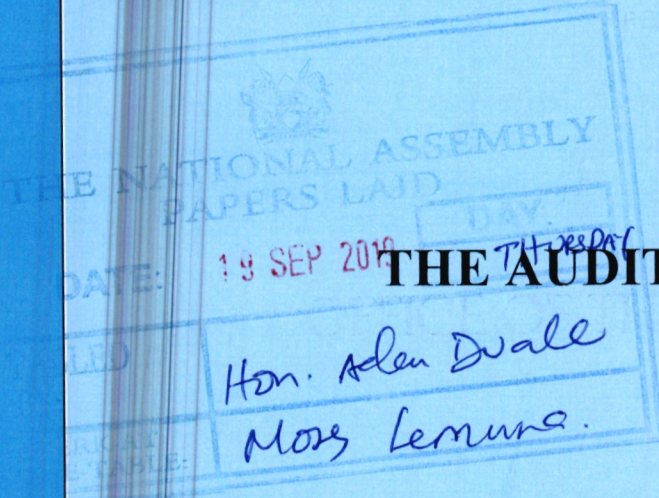
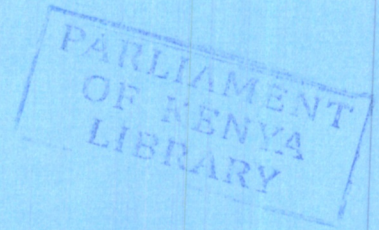


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



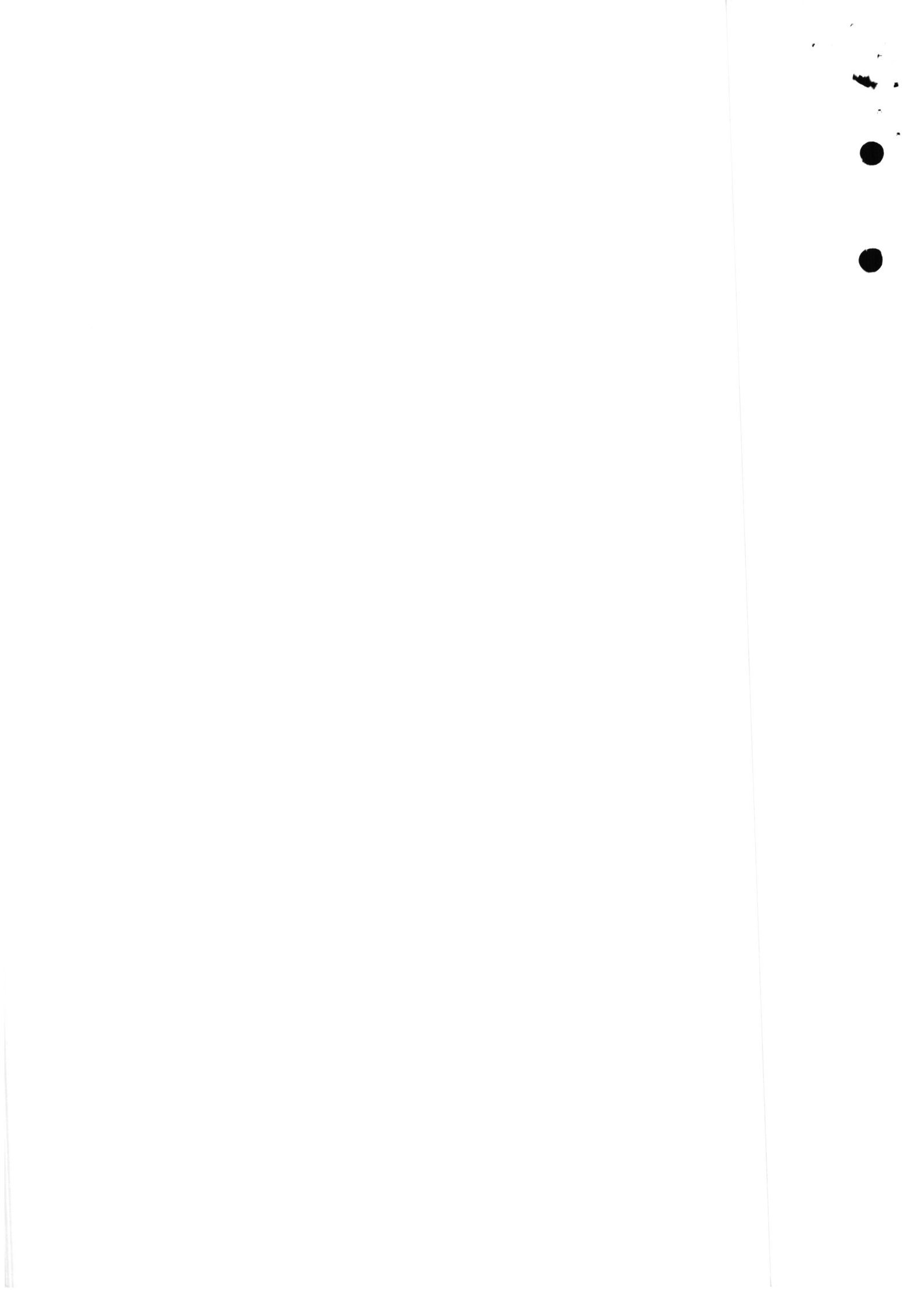
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KABARNET HOTEL LIMITED

