (CWIP)	Total of Investment Property	Furniture, Fittings and Equipment	Computer and Computer Accessories	Cutlery and Halloware	Motor Vehicles	Total of Property, Plant & Equipment	ERP Software	Capital Work In Progress (CWIP)	Total of ERP Software
Year ended 30 June 2015											
Cost/Valuation											
At cost on 01 July 2014	2,130,000,000	21,997,694	2,151,997,694	116,479,993	9,321,732	31,497	19,316,076	145,149,298	14,000,000	-	14,000,000
Surplus on Revaluation of Assets	970,000,000	-	970,000,000	-	-	-	-	-	-	-	-
As at 30 June 2015	3,100,000,000	21,997,694	3,121,997,694	116,479,993	9,321,732	31,497	19,316,076	145,149,298	14,000,000	-	14,000,000
Depreciation											
As at 01 July 2014	-	-	-	49,429,174	7,953,460	-	15,984,577	73,367,211	8,275,129	-	8,275,129
Charge for the year	-	-	-	14,205,169	884,295	-	3,331,499	18,420,963	4,200,000	-	4,200,000
As at 30 June 2015	-	-	-	63,634,343	8,837,755	-	19,316,076	91,788,174	12,475,129	-	12,475,129
Net Book Value											
Balance as at 30 June 2015	3,100,000,000	21,997,694	3,121,997,694	52,845,650	483,977	31,497	-	53,361,124	1,524,871	-	1,524,871
Year ended 30 June 2016											
Cost/Valuation											
At cost on 01 July 2015	3,100,000,000	21,997,694	3,121,997,694	116,479,993	9,321,732	31,497	19,316,076	145,149,298	14,000,000	-	14,000,000
Additions for the year	-	-	-	45,035	-	-	-	45,035	-	-	-
As at 30 June 2016	3,100,000,000	21,997,694	3,121,997,694	116,525,028	9,321,732	31,497	19,316,076	145,194,333	14,000,000	-	14,000,000
Depreciation											
01 July 2015	-	-	-	63,634,343	8,837,755	-	19,316,076	91,788,174	12,475,129	-	12,475,129
Charge for the year	-	-	-	14,121,714	263,685	-	-	14,385,399	1,483,248	-	1,483,248
As at 30 June 2016	-	-	-	77,756,057	9,101,440	-	19,316,076	106,173,573	13,958,377	-	13,958,377
Net Book Value											
Balance as at 30 June 2016	3,100,000,000	21,997,694	3,121,997,694	38,768,971	220,292	31,497	-	39,020,760	41,623	-	41,623

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Notes:

a) IAS 16 requires that the comparative figures for movements in property, plant and equipment be disclosed. These are recognized at cost incurred initially to bring the asset to working condition for the intended use. The initial cost includes costs of purchase, site preparation, delivery, installation and professional fees. The cost is netted with accumulated depreciation and impairment where applicable to arrive at the net book value which is the carrying amount of the asset at the end of the financial year

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

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

c) A revaluation of Utalii House was carried out in June 2004 by Crystal Valuers Ltd, professional valuers, on an open market basis and gave the value as KShs. 570,000,000. The resulting revaluation surplus of KShs. 497,972,875 was transferred to Revaluation.

Reserve (note 10)). As per IAS 16 we adopted the approach where the balance in the revaluation reserve in respect to an asset to be transferred to retained earnings when the asset is sold, as at that point it is a realised gain. As indicated under Accounting Policies in note 1(j), the first financial year of depreciating this revaluation surplus was 2004/2005. The original cost was KShs 72,027,125.

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

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

A revaluation was carried out during the 2012/2013 year by Metrocosmo Ltd, professional valuers, on an open market basis with respect to

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KTDC's Mombasa Island Plot. The market value was given as KShs 600,000,000 against previously carrying cost of KShs 6,945,472 resulting into surplus of KShs 593,054,528 which was realized through the Statement of Comprehensive of KShs 593,054,528 which was realized through the Statement of Comprehensive Income as provided by International Accounting standard(IAS) 40 paragraph 35.

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

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

d) Capital Work In Progress (CWIP) carrying amount of KShs 21,997,694 as at 30th of June 2016 comprises the amount of architectural services paid in the previous year(s) with respect to Utalii House phase II rehabilitation works KShs 17,937,694 and deposit and survey fees with respect to the proposed acquisition of Marina land in Shimoni, Kwale KShs 4,060,000 (deposit KShs 3,500,000 and fees KShs 560,000). There were no further payments made during the current 2015/2016 financial with respect to these projects (2015: KShs Nil).

Property, Plant and Equipment include the following items that are fully depreciated

	30th of June 2016		30th of June 2015	
	Cost or Valuation <u>KShs</u>	Normal annual depreciation <u>KShs</u>	Cost or Valuation <u>KShs</u>	Normal annual depreciation <u>KShs</u>
Furniture, Fittings and Equipment	3,965,517	912,053	3,795,407	474,425
Computer and Accessories	22,685,205	6,805,561	6,464,592	1,939,378
Motor Vehicles	<u>19,316,075</u>	<u>4,829,019</u>	<u>19,316,075</u>	<u>4,829,019</u>
	<u>45,966,797</u>	<u>12,546,633</u>	<u>29,576,074</u>	<u>7,242,822</u>

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6. INVESTMENTS

Project	Percentage Held %	Equity Investment 2016 KShs	Equity Investment 2015 KShs
(i) Subsidiaries			
Kenya Safari Lodges & Hotels Ltd	89.00	116,061,176	40,507,553
Bomas of Kenya Ltd	100.00	5,080,000	5,080,000
Mt.Elgon Lodge Ltd	72.90	1,345,780	1,345,780
Sunset Hotel Ltd	95.40	11,450,000	11,450,000
Kabarnet Hotel Ltd	98.20	5,432,120	5,432,120
Golf Hotel Ltd, Kakamega	80.00	4,000,000	4,000,000
African Tours & Hotels Ltd - Non-performing, being Wound up	52.60	4,691,900	4,691,900
Subtotals		148,060,976	72,507,353
(ii) Associates			
Mountain Lodges Ltd	39.70	2,893,520	2,893,520
International Hotel (K) Ltd	40.05	135,939,167	135,939,167
Kenya Hotel Properties Ltd	33.80	114,189,360	114,189,360
Buffalo Springs Ltd	41.00	1,000,000	1,000,000
Subtotals		254,022,047	254,022,047
(iii) Others			
Maralal Safari Lodge Ltd	15.50	802,000	802,000
The Ark Ltd	5.50	549,340	549,340
African Tours & Hotels Preference Shares	-	29,100	29,100
Subtotals		1,380,440	1,380,440
Grand Totals		403,463,463	327,909,840
Less: Provision for Investment in AT & H Ltd.		(4,721,000)	(4,721,000)
Provision for Investment in Buffalo Springs Ltd.		(1,000,000)	(1,000,000)
TOTAL INVESTMENTS		397,742,463	322,188,840

