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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF KENYA TOURIST DEVELOPMENT
CORPORATION FOR THE YEAR ENDED 30 JUNE 2004

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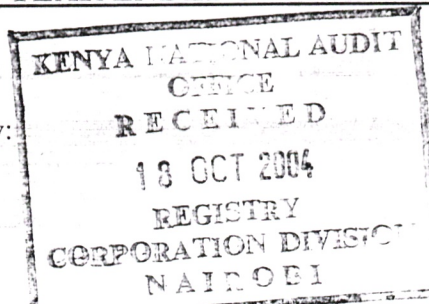
KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

BOARD OF DIRECTORS

The Directors who served during the year are as shown below:

- | | | |
|--------------------------|---|--|
| Mr. Richard M. Maina | - | Chairman |
| Mr. Hamisi Mboga | - | Vice Chairman |
| Mr. Mutua P. Nzoka | - | Managing Director |
| Mrs. Rebecca M. Nabutola | - | Permanent Secretary, Ministry of Tourism and Information |
| Mr. Joseph Magari | - | Permanent Secretary, Ministry of Finance |
| Mrs. Rachael Arunga | - | Permanent Secretary, Ministry of Environment, Natural Resources and Wildlife |
| Mr. Joash Olum | | |
| Ms. Patricia Awori | | |
| Mr. Anthony Musau | | |
| Mr. Samuel Waiganjo | | |
| Mr. Wanjuki Muchemi | - | Solicitor General, Attorney General's Chambers |
| Mr. Johnson M. Otenyo | - | Inspector General of State Corporations |



CORPORATION SECRETARY

Mrs. Jane Ikiunga Kyaka

REGISTERED OFFICE

Utlili House
Uhuru Highway
P.O. Box 42013
NAIROBI

AUDITORS

The Controller and Auditor General,
P.O. Box 30084-00100
NAIROBI

BANKERS

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

KENYA TOURIST DEVELOPMENT CORPORATION


STATEMENT OF DIRECTORS RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2004.

The KTDC Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of the corporation as at the end of the financial year and its operating results for that year. It also requires the directors to ensure that the corporation keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the corporation. They are also responsible for safeguarding the asset of the corporation.

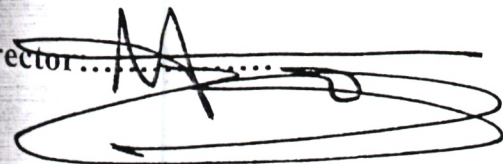
The directors accept the responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards and the requirements of the Corporation Act 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 of its operating results. The directors further accept the responsibility for the maintenance of accounting records that may be relied upon in preparation of financial statements, as well as adequate 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: 14/12/2005

Director 

Date: 13/12/05



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA TOURIST DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2004

I have audited the financial statements of Kenya Tourist Development Corporation for the year ended 30 June 2004 in accordance with the provisions of section 14 of the Public Audit Act, 2003. 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. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

As set out in the statement of directors responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view of the Corporation's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of financial statements. I believe my audit provides reasonable basis for my opinion.

Comments

1. Irregular Contract Award

During the year under review, the Corporation awarded and paid Kshs.429,000 as consultancy fees to a human resources consultant at the rate of Kshs.2, 000 per day and a transport allowance of Kshs.6,000 per month. The consultancy was a renewable one year contract and was not subjected to competitive tendering as required by the Public Procurement regulations and was in addition

without Board, Parent Ministry and Treasury approval contrary to section 12 of the State Corporations Act (Cap 446). In the circumstances, it was not possible to ascertain whether this human resources consultancy cost was justified taking into account that the Corporation had only 85 members of staff.

2. Privatization Proceeds

The cash and cash equivalents net balance of Kshs.275,894,333 as at 30 June 2004 includes Kshs.324,410,008 in respect of privatization proceeds held in fixed deposits. As was previously reported, the Corporation operated these accounts alone without involving the Permanent Secretary to the Treasury contrary to Treasury circular No. 351/03 of 26 April 1993. Under the circumstances, it is clearly evident that the Corporation was in breach of Treasury instructions and it has not been possible to confirm that any moneys withdrawn from the privatization proceeds account have been applied in accordance with the Treasury circular No. 35/03 of 26 April 1993.