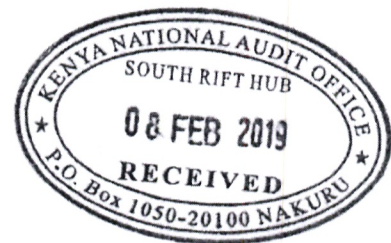
FOR THE YEAR ENDED
30 JUNE 2016



KABARNET HOTEL LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**



KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2016

CONTENTS	PAGE
Key Company Information	2-3
Board of Directors	4
Management Team	4
Chairman's Statement	6
Report of the Manager	7
Corporate Governance Statement	8
Report of the Directors	9
Statement of Directors' Responsibilities	10
Report of the Independent Auditor/Auditor General	11
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Summary of Significant Accounting Policies	16-21
Explanatory Notes to the Financial Statements	23-29

KEY COMPANY INFORMATION

Background information

Kabarnet Hotel Limited ("KHL", "The Company") was incorporated under the Kenya Companies Act (Cap 486) in 1976. The shareholders of KHL are the Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC)) and TFC is the majority shareholder in MEL with a direct controlling stake of 98.4% shares with Kipngochoch Farm Limited 1.6% shareholding. From the management perspective, KHL is classified as a Commercial State Corporation by virtue of being a subsidiary of TFC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Hotel.

Principal Activities

The principal activity of the KHL is ownership and operation of the hotel facility mainly focusing on provision of accommodation and conference facility services to potential customers.

Directors

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

- | | |
|-------------------------|--------------------------------|
| 1. Mrs. Marianne Jordan | - Managing Director TFC |
| 2. Mr. Dominic Ndewa | - Alternate Director to MD TFC |
| 3. Mr. Dickson Yatich | - Director |

Corporate Secretary

Mr. Carry Francis Odhiambo
11th Floor, Utalii House, Uhuru Highway
P.O. Box 42013-00100
Nairobi - Kenya

Registered Office

Kabarnet/Kabartonjo Rd
P.O.Box: 109-30400
Kabarnet

Corporate Headquarters

Utalii House
Uhuru Highway
P.O. Box 42013-00100
Nairobi, KENYA

KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2016

Corporate Contacts

Telephone: 020-3224175

E-mail: info@ktdc.co.ke

Website: www.ktdc.co.ke

Telephone: 020-2611600

E-mail: kabarnethotel.ktdc@gmail.com

Website: www.kabarnethotel.co.ke




Corporate Bankers

1. Kenya Commercial Bank
2. Kabarnet Branch
P.O.BOX 175
KABARNET.



Independent Auditors

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



THE BOARD OF DIRECTORS

1.	MRS. MARIANNE JORDAN		MSC. Financial Investment (Tourism), BSC. Hospitality in Tourism Management, Diploma in Hotel Management & Over 20 yrs experience
2.	MR. DOMINIC NDEWA		MA(Economics Policy and Management) & BA (Economics), CPA (K) & CIFA (EA). Experience over 18 years in Financial management and hospitality.
3.	MR. DICKSON YATICH		Representing Kipngochoch farm Ltd