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Note

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

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

b) All the investments indicated above as performing are those that are operating on a day to day basis and the Corporation does not finance any of their operating costs. The others indicated as non-performing are either operating below capacity or are already dissolved awaiting removal from the books.

i) Mt. Elgon Lodge Ltd. and Kabarnet Hotel Ltd. are operating below capacity and have requested the Corporation to finance their rehabilitation so as to resume full capacity. The Corporation has been paying monthly salaries to staff of these two companies up to May 2016.

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

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

c) The increase in cost of investment, net of provisions, from previous year's KShs 322,188,840 to KShs 397,742,463 as at 30th of June 2016 is KShs 75,553,623 which is loan that was due from Kenya Safari Lodges and Hotels Ltd (KSLH). Following board approval of the corporation at its meeting held on 25th of July 2011, this loan was approved for conversion into equity shareholding by the corporation. This conversion has now been implemented.

Percentage shareholding however did not change as the other shareholders injected proportionate capital contributions in cash into KSLH Ltd.

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7. LOANS

Project	Principal	Principal	Interest	2016	2015
	Balance	Arrears	Arrears	Total	Total
	KShs	KShs	KShs	KShs	KShs
1-Delight Dreamland Hotel Ltd.	-	2,880,000	-	2,880,000	2,900,000
2-Kenya Agro Business Ltd.	-	-	-	-	710,000
3-Hotel Big Five Ltd.	-	8,581,360	21,706,794	30,288,154	27,690,587
4-Pafido Fast Foods Ltd.	1,150,000	1,820,000	-	2,970,000	4,474,708
5-Proland Ltd	5,337,491	5,849,573	5,862,147	17,049,211	15,954,107
6-Kabarnet Hotel Ltd.	10,164,859	8,194,085	9,250,939	27,609,883	27,609,883
7-Golf Hotel Ltd, Kakamega.	25,160,787	(2,120,255)	-	23,040,532	24,600,305
8-Buffalo Springs Ltd.	-	4,944,310	7,175,966	12,120,276	11,080,819
9-Mt Elgon Lodge Ltd.	1,764,795	831,576	930,852	3,527,223	3,527,223
10-Kenya Safari Lodges & Hotels Ltd.	-	-	-	-	75,553,623
11-Sunset Hotel Ltd, Kisumu.	41,082,807	26,889,041	18,356,687	86,328,535	82,916,593
12-Metro Enterprises Ltd.	-	-	33,474,906	33,474,906	66,957,037
13-Olimo Synergy Ltd.	7,429,902	7,570,098	5,282,953	20,282,953	18,543,448
14-Kogelo Hotel Ltd.	10,861,991	12,144,499	6,778,539	29,785,029	28,573,067
15-Lake Victoria Beach Resort Ltd.	4,649,080	5,350,920	5,314,536	15,314,536	14,148,786
16-Willow Ltd.	7,105,260	7,894,740	9,118,506	24,118,506	22,050,060
17-Kitale Nature Conservancy Ltd.	8,201,743	8,798,257	1,004,688	18,004,688	21,543,229
18-Kidee Investments Ltd.	9,107,712	9,692,893	3,072,916	21,873,521	22,449,740
19-Ketbarak Cottages Ltd.	999,992	(88,360)	-	911,632	1,041,544
20-Reef Hotels (Management) Co. Ltd.	30,452,359	(18,428,240)	1,564,866	13,588,985	13,370,008
21-Embeut Resort Ltd.	16,111,100	13,888,900	12,123,124	42,123,124	38,830,551
22-Savona Enterprises Ltd.	5,263,120	4,739,300	4,433,437	14,435,857	13,197,810
23-Athi Holiday Resort Company Ltd.	8,472,217	6,528,333	1,818,595	16,819,145	19,292,671
24-West Vision Holdings Ltd.	14,351,828	8,787,848	-	23,139,676	25,403,462
25-Triple Trojan Investment Ltd.	8,289,471	272,643	-	8,562,114	10,449,732
26-Lagoon Development Ltd.	4,629,626	44,992,541	9,303,725	58,925,892	53,872,297
27-Marura Ikumi Ltd.	9,407,887	1,830,282	-	11,238,169	12,145,868
28-Kipini Swahili Eco - Lodges Ltd.	30,092,591	19,128,044	-	49,220,635	49,573,346
29-Kangocho & Company Ltd.	30,263,135	7,487,431	-	37,750,566	42,638,569
30-Trinity Tours & Safaris Ltd.	681,466	1,106,481	-	1,787,947	2,007,998
31-Kenya Hotel Properties Ltd.	124,749,515	-	18,572,931	143,322,446	-
32-Kenya Safari Lodges & Hotels Ltd.	10,382,043	-	-	10,382,043	-
TOTALS	426,162,777	199,566,300	175,147,107	800,876,184	753,107,071
Less :Total provision for in suspense				(28,459,861)	(23,083,332)
Total of loans Book values				772,416,323	730,023,739
Less: Total provision for Bad loans				(53,055,099)	(53,875,099)
TOTAL LOANS NET OF PROVISIONS				719,361,224	676,148,640

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Loans
Continuation

	2016	2015
	Total	Total
	<u>KShs</u>	<u>KShs</u>
Loans Bad Debts Provision Brought Forward on 1st of July	53,875,099	35,331,651
Provision Made / (Write Back) per Note 15 (a)	(820,000)	18,543,448
Loans Bad Debts Provision Carried Forward on 30th June	<u>53,055,099</u>	<u>53,875,099</u>

8. TRADE AND OTHER RECEIVABLES

These Comprise:

	<u>KShs</u>	<u>KShs</u>
Debtors (Note below)	333,109,437	314,719,251
Deposit and Prepayments	<u>1,356,240</u>	<u>3,893,097</u>
	334,465,677	318,612,348
Fixed Deposit at Euro Bank Ltd. (In Liquidation)	<u>47,819,761</u>	<u>47,819,761</u>
	382,285,438	366,432,109
Less: Provision For Bad Debts on debtors	(142,366,757)	(142,366,757)
Provision For Bad debts	<u>(47,819,761)</u>	<u>(47,819,761)</u>
	<u>192,098,920</u>	<u>176,245,591</u>

Note: Debtors comprise of:

(i) Current Tenants Debtors	54,543,522	41,160,871
(ii) Unit Debtors (excluding Dividends)	143,202,610	136,624,740
(iii) Dividends due from Kenya Hotel Properties Ltd.	27,064,677	27,064,677
(iv) Ex-Tenants Debtors	60,581,257	60,581,257
(v) Staff Debtors	1,684,866	1,880,413
(vi) Ex-Staff Debtors	6,145,349	6,136,164
(vii) Other Debtors (see below)	<u>39,887,156</u>	<u>41,271,129</u>
	<u>333,109,437</u>	<u>314,719,251</u>

Included in the amount for Deposit & Prepayments for previous financial year is the amount for County Government Rates and Medical insurance premiums for current 2015/2016 year paid as at 30th of June 2015.

The amount for current financial year is less as there were no Medical insurance premiums' prepayments as at 30th of June 2016.

The book value of Fixed Deposit at Euro Bank Ltd (in Liquidation) is classified from Cash & Cash Equivalents under Note 9 to Debtors under Note 8. This is since this amount has been outstanding for a considerably long time from year 2003 and can no longer qualify for classification as Cash & Cash

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Equivalents.

Current tenant debtors were more for current year as most of the tenants were not able to clear their arrears in time.

Staff debtors were less than previous year as less staff had taken advances than previous year. These are recovered in maximum of twelve (12) months.

Ex-tenants debtors are those who gave up office and parking spaces and left with rent balances. The dividends due are the ones declared as per note 17 but had not been received as at the year end.

As reported in the previous year, payment of monthly salaries to staff of Kabarnet Hotel Ltd & Mt Elgon Hotel Ltd continued to be met by TFC and treated as advances to them thereby increasing the Unit debtors from what was reported in the previous year.

These payments out of TFC Privatization Funds were approved by Treasury. The increase in Ex - staff debtors is as a result of car loan interest charges of KShs 19,185 charged to two (2) car loans owed by former staff less part payment by one (1) ex-staff of his debt at KShs 10,000.

Other Debtors include payment in 2014/2015 financial year by the corporation as directed by the court of a deposit of KShs 30.1m in judgement awarded to Sundowner Ltd who sued the corporation for damages resulting from a failed loan disbursement. The corporation has appealed against the award.

Also amount due from Mombasa Island tenant KShs 9.6 million is classified here.

9. CASH AND CASH EQUIVALENTS

	2016	2015
	<u>KShs</u>	<u>KShs</u>
a. Short term deposits		
Flexi Treasury Bills & Fixed Deposits	69,483,072	392,544,381
b. Bank and cash balances		
Cash at Bank	231,490,368	24,987,978
Cash in Hand	8,733	11,776
	<u>231,499,101</u>	<u>24,999,754</u>
Total cash & Cash Equivalents	<u><u>300,982,173</u></u>	<u><u>417,544,135</u></u>

For the purpose of Cash Flow Statement, the year-end Cash and Cash equivalents shown above is offset and reduced, where applicable, by Bank Overdraft if any. During the current year 2015/2016 new Loans

were disbursed per note 7, hence reduction in cash and cash equivalents (2015: KShs Nil).

Cash and cash equivalents as at 30th June 2015 were more than that of previous year mainly due lump sum loan clearance by some borrowers.

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

Short Term Deposits

		2016	2015
Name	A/C No.	Kshs.	Kshs.
1. Privatization Fixed Deposit	1104822970	29,812,046	35,227,960
2. Loan Funds Fixed Deposit	1177740990	39,671,026	-
3. Loan Funds Fixed Deposit	1123183503	-	357,316,421
		-----	-----
		69,483,072	392,544,381
		=====	=====

Bank and Cash Balances

		2016	2015
Name	A/C No.	Kshs.	Kshs.
4. TFC Administration A/c	1104821397	990,547	1,607,573
5. TFC Loan Fund A/c	1123183503	225,196,341	21,135,499
6. TFC Privatization Funds	1104822970	4,333,100	1,258,657
7. TFC Loan Funds Interests	1123183805	62,428	67,718
8. TFC Sinking Fund A/c	1104823721	276,673	281,962
9. TFC Tenant Deposit A/c	1123183619	631,279	636,569
10. TFC Petty Cash A/c	-	8,733	11,776
		-----	-----
		231,499,101	24,999,754
		=====	=====
Grand Total		300,982,173	417,544,135

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10. GENERAL FUND

This Comprises:

a) CAPITAL RESERVE

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Capital Reserve b/f	20,506,020	20,506,020
Surplus on revaluation	-	-
	<u>20,506,020</u>	<u>20,506,020</u>

b) RETAINED EARNINGS

Balance Brought Forward	3,558,051,622	2,654,621,778
<u>Prior Period Adjustment</u>		
Reversal of Deferred Tax upon PYA adjustments	-	(1,025,681)
Restated Balance	3,558,051,622	2,653,596,097
Retained Earnings/(Loss) for the year	<u>(19,471,785)</u>	<u>904,455,525</u>
Retained Earnings/(Loss) Carried Forward	<u>3,538,579,837</u>	<u>3,558,051,622</u>
 TOTAL GENERAL FUND	 <u><u>3,559,085,857</u></u>	 <u><u>3,578,557,642</u></u>

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10. GENERAL FUND- continued

Withholding tax paid during current year of KShs. 4,404,079 was on Bank Deposit interest earnings (2015: Kshs 3,349,098)

Reversal of deferred tax in previous year was as a result of previous 2013/2014 financial year's accounts adjustment carried out after completion of the audit.