Opinion

Except for the foregoing reservations, in my opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June 2004 and of its surplus and cash flows for the year then ended and comply with the Kenya Tourist Development Corporation Act (Cap 382).


E.N. MWAI
CONTROLLER AND AUDITOR GENERAL

Nairobi

02 December 2005

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

BALANCE SHEET AS AT 30 JUNE 2004

	Note	2004 KShs	2003 KShs
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	2	547,544,121	64,927,313
Investments and Loans	3 (a)	516,834,219	517,858,357
		<u>1,064,378,340</u>	<u>582,785,670</u>
Current Assets			
Debtors and Prepayments	4	110,198,692	89,252,102
Cash and Cash Equivalents	5	275,894,333	301,125,748
		<u>386,093,025</u>	<u>390,377,850</u>
TOTAL ASSETS		<u>1,450,471,365</u>	<u>973,163,520</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity Funds		106,000,000	106,000,000
Pre-Investment Studies Grant		281,212	281,212
General Fund	6	1,122,589,206	636,255,522
Restructuring Reserve	7	88,580,842	88,580,842
		<u>1,317,451,260</u>	<u>831,117,576</u>
Non-Current Liabilities			
Irredeemable GOK Revolving Funds Loan		48,000,000	48,000,000
Irredeemable Long Term Loan	3 (b)	-	714,274
Redeemable Long Term Loan	8 (a)	2,028,499	3,995,277
Employees Benefits Provision		19,630,248	20,357,704
		<u>69,658,747</u>	<u>73,067,255</u>
Current Liabilities			
Current Maturity For Long Term Loan	8 (c)	1,966,778	1,905,058
Creditors and Provisions	9	56,705,207	52,399,861
Corporation Tax	6 (c)	(2,376,332)	(1,455,129)
Bank Overdraft		7,065,705	16,128,899
		<u>63,361,358</u>	<u>68,978,689</u>
TOTAL EQUITY AND LIABILITIES		<u>1,450,471,365</u>	<u>973,163,520</u>

The accounts on Pages 2 to 14 have been signed on behalf of the Board of Directors by:

RICHARD M. MAINA :.....CHAIRMAN

DATE: 13/10/2004

MUTUA P. NZOKA :.....MANAGING DIRECTOR

DATE: 12/10/04

The Balance Sheet, Income and Expenditure statement and Cash Flow statement are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 14.

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 KShs	2003 KShs
INCOME			
Interest From Commercial Fund Loans		22,459,208	21,352,133
Rental Income		74,351,798	78,601,900
Revolving Fund Loans Interest	12	7,211,715	39,329,928
Dividend Income	14	15,977,752	-
Bank Deposit Interest Income	15	2,795,865	19,965,214
Other Income	16	4,102,278	844,867
TOTAL OPERATING INCOME BEFORE EXPENSES		126,898,616	160,094,042
EXPENSES			
Personnel Costs		63,423,603	63,170,751
Directors' Emoluments and Expenses		822,386	1,070,653
Entertainment		620,287	612,665
Travelling Costs		3,493,588	6,803,196
Motor Vehicle Expenses		2,125,572	2,501,109
Depreciation		2,237,461	2,970,294
Office Expenses	10	7,900,641	9,067,779
Property Maintenance & Security		5,089,284	5,886,609
Lifts Maintenance		1,741,005	1,637,770
Electricity		5,639,534	6,699,211
Water & Conservancy		833,378	987,533
Interest on Loans		4,265,162	4,326,883
Auditors Remuneration		350,000	350,000
Legal & Consultancy Fees	17	4,008,490	727,993
Bank Charges		181,555	186,093
Interest on Bank Overdraft		543,895	2,296,272
Rent and Rates		1,051,153	1,017,396
Valuation Fees	18	1,030,250	-
TOTAL EXPENSES ON ORDINARY ACTIVITIES		105,357,244	110,312,207
Income/(Loss) From Operations		21,541,372	49,781,835
Less:			
Bad Debts Written Off	11	356,726	-
Bad Debts Provision	12	12,880,074	131,543,847
		13,236,800	131,543,847
Net Income/(Loss) For The Year		8,304,572	(81,762,012)
RETAINED EARNINGS/(LOSS) FOR THE YEAR		8,304,572	(81,762,012)