MANAGEMENT TEAM

NAME	PHOTO	KEY PROFESSIONAL/ACADEMIC QUALIFICATIONS	AREA OF RESPONSIBILITY
1. BENSON KANDIE		C.P.A-SECTION 1- DCM II-(Kenya Institute of Management)	Manager
2. MARIANNE JORDAN		BSC. Hospitality in Tourism Management Diploma in Hotel Management MSC. Financial Investment (Tourism) Over 20 yrs experience.	Managing Director TFC and Director

KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2016

<p>3. CARREY FRANCIS</p>		<p>Bachelor of Law (LL.B), Diploma from Kenya school of law</p>	<p>Head of Legal Services and Company Secretary</p>
<p>4. DOMINIC NDEWA</p>		<p>MA (Economics policy and Management) and BA (Economics). CPA (K) & CIFA (EA). Experience over 18 years in financial management.</p>	<p>Head of Investments and Alternate to MD TFC</p>
<p><i>Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.</i></p>			

CHAIRMAN'S STATEMENT

On behalf of my fellow board members, the management and myself, I am pleased to present the Annual Report of Kabarnet Hotel Limited. This report addresses happenings during the 2015/2016FY and the financial statements of the Company for the year ended 30th June 2016.

The Board of Directors efforts supported by the management of the Lodge have focused on implementing strategies aimed at improving the Hotel's performance, improving its efficiency and enhancing the value of investments. I specifically thank the TFC for the continued financial support to the Hotel, especially the payroll support to ensure the staff continues to manage the Hotel.

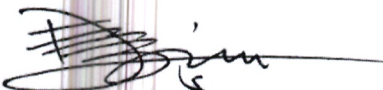
One wing of the Hotel was partially burnt several years ago which has affected greatly the business of the Company. In addition, due to the time passage, the rooms and furniture and fittings have been worn out making the facility not attractive to most of the guests. Therefore the facility requires complete refurbishment and replacement of all the existing furniture and fittings.

Due to the current status of the facility, it has seen booking cancellations and tremendous drop in forward bookings, translating ultimately into increased losses reported for the 2015/2016 FY of Kshs. 1.577 million as compared to a loss of Kshs. 2.83 million in 2014/15 FY despite decrease in sale volumes from Kshs. 11.81 million in 2014/15 FY to Kshs. 9.3 million in 2015/16 FY. The hotel registered losses throughout the year owing to relatively low hotel operation. The total net assets increased from 69.3 million to 69.7 million in the year 2016.

It is therefore for this reason that Directors are requesting the principal shareholder TFC to consider providing finance that will be utilised to renovate this Hotel to the acceptable standards.

The Board exudes confidence that the fortunes of the company will improve significantly in the future due to the continued support given through cash injection and the hotel's potential upon full restoration and modernization given its strategic physical location in the County.

Finally, may I take this opportunity to thank my fellow directors, shareholders, management and staff for their support during the year.


Chairman {for the meeting}

REPORT OF THE MANAGER

On behalf of management of Kabarnet Hotel Limited, I am pleased to present to you the annual report and financial statements of the company for the year ended 30th June 2016.

During the year 2016, the hotel achieved a loss of Kshs 1,576,000 as compared to Kshs 2,834,000 in 2015. This is mainly attributed to the payroll support received from Tourist Finance Corporation treated in the book as income and increase in buildings to due to renovation ,hence reducing the loses.

The management is however hopeful that the ongoing renovation of the facility will yield positive impact and that more efforts will be directed towards increasing operational efficiency and implementing strategies such as advertising and promotion that are directed towards securing more business ,within and outside the county.

The running of the facility will mostly depend on the support from the Tourism Finance Corporation to renovate and rehabilitate the remaining parts (rooms) of the facility. The County Government can also assist the hotel by giving business which will boost sales through seminars and workshops.

Finally, on behalf of management and staff of Kabarnet Hotel Ltd, may I express our sincere appreciation to the Board of Directors for their full support, timely guidance and encouragement during the year ended 30th June 2016.


Benson Kandie
Manager

CORPORATE GOVERNANCE STATEMENT

The Board of Directors recognizes the importance of good corporate governance in the company's performance, capital formation and maximization of shareholders value. Accordingly, the Board is committed to maintaining a high standard of corporate governance.