11. RESTRUCTURING RESERVE

	2016	2015
	Kshs.	Kshs.
Revolving Fund Programme	16,701,086	16,701,086
Commercial Fund Programme	71,879,756	71,879,756
	<u>88,580,842</u>	<u>88,580,842</u>

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

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

The deferred interest before the suspension of the interest so far forms the possible loss on these loans and has already been offset from the Reserve. Currently the corporation does not have any deferred interest on loans in its books.

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

No new additional Loan Restructuring Reserve was provided out of Profits during the current year (2015: KShs Nil)

12. IREDEEMABLE GOK REVOLVING FUND LOAN

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

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

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

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

Interest for the current year 2015/2016 has therefore not been charged as per note 16 and only the Principal Loan is now due as shown below;

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Irredeemable GOK Revolving Fund Loan	48,000,000	48,000,000
	<u>48,000,000</u>	<u>48,000,000</u>

13. TRADE AND OTHER PAYABLES

	2016	2015
	<u>KShs</u>	<u>KShs</u>
These Comprise:		
(a) Creditors (Note (a) below)	103,277,820	76,264,276
(b) Provisions:		
(i) Gratuity for Employees on Contract Terms	1,816,126	6,000,293
(ii) Employees Leave and Off days Benefits	4,146,497	3,969,930
	<u>109,240,443</u>	<u>86,234,499</u>

Note (a) Creditors are comprised of:

(i) Creditors for Accrued Expenses	9,366,064	8,030,720
(ii) Current Tenants for Rent Deposit	8,549,116	8,204,781
(iii) Current Tenants Payments in Advance	1,157,387	1,477,643
(iv) Audit Fees	812,000	406,000
(v) VAT - Output and Withholding	64,254,432	53,025,931
(vi) Payroll Recoveries	10,994,792	2,777,816
(vii) Current Staff Creditors	762,947	12,510
(viii) Ex - Staff Creditors	7,364,585	2,312,378
(ix) Other Creditors	16,497	16,497
	<u>103,277,820</u>	<u>76,264,276</u>

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a) Creditors

Creditors include, among others, creditors for expenses, tenants rent deposits received, tenants who had paid in advance as at the yearend & VAT-output and withholding. Ex-staff creditors include amounts of benefits due to employees who left towards end of the current financial year but had not been paid as at 30th of June 2016.

b) (i) Gratuity for Employees on Contract

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

c) (ii) Employees Leave and Off Days Benefits

This refers to monetary liability for employee's accrued annual leave and off days as at the balance sheet date. This was less than last year as most staff had taken their balances of Leave days during the current year compared to previous year.

14. OFFICE EXPENSES

These Comprise:	2016	2015
	Kshs.	Kshs.
Publicity, Advertising & Public Relations	3,290,195	3,530,358
Printing and Stationery	1,225,356	314,089
Telephone and Postages	1,477,082	1,477,216
Subscriptions and Donations	916,560	1,331,548
General Office Expenses	1,794,103	1,614,136
Repairs and Maintenance of Office Equipment	614,056	1,392,206
ASK Shows	989,725	924,225
	<u>10,307,077</u>	<u>10,583,778</u>

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The expenditure for current financial year was generally lower than that of the previous year.

15. BAD DEBTS PROVISION

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

	2016	2015
	<u>Kshs</u>	<u>Kshs</u>
a) <u>Provision on Loans</u>		
Specific Provision write back for Delight Dreamland Hotel Ltd Loan	(20,000)	-
Kenya Agribusiness Ltd Loan	(800,000)	-
Specific Provision made for Olimo Synergy Ltd Loan	-	18,543,448
Sub Total on Loans	<u>(820,000)</u>	<u>18,543,448</u>
b) <u>Provision on Ex-Tenants's Debtors</u>		
Sub Total on Ex-Tenants' Debtors	-	-
Grand Total of Provisions (written back)/made	<u>(820,000)</u>	<u>18,543,448</u>

The Corporation continued with its recovery strategy during the current year in an effort to realize recoveries from non-performing loans.

Current general provision balance of KShs 9,258,994 fully satisfies credit policy which provides for 1% general provision on total loans portfolio which as at 30th June 2016 stood at KShs. 800,876,184 hence no new general provision is provided in 2015/2016 financial year.

As reported in last year's Financial Statements the Corporation continued to pursue the recovery of the current debts including the Euro Bank Ltd (in liquidation) Fixed Deposit of Ksh. 61,692,978 (including interest). However, no new recovery was made on this deposit during the current year.

The current Deposit balance with interest is KShs 57,842,978 (KShs 61,692,978 less KShs 3,850,000 total received so far).

The book value of this deposit as at 30th of June 2016 stood at KShs 47,819,761 per note 8 (2015: KShs 47,819,761).

The entire of the book value of this fixed deposit is provided for as indicated in note 8 and no new write back was made as there was no recovery (2015: KShs Nil).

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No further provision was made to cover possible losses on debts from Ex-tenants for Utalii House as they are adequately provided (2015: KShs Nil).

Total provision write back for current financial year stood at KShs 820,000 compared to last year's total provision made of KShs 18,543,448. The write back was in respect to loan recoveries whose amounts had been provided in earlier financial years.

16. INTEREST EXPENSE

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

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

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

17. DIVIDEND INCOME

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

	2016	2015
	<u>KShs</u>	<u>KShs</u>
<u>Golf Hotel Ltd, Kakamega</u>		
- final for year ending 30th June 2013	-	1,600,000
	<u>-</u>	<u>1,600,000</u>

The dividends are recorded as gross. This is since the Corporation as a Resident Payee is automatically exempted from withholding tax on dividends received under the provisions of the Income Tax Act as it holds more than 12.5% shareholding in the company. No dividends were declared during the current 2015/2016 financial year.

Dividends declared in the previous year(s) of KShs 27,064,677 from Kenya Hotel Properties Ltd are still outstanding as at 30th June 2015.

18. BANK DEPOSIT INTEREST INCOME

	2016	2015
	<u>KShs</u>	<u>KShs</u>
This Comprises:		
Interest from Flexible Treasury Bills	4,653,669	22,327,317
Interest from Fixed & Call Deposits	24,706,858	-
	<u>29,360,527</u>	<u>22,327,317</u>

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This is interest earned during the financial year from Flexi Treasury Bills and Fixed Deposit account held by the Corporation at Kenya Commercial Bank Ltd. The interest rates for the current financial year were on an upward trend from as low as 8.15% p.a. in 2014/2015 financial year to as high as 15.00% p.a. in the current 2015/2016 financial year.