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 KShs	2003 KShs
<u>Cash Flows From Operating Activities</u>			
Net Income/(Loss) for the year before Exceptional Item		8,304,572	(81,762,012)
Adjustments:			
Depreciation		2,237,461	2,970,294
Payment of Capital Work in Progress	6 (c)	(6,681,415)	-
Increase/(Decrease) in Provision for Bad Debts on Loans		8,545,332	281,530,164
Increase/(Decrease) in Employees Benefits Provision		(727,456)	1,236,229
Bad Debts Written Off		356,726	-
Interest Expense	13	4,809,057	6,623,155
Income from Investment(Dividend)		(15,977,752)	-
Interest From Bank Deposits		(2,795,865)	(19,965,214)
Operating Income/(Loss) before working Capital changes		(1,929,340)	190,632,616
(Increase)/Decrease in Debtors		(20,946,590)	9,312,549
Increase/(Decrease) in Creditors		4,305,346	(200,357,445)
Cash generated from Operations		(18,570,584)	(412,280)
Corporation & Withholding Taxes Paid		(921,203)	(3,123,546)
Exceptional Item		-	-
Loans Interests' Recovered/(Capitalized)		(18,817,684)	(54,470,569)
Net Cash Inflow/(Outflow) From Operating Activities		(38,309,471)	(58,006,395)
<u>Cash Flows From Investing Activities:</u>			
Dividends Received		15,977,752	-
Interest from Bank Deposits		2,795,865	19,965,214
Purchase of Fixed Assets		(143,742)	(37,000)
Purchase of Investments		(100,000)	(365,778)
Loans Disbursed		(5,827,516)	(3,295,696)
Loans Recovered		16,153,006	8,657,082
Net Cash Inflow/(Outflow) From Investing Activities		28,855,365	24,923,822

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004 - Continuation.

Note	2004 <u>KShs</u>	2003 <u>KShs</u>
<u>Cash Flows From Financing Activities:</u>		
Interest Expense Paid	(4,809,057)	(6,623,155)
Loans Repaid	(1,905,058)	(1,843,337)
Net Cash Inflow/(Outflow) From Financing Activities	<u>(6,714,115)</u>	<u>(8,466,492)</u>
Net Increase/ (Decrease) in Cash and Cash Equivalent	(16,168,221)	(41,549,065)
Cash & Cash Equivalents at beginning of the period	<u>284,996,849</u>	<u>326,545,914</u>
Cash & Cash Equivalents at end of the Peri 5	<u><u>268,828,628</u></u>	<u><u>284,996,849</u></u>

NOTE: Cash & Cash Equivalents are reconciled below

Cash at Bank & in Hand	3,154,086	3,518,911
Fixed Deposits	272,740,247	297,606,837
Bank Overdraft	(7,065,705)	(16,128,899)
Cash & Cash Equivalents at end of the period	<u><u>268,828,628</u></u>	<u><u>284,996,849</u></u>

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

1. ACCOUNTING POLICIES

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

a) BASIS OF ACCOUNTING

The accounts have been prepared on a historical cost basis of accounting as modified by revaluation of certain fixed assets and in accordance with the Kenya Tourist Development Act and the February 1991 Investment Guidelines issued by the Treasury through the parent Ministry of Tourism and Information.