Board of Directors

The Board consists of Directors who represent the respective shareholders and other stakeholders. The Directors possess broad range of expertise and experience required to direct Kabarnet Hotel. The board holds meetings on a regular basis and a calendar of meetings is prepared annually, while special meetings are called when circumstances require. The Board held regular meetings during the year.

The roles of the Board and management are separate and their responsibilities clearly defined.

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

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

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

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

REPORT OF THE DIRECTORS

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

Principal activities

The principal activities of the hotel are the ownership and operate the hotel by providing accommodation and conference facility services to potential customers.

Results

The results of the company for the year ended June 30, 2016 are set out on page 12-29

Dividends

The directors do not recommend payment of dividends.

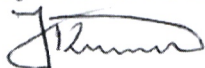
Directors

The members of the Board of Directors who served during the year are shown on page 4 in accordance with Regulation of the company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of Kabarnet Hotel in accordance with the article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act (2003) which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Mr. John Saitoti Karia
Corporate Secretary
Nairobi
Date:.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

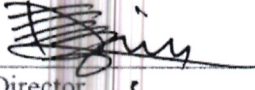
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2015. This responsibility includes: (i) maintaining adequate 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 company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

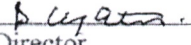
The Directors accept responsibility for the hotel's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2016, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The company's financial statements were approved by the Board on 28/09/ 2016 and signed on its behalf by:


Director


Director

KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2016

Report of the independent Auditors/Auditor General

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KABARNET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kabarnet Hotel Limited set out on pages 12 to 29, 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 for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kabarnet Hotel Limited 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property Plant and Equipment

The statement of financial position reflects Property, plant and equipment balance of Kshs.64,829,000; (2015-Kshs.61,289,000) and as disclosed under Note 7 to the financial statements. Included in this balance is land valued at Kshs.6,000,000 whose ownership documents by way of title deeds were not made available for audit review. Also included in the balance is a motor vehicle acquired in 1987 at a cost of Kshs.120,000 and carrying a net book value of Kshs.28,000 as at statement date. However, the vehicle is grounded and appears not serviceable having been grounded for the past ten (10) years. It is not clear why the vehicle has not been fully depreciated and disposed to avoid further degradation in value. Further and as reported in 2014/2015, the balance also excludes Hotel motor vehicle valued at Kshs.430,074 whose physical location could not be established.

From the forgoing, I am unable to confirm fair statement of the reported Property, plant and equipment balance of Kshs.64,829,000 as at 30 June 2016.

Report of the Auditor-General on the Financial Statements of Kabarnet Hotel Limited for the year ended 30 June 2016

2. Trade and Other Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.4,675,000; (2015-Kshs.5,276,000) and as disclosed under Note 9 to the financial statements. Included in the balance is Kshs.4,199,000 (2015 - Kshs.4,300,000) relating to receivables whose aging is more than 120 days. However, no provisions have been made for impairment as a result of bad and doubtful debts. Consequently, the fair statement of the trade and other receivables balance of Kshs.4,675,000 as at 30 June 2016 cannot be confirmed.

3. Cash and Cash Equivalents

The statement of financial position reflects bank and cash balances of Kshs.134,000; (2015 - Kshs.2,673,000) and as disclosed under Note 10 to the financial statements. Out of the balance, Kshs.66,282 relates to cash in bank as per the bank reconciliation statement of 30 June 2016. However, certificate of balance by the bank was not provided in support of the balance.

In the circumstances, it was not possible to confirm the accuracy of the reported bank and cash balances of Kshs.134,000 as at 30 June 2016.

4. Non- Current Liabilities - Borrowings (Loans)

The statement of the financial position reflects non- current liabilities-borrowings (loans) balance of Kshs.18,559,000 (2015 - Kshs.18,559,0000) and as disclosed under Note 14 to the financial statements. This is indicative of nil movements during the period. Management has not provided records relating to the loan so as to establish the purpose for which the loan was procured and the terms. I am therefore unable to confirm the fair statement of the non- current liabilities-borrowings balance and its compliance with the financing agreement terms.

5. Current Liabilities -Borrowings (Loans)

Also, the statement of financial position reflects current liabilities -borrowings (loans) balance of Kshs.46,167,000; (2015 - Kshs.41,844,000) and as disclosed under Note 16(b) to the financial statements. Available information indicate that the loan relates to advances from Tourism Finance Corporation (TFC) towards payroll support. However, no documentary records including loan agreements and schedules have been made available for audit review. Consequently, it has not been possible to confirm the accuracy and completeness of the reported current liabilities -borrowings (loans) balance of Kshs.46,167,000 as at 30 June 2016.