Interest earnings were therefore more than that of previous year as also there were more funds that resulted from further loan repayments.

Bank Deposit Interest Income is classified in the statement of comprehensive income as Finance Income as it is not derived from the ordinary activities of the Corporation.

The 15% withholding tax deducted from Bank Deposit Interest Income is accounted for separately in the Statement of Comprehensive Income.

19. OTHER INCOME

	2016	2015
This Comprises:	<u>KShs</u>	<u>KShs</u>
Personnel Loans Interest	19,185	17,292
Directors Fees	31,500	7,875
Miscellaneous Income	26,717	23,315
	<u>77,402</u>	<u>48,482</u>

Included in Miscellaneous Income is commission earned upon remittance to third parties of like payroll deductions insurances, etc.

20. CONTINGENT LIABILITY - TAX LIABILITY

As at 30th June 2006, there was a contingent liability resulting from penalties and interest on outstanding tax for the years 1993 to 1999 charged by the Kenya Revenue Authority.

The Corporation has been in negotiations for a 100% waiver with the Kenya Revenue Authority(KRA).

The Minister of Finance through a letter dated 21st January 2005, granted the Corporation a 50% Tax waiver. Negotiations for waiver of the balance 50% have been on-going and were not through as at 30 June 2012. On 10 August 2005, KRA wrote a letter to the Corporation advising it to pay KShs 3,725,631 which is about 30% of total section 72(D) penalties less 50% waiver already granted to enable KRA facilitate a resubmission of the case to the Minister of Finance. This payment was done in 2005/2006 financial year.

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

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

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

The Tax Consultant called PKF Taxation Services Ltd was engaged during the previous financial year. The Consultant managed to get a breakthrough at KRA on all Tax matters to date. The Corporation paid as requested by KRA Principal Taxes of KShs 1,442,792 for year of Income 2000 and KShs 1,843,862 for year of Income 2001 so as to qualify for application of waiver of penalties and interest on both years. All Principal Tax arrears to date were therefore cleared.

Consequently, the Corporation through the Parent Ministry of Tourism wrote to the Minister for Finance requesting for waiver of penalties and interest for years 2000 & 2001 totalling to KShs 29,575,483 and also for full waiver of balance of KShs 83,844,517.50 for years 1993 to 1999.

The Ministry of Finance through their letter dated 2nd of April 2013 communicated the Minister's decision and approval for a 100% waiver under section 94(4) of the Income Tax Act. The Corporation was therefore relieved from this Contingency Liability as at 30 June 2013 and also for current year.

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21. NUMBER OF EMPLOYEES

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

	<u>2016</u>	<u>2015</u>
Beginning of the Year	46	47
Less: Resignation	(1)	(1)
Retirements	(3)	(3)
Add: Recruitments	5	1
Payment within Payroll	-	-
End of the Year	<u>47</u>	<u>46</u>

During the current year the serving staff reduced by the resignation of one (1) Head of Legal Services & Corporation Secretary as well as retirement of one (1) Registry Assistant, one (1) Administrative Assistant and one (1) Managing Director whose contract ended on 31st of May 2016.

Recruitment was in respect to one (1) Registry Assistant, one (1) Driver, one (1) Managing Director on acting capacity, one (1) Risk Officer and one (1) Procurement Officer.

Payment through payroll, to ease PAYE workings, was in respect to a Technician engaged in a previous year on contract basis and paid outside payroll and was entered in payroll in 2014/2015 financial year. These changes brought the staff level to forty seven (47) out of the total approved structure of fifty-four (54).

The resulting seven (8) vacant positions including those of the Head of Public Relations, Head of Finance, Head of Audit, Head of Legal Services & Corporation Secretary and for other Officers are expected to be filled in the next financial year 2016/2017.

The total forty seven (47) staff includes one (1) Investment Officer who was on an unpaid study leave overseas as at 30th of June 2016.

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22. DEFERRED TAX

The computations of the Deferred Tax

	2016	2015
	<u>KShs</u>	<u>KShs</u>
The net deferred tax liability is made up of:		
Accelerated Capital Allowance	(8,562,049)	(7,138,878)
Tax Losses	22,821,487	(18,843,119)
Provision for terminal dues	(9,809,112)	(13,974,670)
Provision for gratuity	(544,838)	(1,800,088)
Provision for leave pay	(866,988)	(1,190,979)
	<u>42,604,474</u>	<u>(42,947,734)</u>

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Deferred tax (income)/expense	343,260	(17,646,178)
	<u>343,260</u>	<u>(17,646,178)</u>

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

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

	2016	2015
	<u>KShs</u>	<u>KShs.</u>
Accounting profit/(loss) before taxation	(14,724,446)	890,158,445
Tax at applicable rate (30%)	(4,417,334)	267,047,533
Expenses not subject to tax(Depreciation)	4,760,594	6,786,289
Income not subject to tax(Dividend income)	-	(480,000)
Income not subject to tax(Valuation Gain)	-	(291,000,000)
	<u>343,260</u>	<u>17,646,178</u>

Movement in deferred tax account

	2016	2015
	<u>KShs</u>	<u>KShs.</u>
Opening Balance	(42,947,734)	(26,327,237)
(Credit)/Charge to Income Statement	343,260	(17,646,178)
Deferred Tax Liability/(Asset) Closing Balance	<u>(42,604,474)</u>	<u>(42,947,734)</u>

Prior year adjustment on deferred tax arose from revision of previous year's financial statements that was done after the completion of the audit.

This adjustment was carried out in the previous 2014/2015 financial year.