The financial statements have been prepared in accordance to and in compliance with International Financial Reporting Standards.

b) ACCOUNTING FOR SUBSIDIARY AND ASSOCIATED COMPANIES

Financial statements of subsidiary and associated companies have not been consolidated in the accounts. However, the corporation's investments in these companies are shown at cost in accordance with Treasury's Investment Guidelines.

c) CLASSIFICATION OF FUNDS

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

- i) **Equity:**
Irredeemable funds supplied by the Government to purchase equity interest in tourism related companies.
- ii) **Commercial Loan:**
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.
- iii) **Revolving 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.

d) ACCOUNTING FOR FEASIBILITY STUDIES GRANT

The Corporation was granted funds by the Government to carry out feasibility studies. Payments made or to be made on completed feasibility studies are charged fully against this fund at the time of payment or completion of the study, whichever is earlier.

e) PROVISION FOR DOUBTFUL DEBTS

The corporation is responsible for bad debts incurred on both Commercial and Revolving Fund Programmes 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. Provisions made for Employees Benefits and Gratuities are included in liabilities and in creditors as these actually form obligations to pay when due.

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

f) DEPRECIATION OF FIXED ASSETS

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets concerned. The annual rates are:

Land	NIL
Buildings	2.5 %
Furniture & Fittings	12.5 %
Electronic Equipment	30.0%
Motor Vehicles	25.0 %

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

g) INCOME

Income is accounted for on the following basis:

i) Interest:

This consists of amount received and accrued up to 30 June 2004.

ii) Loan Interest Income:

Interest receivable in respect of administering the commercial and Revolving Funds in accordance with the Investments Guidelines.

iii) Rental Income:

Rent is accounted for on an accrual basis.

iv) Other Income:

Major items include Personnel loans' interest, interest from Loan given to USICO Ltd to acquire Shares in The Ark Ltd, Directors fees, Loans Application and Appraisal fees received and Proceeds from Tender applications during the year.

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

2. PROPERTY, PLANT AND EQUIPMENT SCHEDULE FOR THE YEAR ENDED 30 JUNE 2004

FIXED ASSETS	Land and Buildings KShs	Furniture and Equipment KShs	Cutlery and Halloware KShs	Motor Vehicles KShs	Total KShs
Cost or Valuation					
01 July 2003	89,511,916	17,227,520	119,684	13,109,340	119,968,460
Additions for the year	-	143,742	-	-	143,742
Revaluations during the year	497,972,875	-	-	-	497,972,875
As at 30 June 2004	587,484,791	17,371,262	119,684	13,109,340	618,085,077
Depreciation					
01 July 2003	39,063,239	16,130,916	-	13,109,340	68,303,495
Charge for the year	1,841,831	395,630	-	-	2,237,461
As at 30 June 2004	40,905,070	16,526,546	-	13,109,340	70,540,956
Net Book Value					
30 June 2004	546,579,721	844,716	119,684	-	547,544,121
Capital Work In Progress B/f	13,262,348	-	-	-	13,262,348
Capital Work In Progress W/off	(13,262,348)	-	-	-	(13,262,348)
Balances on 30 June 2004	546,579,721	844,716	119,684	-	547,544,121
30 June 2003	50,448,677	1,096,604	119,684	-	51,664,965
Capital Work In Progress	13,262,348	-	-	-	13,262,348
Balances on 30 June 2003	63,711,025	1,096,604	119,684	-	64,927,313

- a) No depreciation is provided for Cutlery and Halloware since none of the items have been put into use.
- b) Capital work in progress refer to Architects, structural design & Consultancy fees incurred so far as regards the proposed construction of Utalii House's 12th Floor.
- c) Following Board approval, the capital work in progress amount of KShs. 13,262,348 was written off during the year against retained earnings brought forward. This is since the construction proposal had been deferred earlier and there are no plans to continue with it.
- d) 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 has been transferred to capital reserve(note 6).
As indicated in note 1(f), no depreciation has been provided during the current year on this revaluation surplus.