6. Trade and Other Payables

The statement of financial position also reflects trade and other payables balance of Kshs.12,789,000; (2015 – Kshs.10,824,000) and as disclosed under Note 15 to the financial statement while the trial balance in support reflects a balance of Kshs.12,890,000 resulting in an unexplained variance of Kshs.101,000. Consequently,

the accuracy and completeness of the trade and other payables balance of Kshs.12,789,000 as at 30 June 2016 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kabarnet Hotel Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed. I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

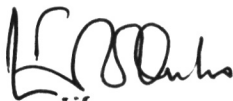
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting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

conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Kabarnet Hotel Ltd to cease to continue as a going concern or to sustain its services.

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

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

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



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

Nairobi

26 August 2019

**STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED JUNE 30, 2016**


	Note	2016 KShs '000'	2015 KShs '000'
Sales	1	6,134	7,619
Other Income	2	629	691
Grants From TFC - Payroll support	3	4,323	4,716
TOTAL REVENUES		11,086	13,026
REVENUES			
OPERATING EXPENSES			
Administration Costs	4(a)	10,443	13,817
Selling and Distribution Costs	5	225	137
Depreciation of property, plant and equipment	7	1,994	1,904
TOTAL OPERATING EXPENSES		12,662	15,858
OPERATING PROFIT/(LOSS)	6	(1,576)	(2,832)
Finance Income		-	-
Finance Costs		-	-
PROFIT/ (LOSS) BEFORE TAXATION		(1,576)	(2,832)
PROFIT/ (LOSS)		(1,576)	(2,832)

KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2016

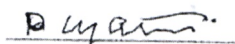
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2016

	Note	2016 Kshs '000'	2015 Kshs '000'
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	64,829	61,289
Total Non-Current Assets		<u>64,829</u>	<u>61,289</u>
Current Assets			
Inventories	8	136	146
Trade and other receivables	9	4,675	5,276
Bank and cash balances	10	134	2,673
Total Non-Current Assets		<u>69,774</u>	<u>69,384</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	11	5,000	5,000
Revaluation reserve	12	66,793	66,793
Revenue Reserves		(79,534)	(73,636)
Capital and Reserves		<u>(7,741)</u>	<u>(1,843)</u>
Non-Current Liabilities			
Borrowings(LOANS)	14	18,559	18,559
Total Non-Current Liabilities		<u>18,559</u>	<u>18,559</u>
Current Liabilities			
Borrowings(Loans)	16(b)	46,167	41,844
Trade and other payables	15	12,789	10,824
Total Current Liabilities		<u>58,956</u>	<u>52,668</u>
TOTAL EQUITY AND LIABILITIES		<u>69,774</u>	<u>69,384</u>

The financial statements were approved by the Board on _____ 2016 and signed on its behalf by:



Chairman



Member

KABARNET HOTEL LIMITED

**Reports and Financial Statements
For the year ended June 30, 2016**

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

	Ordinary share capital ksh'000'	Revenue Reserve ksh'.000'	Revaluation Reserve ksh'000'	Shareholders Equity Ksh.'000'
At July 1, 2013	5,000	(60,333)	66,793	11,460
Total comprehensive income		(4,405)	-	(4,405)
At June 30, 2014	5,000	(66,088)	66,793	5,705
At July 1, 2014	5,000	(66,088)	66,793	5,705
Total comprehensive income		(2,832)		(2,832)
Grants from TFC		(4,716)		(4,716)
At July 1, 2015	5,000	(73,636)	66,793	(1,843)
Total comprehensive income		(1,576)		(1,563)
Grants from TFC		(4,323)		(4,323)
At June 30, 2016	5,000	(79,535)	66,793	(7,729)

KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2016

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016 Kshs '000'	2015 Kshs '000'
OPERATING ACTIVITIES			
Cash generated from/(used in) operations- Note 16(a)		2,994	23
Net cash generated from/(used in) operating activities		<u>2,994</u>	<u>23</u>
INVESTING ACTIVITIES			
Purchase of Furniture and Equipment	Note 7	(5,533)	(102)
Net cash generated from/(used in) investing activities		<u>(2,539)</u>	<u>(79)</u>
FINANCING ACTIVITIES			
Net cash generated from/(used in) financing activities		<u>(2,539)</u>	<u>(79)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(2,539)</u>	<u>(79)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,673	2,752
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>134</u>	<u>2,673</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED JUNE 30, 2015

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

a. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company and all values are rounded to the nearest thousand (Kshs'000).