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23. ADMINISTRATION COSTS

	Note	2016 Kshs.	2015 Kshs.
These comprise:			
Entertainment	32	342,586	240,000
Travelling Costs	33	22,984,305	25,243,079
Motor vehicle Expenses	34	1,522,378	2,342,058
Office Expenses	14	10,307,077	10,583,778
General repairs and maintenance	27	697,328	179,326
Security	27	6,057,683	6,430,648
Cleaning Costs	27	4,165,196	3,582,829
Utalii Hs Generator Running Costs	27	128,062	111,058
Utalii Hse Management fees	27	-	-
Lift Maintenance	27	1,923,844	2,313,920
Electricity	27	12,673,869	13,757,543
Water and Conservancy	27	996,935	1,088,588
Rent and Rates	27	2,642,801	2,522,253
Auditors Remuneration	35	406,000	406,000
Legal, valuation and consultancy	38	9,320,409	36,809,230
Bank Charges	36	222,900	408,029
Bad debts Provision (Written Back)	15	(820,000)	18,543,448
Insurances	27	1,688,656	1,638,249
Total		<u>75,260,029</u>	<u>126,200,036</u>

The Loss of KShs 14,724,446 (2015: Profit KShs 890,158,445) is occasioned by the Board's decision not to revalue its properties during the current year and thus not recognise revaluation /loss as a source of revenue during the current year. The loss has been arrived after charging/crediting).

	2016 Kshs.	2015 <u>Kshs.</u>
Personnel Costs - note 24	133,870,218	135,633,363
Directors' Emoluments and Expenses - note 26	11,664,165	99,530
Depreciation - note 3 & 4	15,868,647	22,620,963
Auditors Remuneration - note 35	406,000	406,000
Provision for bad debts made/(written back) - note 15	(820,000)	18,543,448
Finance Income (Bank Deposit Interest Income) - note 19	(29,360,527)	(22,327,317)
Rental Income - note 27	(126,553,176)	(124,714,269)

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24. PERSONNEL COSTS

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

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Salaries and Wages	66,469,515	64,376,301
House Allowance	17,738,651	16,617,370
Employer's Pension Contribution	8,292,049	9,932,376
Employers NSSF Contribution	102,800	109,530
Medical Aid and Surgical scheme	12,185,710	12,733,192
Staff Recruitment	619,500	72,000
Staff Training	3,396,125	4,398,747
Staff Gratuity	1,266,651	2,562,447
Leave Travel Cost ,Leave & Off Days Provision	5,440,686	5,792,673
Staff Uniforms and Uniforms Cleaning	5,064	7,320
Terminal Benefits Provision Expense	5,675,862	6,189,624
Staff Welfare	2,219,212	2,591,313
Staff Group Life & Personal Accident Cover	1,102,627	1,109,933
Commuting Allowance	7,161,605	7,184,537
Staff Telephone Allowance	1,124,723	1,095,315
MD's Other Remunerative Allowances	860,000	720,000
Internship Allowance	209,438	140,685
	133,870,218	135,633,363

Annual salary increments continued to be awarded to serving employees in applicable months within the year as was the case the previous year.

25. RELATED PARTY TRANSACTIONS

(a) Government of Kenya

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

(b) Employees

The Corporation provides all qualifying employees with car and housing loans on terms more favourable than available in the market.

The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act. The following were the transactions with related parties during the financial year.

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c) GOK Grant

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

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

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

	<u>2016</u>	<u>2015</u>
GOK Grant Received in 2004/2005 Financial Year	7,500,000	7,500,000
Disbursement/Expense realized to Income in 2005/06 Financial Year	(2,027,800)	(2,027,800)
Balance of Grant Fund	5,472,200	5,472,200
GOK Grant Received in 2009/2010 Financial Year	400,000,000	400,000,000
GOK Grant Received in 2010/2011 Financial Year	300,000,000	300,000,000
GOK Grant Received in 2011/2012 Financial Year	78,000,000	78,000,000
GOK Grant Received in 2012/2013 Financial Year	60,000,000	60,000,000
GOK Grant Received in 2013/2014 Financial Year	14,250,000	14,250,000
Balance of Grant Fund as at 30th of June	<u><u>857,722,200</u></u>	<u><u>857,722,200</u></u>

The corporation did not receive any Grant from the Government during the current 2015/2016 financial year.

d) Investee Companies

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

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			2016	2015
			KShs	KShs
Type of Debt				
i)	Kenya Safari Lodges & Hotels Ltd	Loan	-	75,553,623
		Unit Debtors	12,650,463	12,650,463
ii)	Bomas of Kenya Ltd	Unit Debtors	1,535,951	1,535,951
iii)	Mt.Elgon Lodge Ltd	Loan	3,527,223	3,527,223
		Unit Debtors	26,526,507	23,878,947
iv)	Sunset Hotel Ltd, Kisumu	Loan	86,328,535	82,916,593
		Unit Debtors	22,558,109	22,558,109
v)	Kabarnet Hotel Ltd	Loan	27,609,883	27,609,883
		Unit Debtors	45,909,849	41,979,539
vi)	Golf Hotel Ltd, Kakamega	Loan	23,040,532	24,600,305
		Unit Debtors	3,017,767	3,017,767
vii)	African Tours & Hotels Ltd	Unit Debtors	149,543	149,543
		Tenant Debtors	8,016,872	8,016,872
viii)	Mountain Lodges Ltd	Unit Debtors	622,678	622,678
ix)	International Hotel (K) Ltd	Unit Debtors	11,415,080	11,415,080
x)	Kenya Hotel Properties Ltd	Unit Debtors	41,745,449	41,745,449
xi)	Buffalo Springs Ltd	Loan	12,120,276	11,080,819
		Unit Debtors	649,193	649,193
xii)	Maralal Safari Lodge Ltd	Unit Debtors	60,000	60,000
xiii)	The Ark Ltd	Unit Debtors	354,482	354,482
Total			327,838,392	393,922,519

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26. DIRECTORS EMOLUMENTS AND EXPENSES

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

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Directors' Sitting Allowances	5,708,000	-
Directors' Mileage Claims, Lunch & Subsistence Allowances	5,649,314	-
Directors' GPA Insurance Cover	256,001	-
Board Secretarial Services	50,850	99,530
	<u>11,664,165</u>	<u>99,530</u>

The new board was appointed in October 2015. It held a series of meetings in order to clear backlog of outstanding issues. In the whole of the previous 2014/2015 financial year there was no board in place and only fees for the then contracted board's secretarial services were incurred.