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

3 (a). INVESTMENTS & LOANS SCHEDULE AS AT 30 JUNE 2004

Project	% Held KShs	Equity Investment KShs	Commercial Fund Principal Loan KShs	2004 KShs	2.003 KShs
(i) Subsidiaries					
Zimmerman (1973)Ltd	51.00	-	-	-	1,071,000
Meru Mulika Lodge Ltd	91.70	5,653,740	1,981,226	7,634,966	15,708,235
Kenya Safari Lodges & Hotels Ltd	63.40	6,407,553	53,981,546	60,389,099	61,389,099
Bomas of Kenya Ltd	100.00	5,080,000	11,058,239	16,138,239	16,138,239
Mt.Eigon Lodge Ltd	72.90	1,345,780	1,596,371	2,942,151	2,942,151
Sunset Hotel Ltd	95.40	11,450,000	3,258,379	14,708,379	12,185,179
KTDC Utalii Investments Ltd	100.00	2,000,000	-	2,000,000	2,000,000
Kabarnet Hotel Ltd	98.20	5,432,120	16,086,000	21,518,120	21,518,120
Kakamega Hotel Ltd	80.00	4,000,000	10,735,087	14,735,087	14,735,087
African Tours & Hotels Ltd	52.60	4,691,900	6,148,983	10,840,883	10,840,883
Subtotals		46,061,093	104,845,831	150,906,924	158,527,993
(ii) Associates					
Mountain Lodges Ltd	39.70	2,893,520	-	2,893,520	2,893,520
International Hotel (K) Ltd	33.10	119,574,692	-	119,574,692	119,574,692
Kenya Hotel Properties Ltd	33.80	114,189,360	-	114,189,360	114,189,360
Buffalo Springs Ltd	41.00	1,000,000	4,944,310	5,944,310	5,944,310
Subtotals		237,657,572	4,944,310	242,601,882	242,601,882
(iii) Others					
Marsabit Lodge Ltd	-	-	1,470,035	1,470,035	1,470,035
Maralal Safari Lodge Ltd	15.50	802,000	-	802,000	802,000
Mombasa Island Hotel Ltd	-	6,180,471	-	6,180,471	6,180,471
Solar Hotel Ltd	-	-	400,082	400,082	400,082
Kitale Hotel Ltd	-	2,458,534	-	2,458,534	2,358,534
African Tours & Hotels Preference Shares	-	29,100	-	29,100	29,100
Watalii Street Project	-	38,659,077	-	38,659,077	38,659,077
Kithyululu Farm Ltd	-	-	19,324,896	19,324,896	19,324,896
Garden Hotel Co. Ltd-Machakos	-	-	20,504,072	20,504,072	20,152,502
Church Road Development Co. Ltd	-	-	28,235,550	28,235,550	28,000,000
Subtotals		48,129,182	69,934,635	118,063,817	117,376,697
Grand Totals		331,847,847	179,724,776	511,572,623	518,506,572
Revolving Fund Principal Loan				63,145,829	67,508,370
Revolving Fund Interest Arrears				166,898,723	167,502,853
Commercial Fund Interest Arrears				65,292,540	45,870,726
Less: Provision For Bad Debts				806,909,715 (290,075,496)	799,388,521 (281,530,164)
TOTAL INVESTMENTS AND LOANS				516,834,219	517,858,357

(b) ZIMMERMAN (1973) LTD.

The Corporation has an equity Investment of Kshs 1,071,000 in this Company which ceased operation in 1978. An Irredeemable loan of Kshs 714,274 received from the Company together with the corporation's equity contribution have over the years been reflected in the accounts. These two amounts were removed from the books during the year as indicated in note 11.