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. Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company 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 company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the company actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. In-kind contributions

In-kind contributions are donations that are made to the *company* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *company* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

d. Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

e. Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and buildings is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life while motor vehicle and furniture and Equipment is on Reducing balance method. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period (2.5% p.a)
Plant and machinery	(12.5% p.a)
Motor vehicles, including motor cycles	25%
Computers and related equipment	33.3%
Office equipment, furniture and fittings	12.5%

A full year's depreciation charge is recognised both in the year of asset purchase and in the year Of asset disposal.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and impairment of property, plant and equipment (Continued)

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.

f. 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, usually over three years.

g. Amortisation and impairment of intangible assets

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.

h. Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the *company*, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

i. Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the *company* are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

k. Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

l. Unquoted investments

Unquoted investments, stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

n. 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.

o. 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 not in the income statement.*

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Cash and cash equivalents

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

q. Borrowings

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

r. 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 *company* or not, less any payments made to the suppliers.

s. Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

t. Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u. Exchange rate differences

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

v. Comparative figures

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

w. 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, 2015.

X. Disclosures of the interrelates Parties

The National government manages the facility through the Tourism Finance Corporation.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

	2016 Kshs '000'	2015 Kshs '000'
1. SALES		
Gross sales of goods	9,353	11,812
Gross sales of services	-	-
Less: Cost of Sales	(3,219)	(4,193)
	<u>6,134</u>	<u>7,619</u>

{Gross Sales comprises of revenue from accommodation, Food, Beverages & tobacco}

2. OTHER INCOME

Cash donations	-	-
Other Income	629	691
	<u>629</u>	<u>691</u>

(Mainly revenue from hire of conference facilities, swimming pool, and laundry)

3. GRANTS FROM NATIONAL GOVERNMENT

TFC- payroll support	4,323	4,716
Capital grants received	-	-
	<u>4,323</u>	<u>4,716</u>

{Advance from TFC made monthly to assist in payment of salaries}

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4(a) ADMINISTRATION COSTS

Staff costs (note 4b)	7,607	7,365
Directors' emoluments	50	80
Electricity and water	799	983
Transportation, travelling and subsistence	129	204
Advertising, printing, stationery and photocopying	354	316
Rent expenses	-	-
Staff training expenses	-	48
Hospitality supplies and services	18	18
Insurance costs	-	-
Bank charges and commission	51	53
Office and general supplies and services	-	-
Auditors' remuneration	48	48
Legal fees	-	-
Consultancy fees	-	-
Repairs and maintenance	189	2,432
Provision for bad and doubtful debts	-	-
Other operating expenses	1,198	2,270
	<u>10,443</u>	<u>13,817</u>

4 b) STAFF COSTS

Salaries and allowances of permanent employees	6,212	5,443
Wages of temporary employees	1,349	1,560
Compulsory national social security schemes	46	46
Leave pay and gratuity provisions	-	252
Staff welfare	-	64
	<u>7,607</u>	<u>7,365</u>

The average number of employees at the end of the year was:

Permanent employees – Management	1	1
Permanent employees – Unionisable	18	18
Temporary and contract employees	13	14
	<u>32</u>	<u>33</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SELLING AND DISTRIBUTION COSTS

	2016	2015
	Ksh	Kshs
	000	000
Salaries and wages of sales personnel	-	-
Marketing and promotional expenses	49	18
Sales commissions	176	119
Sales discounts and rebates	-	-
Other selling and distribution costs	-	-
	<u>225</u>	<u>137</u>
	<u>=====</u>	<u>=====</u>

6. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):	(1,576)	(2,832)
Staff costs (note 4)	7,607	7,365
Depreciation of property, plant and equipment-Note 7	1,994	1,904
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