27. RENTAL INCOME

	2016	2015
	<u>KShs</u>	<u>Kshs.</u>
The Rental Income is from investment property as follows:		
Offices Rental Income	115,672,274	114,111,320
Parking Rental Income	10,880,902	10,602,949
	<u>126,553,176</u>	<u>124,714,269</u>

Parking Rental income experienced a slight increase as, on average; more space was occupied than was in the previous year. The direct operating expenses arising from investment property is as follows:

	2016	2015
	<u>Kshs.</u>	<u>KShs</u>
General Repairs and Maintenance	697,328	179,326
Security		6,430,648
Cleaning Costs	4,165,196	3,582,829
Utalii House Generator Running Costs	128,062	111,058
Utalii House Management Fees	-	-
Lifts Maintenance Costs	1,923,844	2,313,920
Electricity Costs	12,673,869	13,757,543
Water and Conservancy	996,935	1,088,588
Rent & Rates	2,642,801	2,522,253
	<u>29,285,718</u>	<u>29,986,165</u>

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These are costs are incurred in running and maintaining the Corporation's Investment Properties known as Utalii House, Hilton plot Building along Moi Avenue in Nairobi and Mombasa island plot building. They comprise, among others, Security costs, Cleaning Costs and Generator Running expenses.

Management fees were due to Gimco Ltd who were awarded a Contract to manage Utalii House but were terminated in the 2013/2014 financial year.

There are four (4) Lifts installed at Utalii House whose quarterly maintenance fees are paid as per current contract.

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

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

Rent and Rates were paid to the County Governments of Nairobi and Mombasa for land rates and to Commissioner of Lands for land rent during the year. They were in respect to Utalii House plot, Moi Avenue plot in Nairobi and Mombasa Island plot.

28. EQUITY FUNDS

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

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Equity Fund Investment by GOK in the Corporation	106,000,000	106,000,000
	<u>106,000,000</u>	<u>106,000,000</u>

29. PRE-INVESTMENT STUDIES GRANT

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

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Pre - Investment Studies Grant	281,212	281,212
	<u>281,212</u>	<u>281,212</u>

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30. INTEREST FROM LOANS

This is interest income earned during the year from balances of loans disbursed out of KTDC Loan Fund.

The applicable Interest Rate is 9% p.a. from October 2010 following Board approval of 21st of September 2010. However, the two loans that were approved and disbursed during the current financial year were given at 21% for Kenya Hotel Properties Ltd. And at 0% for Kenya Safari Lodges and Hotels Ltd.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Interest from Loans	65,947,508	56,022,269
	<u>65,947,508</u>	<u>56,022,269</u>

However generally loan interest charges were on a downward trend month after month as a result of massive repayments witnessed from a number of borrowers.

31. SURPLUS ON REVALUATION OF INVESTMENT PROPERTY

There were no investment property revaluations during the current financial year. Investment Properties known as Utalii House and Mombasa Island Plot were revalued during the previous 2014/2015 financial year.

The open market value given was KShs 1,600,000,000 against earlier value of KShs 730,000,000 for Utalii House and KShs 700,000,000 against earlier value of KShs 600,000,000 for Mombasa Island Plot. This resulted into surpluses of KShs 870,000,000 for Utalii House and KShs 100,000,000 for Mombasa Island Plot (or KShs 970,000,000 in total).

The gain in the fair value of these investment properties was recognized through the income statement as provided for by the International Accounting standard No. 40 paragraph 35.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Surplus on Revaluation of Investment Property	-	970,000,000
	<u>-</u>	<u>970,000,000</u>

32. ENTERTAINMENT

This was incurred during the year as paid through payroll to Heads of Departments (HODs) as provided in the Terms and Conditions of Service.

It also involves approved claims for expenses incurred on official business.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Entertainment	342,586	240,000
	<u>342,586</u>	<u>240,000</u>

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33. TRAVELLING COSTS

Travelling costs comprise Local and Overseas travel expenses incurred by officers of the Corporation sent on official assignments outside their Nairobi station. Such travel involves visits undertaken for loans appraisals; borrowers follow ups, audits at the Units and for training purposes.

Fewer Officers travelled outside the Country during the current year compared to previous year, hence lower Overseas Travelling Costs.

	2016	2015
	<u>Kshs.</u>	<u>KShs</u>
Local Travelling costs	12,452,441	13,157,395
Overseas Travelling costs	10,531,864	12,085,684
	<u>22,984,305</u>	<u>25,243,079</u>

34. MOTOR VEHICLE EXPENSES

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

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Fuel and Oil	896,576	1,034,521
Repairs and Service	625,802	1,307,537
	<u>1,522,378</u>	<u>2,342,058</u>

35. AUDITORS RENUMERATION

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

The annual fees are as follows:

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Auditors Remuneration	406,000	406,000
	<u>406,000</u>	<u>406,000</u>

36. BANK CHARGES

Currently the Corporation operates all its Bank Accounts at Kenya Commercial Bank Ltd along University Way in Nairobi.

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The total of the charges levied by the bank for current year compared to last year were as follows:

These charges were less than that of previous financial year as the corporation did not invest too much in treasury bills where agency bank charges commission at 1% of Gross Interest earned.

The comparative expenditure for both years is as follows:

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Bank Charges	222,900	408,029
	<u>222,900</u>	<u>408,029</u>

37. INSURANCES

These refer to the insurances for the corporation's buildings, motor vehicles and office equipment.

The comparative amounts for the two years is as follows.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Insurances	1,688,656	1,638,249
	<u>1,688,656</u>	<u>1,638,249</u>

38. LEGAL, VALUATION & CONSULTANCY FEES

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Legal Fees	2,945,784	9,344,745
Valuation Fees	-	27,234,897
Consultancy Fees	6,374,625	229,588
	<u>9,320,409</u>	<u>36,809,230</u>

Legal Fees

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

For current year, these legal costs were lower compared to previous year.

Valuation Fees

No valuation fees were incurred during the current financial year as no investment property was revalued.

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Valuation fees for previous year were paid to Crystal Valuers Ltd and Trans Country Valuers Ltd for valuing the Corporation's investment properties Utalii House and Mombasa Island Plot (see also page 13b).

Valuation Fees paid for previous year were for valuation of the Corporation's Moi Avenue Plot in Nairobi.

Consultancy Fees

The fees for current financial year were paid to International Finance Corporation (IFC) for advisory services for development of a conference facility at Mombasa Beach Hotel through Public Private Partnership (PPP) scheme. The fees for previous year related to payment made to IPSOS Synovate Kenya Ltd for conducting employee satisfaction survey.