KENYA TOURIST DEVELOPMENT CORPORATION

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	<u>KShs</u>	<u>KShs</u>
4. DEBTORS AND PREPAYMENTS		
These Comprise:		
Debtors	129,482,277	104,241,849
Deposit and Prepayments	93,474	52,570
	<u>129,575,751</u>	<u>104,294,419</u>
Less: Provision For Bad Debts	<u>(19,377,059)</u>	<u>(15,042,317)</u>
	<u>110,198,692</u>	<u>89,252,102</u>
5. CASH AND CASH EQUIVALENTS		
These are:		
Cash at Bank and in Hand	3,154,086	3,518,911
Fixed Deposits	324,410,008	349,276,598
	<u>327,564,094</u>	<u>352,795,509</u>
Less: Provision For Bad Deposit in Euro Bank Ltd	<u>(51,669,761)</u>	<u>(51,669,761)</u>
	<u>275,894,333</u>	<u>301,125,748</u>
For the purpose of Cash Flow Statement, the year end Cash and Cash equivalents shown above have been offset and reduced by Bank Overdraft.		
6. GENERAL FUND		
This Comprises:		
a) GENERAL FUND CAPITALIZED		
Invested in equity portfolio	4,741,000	4,741,000
Invested in commercial advances	2,000,000	2,000,000
	<u>6,741,000</u>	<u>6,741,000</u>
Surplus on revaluation	13,765,020	13,765,020
	<u>20,506,020</u>	<u>20,506,020</u>
b) CAPITAL RESERVE		
Surplus on revaluation of Utalii House	497,972,875	-
	<u>497,972,875</u>	<u>-</u>
c) RETAINED EARNINGS		
Balance brought forward		
As previously reported	615,749,502	697,511,514
Prior period adjustment		
Capital work in progress written off(see below)	(13,262,348)	-
Payment of capital work in progress(see below)	(6,681,415)	-
As Restated	595,805,739	697,511,514
Retained Earnings/(Loss) for the year	8,304,572	(81,762,012)
Retained Earnings/(Loss) Carried Forward	604,110,311	615,749,502
TOTAL GENERAL FUND	<u>1,122,589,206</u>	<u>636,255,522</u>

The surplus on revaluation of Utalii House and writing off of capital work in progress are explained in note 2. Payment of capital work in progress during the year was for Utalii House and refer to previous years and were paid in respect to Shako & Partners Engineers and to Baseline Architects at KShs.851,719 and KShs.5,829,696 respectively.

No provision for Taxation has been provided on the profit for the year as this profit will be offset against the losses made in the years 2001/2002 and 2002/2003 in the Return forms. Withholding tax paid during the year of KShs. 921,203 was on Dividends and Bank Deposit interest.

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

	2004 <u>KShs</u>	2003 <u>KShs</u>
7. RESTRUCTURING RESERVE		
Revolving Fund Programme	27,005,775	27,005,775
Commercial Fund Programme	109,315,303	109,315,303
	<u>136,321,078</u>	<u>136,321,078</u>
Less: Deferred Loans' Interests	(47,740,236)	(47,740,236)
	<u><u>88,580.842</u></u>	<u><u>88,580.842</u></u>

8. LONG TERM LOAN

a) The movement for this Loan is as shown below:

Catering Levy Trustees (CLT)	3,995,277	5,900,335
<u>Less:</u> Current Maturity for the next year	(1,966,778)	(1,905,058)
	<u><u>2,028,499</u></u>	<u><u>3,995,277</u></u>

b) This loan due to Catering Levy Trustees was given to the corporation to assist in the construction of hotels in 1984 at an interest rate of 12% p.a. repayable in thirty two quarterly instalments.

The loan was later rescheduled in 1991 and is for 15 years at an interest rate of 12% p.a. effective 1st July 1991.

c) The current maturity balance for this loan is made up of the following:

	2004 <u>KShs</u>	2003 <u>KShs</u>
Outstanding Current Maturity on 01 July	1,905,058	1,843,337
Current maturity due for next year	1,966,778	1,905,058
	<u>3,871,836</u>	<u>3,748,395</u>
<u>Less:</u> Current maturity repaid during the year:	(1,905,058)	(1,843,337)
	<u><u>1,966.778</u></u>	<u><u>1,905,058</u></u>

9. CREDITORS AND PROVISIONS

These Comprise:

(a) Creditors	51,326,199	49,859,085
(b) Provisions:		
(i) Gratuity for Employees on Contract Terms	1,382,835	2,540,776
(ii) Employees Leave and Off days Benefits	3,996,173	-
	<u><u>56,705,207</u></u>	<u><u>52,399,861</u></u>

Creditors include, among others, creditors for expenses, amount received from KTDC Utalii Investments ahead of its formal winding up to set up KTDC staff Housing scheme, GOK Revolving loan interest accrued for 2003/2004 and Tenants who had paid in advance as at 30 June 2004.