7.PROPERTY, PLANT AND EQUIPMENT

	Freehold land ksh'.000'	Buildings ksh'.000'	Motor Vehicle ksh'.000'	Furniture And Equipme nt ksh.'000'	TOTAL ksh.'000'
COST OR VALUATION					
At July 1, 2015	6,000	60,000	120	5,222	71,342
Additions	-	-	-	-	-
At June 30, 2015	6,000	60,000	120	5,222	71,342
As at July 2015	6,000	60,000	120	5,222	71,342
Additions	-	5,498	-	35	5,533
As June 2015	6,000	65,498	120	5,257	76,875
DEPRECIATION					
At July 1, 2013	-	4,000	69	1,629	5,698
Charge for the year	-	2,000	13	436	2,449
As June 2014	-	6,000	82	2,065	8,147
As at July 2014	-	6,000	82	2,065	8,147
Charge for the year	-	1,500	10	395	1,905
As at June 2015	-	7,500	92	2,460	10,052
As at July 2015	-	7,500	92	2,460	10,052
Charge for the year	-	1,637	7	350	1,994
As at June 2016	-	9,137	99	2,810	12,046
NBV as at June 2016	6,000	56,362	21	2,447	64,829
NBV as at June 2015	6,000	52,500	28	2,763	61,291

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Ksh. '000'	2015 Ksh. '000'
8. INVENTORIES		
Food	16	18
Drink	69	77
Tobacco	5	3
Kitchen/restaurant and Bar	1	1
Stationery and general stores	7	15
Cleaning stock	7	1
Toilet Requisite	-	1
Containers	29	29
Guest Suppliers	2	1
	136	146

[The company trades in foods and beverages and doesn't own any motor vehicles. The inventor at the end of the year comprised of foods, drinks and containers]

9 TRADE AND OTHER RECEIVABLES.

Gross trade receivables	4,675	5,276
Provision for doubtful receivables	-	-
	4,675	5,276
	4,675	5,276

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	249	749
Between 30 and 60 days	60	60
Between 61 and 90 days	160	160
Between 91 and 120 days	7	7
Over 120 days	4,199	4,300
	4,675	5,276
	4,675	5,276

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 KShs '000'	2015 KShs '000'
10. BANK AND CASH BALANCES		
Cash at bank	66	2,629
Cash in hand	68	44
	134	2,673

(Cash at bank ,and petty cash balance at june 2016)

11. ORDINARY SHARE CAPITAL

Authorised:

250,000 ordinary shares of Kshs. 20 par value each

5,000	5,000
-------	-------

Issued and fully paid:

250,000 ordinary shares of Kshs. 20 par value each

5,000	5,000
-------	-------

[The share capacity as at June 2014 is the same as it was on June 30th, 2013]

12. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

This is the revaluation of property ,plant and equipment done in the year 2010.

	2016 Ksh. '000'	2015 Ksh. '000'
Revaluation at beginning of the year	66,793	66,793

There were no revaluation during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

	2016	2015
	KSh. '000'	KSh. '000'
14. BORROWINGS		
Domestic Borrowing		
Balance at the beginning of the year	18,559	18,559
Domestic borrowings during the year	-	-
Balance at end of the year	<u>18,559</u>	<u>18,559</u>
(Loan to the hotel from TFC)		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. TRADE AND OTHER PAYABLES

Accrued expenses	2,193	2,243
Other payables	-	-
	<u>10,596</u>	<u>8,581</u>
	<u>12,789</u>	<u>10,824</u>

(Statutory deduction, VAT, CLT, and suppliers)

16. NOTES TO THE STATEMENT OF CASH FLOWS

	ksh. '000'	Ksh. '000'
	2016	2015
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(1,576)	(2,832)
Depreciation	1,994	1,904
Amortisation	-	-
Operating profit/(loss) before working capital changes	<u>418</u>	<u>(928)</u>
(Increase)/decrease in inventories	10	(48)
(Increase)/decrease in trade and other receivables	601	364
Increase/(decrease) in trade and other payables	1,965	635
Increase (decrease) in TFC	-	-
Cash generated from/ (used in) operations	<u>2,994</u>	<u>23</u>

16.(b) Analysis of changes in loans

Balance at the beginning of the year	41,844	37,128
Receipts during the year	4,323	4,716
Repayments during the year	-	-
Balance at end of the year	<u>46,167</u>	<u>41,844</u>

(Advance for payroll support from TFC)

17. INCORPORATION

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