39. RETIREMENT BENEFIT OBLIGATION

a) KTDC Staff Retirement Benefits Scheme

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

All Employer and Employee contributions due for the current year 2015/2016 had fully been paid as at 30th June 2016 except for June 2016 contributions which were paid in July 2016.

b) KTDC Terminal Benefits Provision

The Corporation has provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving.

This is payable to eligible employees who serve a continuous term not less than two (2) years from the date of employment to date of leaving. Each employee earns twenty-one (21) terminal leave days per every served year. The Benefits due for current staff as at 30th June 2016 based on their accumulated terminal leave days and also their Basic Salaries was KShs 44,938,777 (2015: KShs 46,582,234) which reflects a decrease of KShs 1,643,457 from the previous year.

This net decrease is mainly because of staff reduction due to resignation and retirements during the year as per note 21 though there were normal annual salary increments to staff effected from 1st of July 2015.

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40. LOANS' TRANSACTIONS

a) Interest Capitalized

Interest Capitalized as shown in the Cash Flows from Operating Activities refers to Interest recovered during the year after being netted with Interest charged to the Loans. This is the net Interest additions or capitalized to the Loans during the year.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Interest Recovered from Loans	52,534,310	50,755,215
Interest Charged to Loans & Earned as Income	(65,947,508)	(56,022,269)
	<u>(13,413,198)</u>	<u>(5,267,054)</u>

b) Loans Disbursed

Disbursements KShs 135,493,190 in the current 2015/2016 financial year were for two new loans i.e. Kenya Hotel Properties Ltd at KShs 124,749,515 and Kenya Safari Lodges and Hotels Ltd at KShs 10,740,045 and bank charges on dishonoured repayment cheques from borrowers Kogelo Hotel Ltd KShs 3,025 and Kidee Investments Ltd KShs 605 which were capitalized to loans.

Disbursements KShs 98,733 in the previous 2014/2015 financial year were not for new loans as they related to a refund of loan overpayment to Bomas of Kenya Ltd KShs 96,918 and bank charges on dishonoured repayment cheques from borrower Savona Enterprises Ltd KShs 1,815.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Principal Loans Disbursed	135,493,190	98,733
	<u>135,493,190</u>	<u>98,733</u>

c) Principal Loans Recovered

Principal Loans Recovered during the current financial year 2015/2016 were less than that of the previous year. As reported in the previous year the Corporation continued to put more efforts in the recovery process which also saw lump sum loan clearance by some borrowers.

The amount involved was in respect to principal balance and principal arrears recovered both which totalled to KShs 30,960,181(2015: KShs 127,113,440). Interest recovered is explained in (a) above.

	2016	2015
	<u>KShs</u>	<u>KShs</u>
Principal Loans Recovered	30,960,181	127,113,440
	<u>30,960,181</u>	<u>127,113,440</u>

41. PROGRESS ON FOLLOW UP OF EXTERNAL AUDIT OBSERVATIONS FOR 2014/2015 FINANCIAL YEAR

The following is the summary of issues raised by The Auditor General and the Management comments that were provided to the clear the issues. The Corporation nominated focal persons to resolve the various issues as shown below with the associated time frame within which the issues are expected to be resolved.

Audit Query Ref No.	Issue / Observations from The Auditor General	Management Comments	Focal Point person to resolve the issue	Status	Time frame
1	<p>Loan to Buffalo Springs Ltd – the premises in which the company operated were leased to another one tenant by the then Isiolo Town Council due to failure by TFC to pay land rent arrears. Hotel operations were crippled leading to its inability to repay the loan of KShs 11,080,819 whose recoverability is doubtful.</p>	<p>It is true the premises in which Buffalo Springs operated was leased to another tenant by the then Isiolo Town Council, but without the knowledge and approval of the Corporation. The corporation, having known these new facts, made a specific provision of KShs 4,944,310 and interest in suspense provision of KShs 6,136,509 and these fully covers the loan balance of KShs 11,080,819 as at 30th June 2015 and thereafter. The matter was discussed at Public Investments Committee on 22nd August 2013 where it was referred to the Office of Auditor General to carry out a forensic audit. TFC wrote to The Auditor General but there has been no response so far.</p>	Head of Credit (HOC)	Unresolved	31st Dec 2017
2	<p>Irregular award of Provision of Secretarial Services – TFC contracted local firm to provide Board’s Secretarial Services which included convening meetings, processing minutes and filing of Annual Returns. These services ought to have been carried out by the Managing Director and the Legal Department. Amount paid KShs 99,530 for these services was not a proper charge on Public Funds.</p>	<p>It is true that Board Secretarial Services were being carried out by a contracted local firm as at 30th of June 2015. However by a resolution of TFC board meeting held on 18th of December 2015, these services were terminated. They reverted back to the corporation to be carried out internally by the Corporation Secretary who also doubles as the Head of Legal Services.</p>	Board/CEO	Resolved	Done

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3	<p>Unsupported Share Certificates- Investments of 245,000 and 22,289 shares in Kabarnet Hotel Ltd and Mt Elgon Hotel Ltd worth KShs 4,900,000 and KShs 445,780 respectively were not supported by share certificates. Authenticity of ownership could therefore not be ascertained.</p>	<p>It is true that TFC's equity investments in these two subsidiary companies were not adequately supported by share certificates as at 30th of June 2015. As the boards of these companies are now already reconstituted, these boards will deliberate and approve issuance of replacement certificates.</p>	<p>Head of Investments (HOI)</p>	<p>Being Resolved</p>	<p>30th June 2017</p>
4	<p>Work In Progress (WIP) – Work in progress amount of KShs 21,997,694 includes a 10% deposit of KShs 3,500,000 paid in February 2012 for Marina Project valued at KShs 35,000,000 whose land purchase had not been finalized. Such WIP balance would be misleading as it represents contracts that have already lapsed and which may never crystallize. It could therefore not be confirmed as to its accuracy and viability.</p>	<p>The Corporation has engaged the advocates of the vendor with the aim of closing the matter. The Corporation is pursuing towards the refund of the deposit because the transaction aborted.</p>	<p>Head of Legal Services and Corporation Secretary (HOLS & CS)</p>	<p>Ongoing</p>	<p>30th June 2017</p>