Employees Leave and Off days benefits refer to the monetary value of the days earned as at 30th June 2004 but had not been taken.

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10. OFFICE EXPENSES	2004 <u>KShs</u>	2003 <u>KShs</u>
These Comprise:		
Publicity and Advertising	1,082,506	2,381,834
Printing and Stationery	1,571,569	1,277,457
Telephone and Postages	2,909,561	2,836,631
Subscriptions and Donations	626,587	896,335
General Office Expenses	663,868	597,208
Repairs and Maintenance of Office Equipment	313,031	383,908
Insurances of Office Equipment	149,667	149,805
Ask Shows	583,852	544,601
	<u>7,900,641</u>	<u>9,067,779</u>

11. BAD DEBTS WRITTEN OFF

As indicated in note 3 (b) Zimmerman (1973) Ltd, a company in which the corporation held 51% shareholding, ceased operations in 1978. During the current year, the Corporation's Board approved the formal winding up of this Company. Consequently, the balances of equity investment in this company and the irredeemable loan earlier received from the company were removed from the books through the income statement as follows:

(i) Equity investment written off	1,071,000	-
(ii) Irredeemable loan written back	(714,274)	-
Net amount written off/(back)	<u>356,726</u>	<u>-</u>

12. BAD DEBTS PROVISION

Most of the loans whose balances were fully provided in the previous year continued with their non-performing trend during the current year. Some loans whose balances were then provided had their interest charges suspended and amongst the suspended ones are those which showed positive activity in form of recoveries. This positive activity resulted into a net of KShs. 3,024,584 which was written back from provisions during the year after an offset with any disbursement affecting these loans.

However due to non-performance in other loans where interest is not suspended and whose balances increased due to interest and other disbursements, the positive activity was reduced and a net provision of KShs. 8,545,332 was made for the year. Full provision on Solar Hotel Revolving loan balance on 30th June 2004 was also made.

More provisions were also made on Utalii House former Tenants' balances as the recoveries are doubtful. The suspended loan interest charges is only on recognition in income statement but charges continue to be made in the loan statements.

The claim of the deposit held at the collapsed Euro Bank Ltd was lodged with the Deposit Protection Fund(DPF) during the year. The current value of this deposit including interest is KShs. 61,692,978 and this together with the protected deposit of KShs. 100,000 had not been received from the Fund as at 30th June 2004.

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ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

	2004 KShs	2003 KShs
12. BAD DEBTS PROVISION-continuation		
The following is the analysis of the provisions written back and made during the year:		
(a) Revolving Fund Loans		
(i) Ikolomani Enterprises Ltd.	-	1,490,759
(ii) New Milimani Inn Ltd, Meru.	-	338,399
(iii) Diani Enterprises Ltd.	(3,099,484)	5,921,322
(iv) Jomina Tours and Travels Ltd.	-	1,623,608
(v) Lake Turkana El-Molo Lodges Ltd.	-	3,352,372
(vi) Bush Bar Ltd.	-	3,176,046
(vii) Naivasha Hill Park Motel Ltd.	(119,118)	3,048,153
(viii) Delight Dreamland Hotel Ltd.	-	2,712,992
(ix) Wajir Tourist Hotel Ltd.	335,591	1,830,680
(x) Githuku Investments Ltd.	38,427	2,579,265
(xi) Kenya Agro Business Ltd.	-	1,861,276
(xii) Gasden Co. Ltd.	-	2,468,398
(xiii) Narokville Enterprises Ltd.	(180,000)	630,099
(xiv) Kendu Bay Country Hotel Ltd.	-	238,969
	<u>(3,024,584)</u>	<u>31,272,338</u>
(xv) Mona Lisa Ltd	490,292	2,846,695
(xvi) Mt. Elgon Agencies Ltd.	1,175,255	7,466,386
(xvii) Kitui Tourist Hotel Ltd	1,279,731	7,782,096
(xviii) Solar Hotel Ltd	2,666,589	-
	<u>5,611,867</u>	<u>18,095,177</u>
(b) Commercial Fund Loans		
(i) Solar Hotel Ltd	-	874,141
(ii) Kithyululu Farm Ltd	5,958,049	29,632,430
	<u>5,958,049</u>	<u>30,506,571</u>
(c) Bank Deposits		
Euro Bank Ltd. Deposit book value	-	51,669,761
	-	<u>51,669,761</u>
Sub Total on Loans	<u>8,545,332</u>	<u>131,543,847</u>
(d) Former Utalii House Tenants		
(i) Union Credit Ltd	308,878	-
(ii) Shuttle Air Services	166,360	-
(iii) Bea Supermarkets	507,279	-
(iv) Kabare Investments	798,022	-
(v) Jenan Secretarial Bureau	10,582	-
(vi) Inter Tract Ltd	629,891	-
(vii) Shako & Partners, Engineers	328,527	-
(viii) North Expo Ltd	229,762	-
(ix) Muhanji & Company, Advocates	336,532	-
(x) Ebenezar Travels & Tours	1,018,909	-
Sub Total on former Tenants	<u>4,334,742</u>	<u>-</u>
Grand Total of Provisions (written back)/made	<u>12,880,074</u>	<u>131,543,847</u>

13. INTEREST EXPENSE

This refers to the amount incurred and paid on borrowings by the Corporation as shown below:

Redeemable CLT Loan Interest	185,162	246,883
Irredeemable GOK Revolving Fund Loan Interest	4,080,000	4,080,000
KCB Bank Overdraft Interest	543,895	2,296,272
	<u>4,809,057</u>	<u>6,623,155</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2004

	<u>2004</u>	<u>2003</u>
	<u>KShs</u>	<u>KShs</u>
14. DIVIDEND INCOME		
This refers to declared dividends which had not been accrued for previous years from the following companies:		
Kenya Safari Lodges & Hotels Ltd		
(i) for year ending 30th June 1994	1,773,048	-
(ii) for year ending 30th June 1995	1,182,032	-
(iii) for year ending 30th June 1996	1,182,032	-
	4,137,112	-
Kenya Hotel Properties Ltd		
(i) for year ended 30th September 2002	5,074,640	-
(ii) for year ended 30th September 2003	6,766,000	-
	11,840,640	-
	15,977,752	-

15. BANK DEPOSIT INTEREST INCOME

This is interest earned during the year from Fixed Deposit accounts held by the Corporation at Kenya Commercial Bank Ltd. The earned interest for the current year reduced due to reduced interest rates which reduced to as below as 0.75% p.a as opposed to previous year's 5.50% p.a. Also there was a reduction in funds available for Deposit Investment during the current year.

16. OTHER INCOME

As indicated in note 1(g)(iv) the corporation received fees from supplies Tender documents sale during the year. This, together with Director fees and loan appraisal fees received during the year were more than was reported the previous year.

17. LEGAL AND CONSULTANCY FEES

The large amount of legal fees paid during the year related to contracted matters in earlier years for which lawyers followed payments, some with auction threats. These had to be paid to enable clear these issues and close files. On the basis of work given by former management, lawyers went to court for taxation of their bills and demanded payments based on court determined amounts. The amounts paid and which could not be recovered from any Tenant, Loanee, etc. were borne by KTDC as legal fees expense. The Corporation engaged a Human Resource Consultant for one year from mid December 2003 at a rate of Ksh 66,000 per month.

Legal fees	3,579,490	727,993
Consultancy fees	429,000	-
	4,008,490	727,993

18. VALUATION FEES

As stated in note 2(d) Utalii House was valued on an open market basis during the year by Crystal Valuers Ltd. Also the Corporation's Lavington House was valued but by Ministry of Lands and Settlement. The valuation fees paid were as follows:

Crystal Valuers Ltd (Utalii House)	1,000,000	-
Ministry of Land and Settlement (Lavington House)	30,250	-
	1,030,250	-