

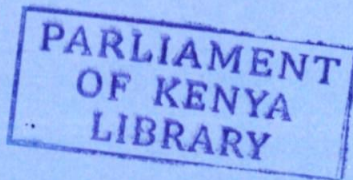
REPUBLIC OF KENYA



Paper laid
By Hon Kato Ole Ndeti
Majority Whip on
Wed 19/8/2015
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KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KABARNET HOTEL LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**



KABARNET HOTEL LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**



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KEY COMPANY INFORMATION

Background information

Kabarnet hotel "The Company" was established by the Kenya Act of Parliament in 1976. At cabinet level, the company is represented by the Cabinet Secretary for East African Affairs, Commerce & Tourism who is responsible for the general policy and strategic direction of the hotel.

Principal Activities

The principal activity of the company is to operate the hotel providing accommodation and catering services to 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
P.O. Box 42013-00100
Nairobi

Registered Office

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

Corporate Headquarters

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

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
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		<p>BSC. Hospitality in Tourism Management, Diploma in Hotel Management & MSC. Financial Investment (Tourism)</p> <p>Over 20 yrs experience</p>
2. Mr. Dominic Ndewa		<p>MA (Economics policy and Management), CPA (K): experience over 18 years in Financial management.</p>
3. Mr. Dickson Yatich		

MANAGEMENT TEAM

NAME	PHOTO	KEY PROFESSIONAL/ACADEMIC QUALIFICATIONS	AREA OF RESPONSIBILITY
1. BENSON KANDIE		<p>C.P.A-SECTION 1-DCM II-(Kenya Institute of Management)</p>	<p>MANAGER</p>
2. MARIANNE JORDAN		<p>BSC. Hospitality in Tourism Management</p> <p>Diploma in Hotel Management MSC. Financial Investment (Tourism)</p> <p>Over 20 yrs experience</p> <p>4</p>	<p>MANAGING DIRECTOR</p>

<p>3. CARREY FRANCIS</p>		<p>Bachelor of Law (LL.B), Diploma from Kenya school of law</p>	<p>COMPANY SECRETARY</p>
<p>4. DOMINIC NDEWA</p>		<p>MA(Economics policy and Management), CPA(K):experience over 18 years in Financial management.</p>	<p>HEAD OF INVESTMENT</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 in the company during 2014 and the financial statements of the company for the year ended 30th June 2014. The Board of Directors efforts supported by the management of the company have focused on implementing strategies aimed at improving the hotels performance, improving its efficiency and enhancing the value of investments.

The year ended 30th June 2014 witnessed a reasonable growth with a GDP of 4.1%. Tourism continues on a downturn for the second year in a row due to multiple actors, key of which is security incidents which have resulted in not only negative travel advisories against specific areas of the country, but also negative publicity, causing uncertainty in the country's source markets and leading to drop in tourist arrivals. This has seen booking cancellations and tremendous drop in forward bookings, translating ultimately into huge losses for the economy, with the tourism industry as the immediate casualty as it grapples with low occupancy, drop in revenues against the huge operating costs, job losses among others.

In the aforementioned circumstances, the company recorded a 3% growth in sales to KSH 9.4 million from 9.1 million during 2013. The hotel registered losses throughout the year owing to relatively low hotel operation. The company has continued to build human resource capacity focused on quality service to its customers by ensuring employees are well trained and remain committed in their respective areas of expertise. The total net assets decreased from 71.9 million to 71.58 million in the year 2014.

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 2014.

Events of the better part of 2013 and 2014 adversely affected the Tourism sector in Kenya. Among the key factors that contributed to the negative impact were, the unfortunate travel advisories by foreign governments in key source markets like Britain and America, the escalation of insecurity in the country, the uncertain political environment having been an election year among others.

During the year 2014, the hotel achieved a loss of Kshs 965,000 as compared to Kshs 4.405 million in 2013. This is mainly attributed to the payroll support received from Tourist Finance Corporation treated in the book as income, hence reducing the losses.

The management is however hopeful that the recovery process 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.

The running of the facility will mostly depend on the support from the Tourism Finance Corporation to renovate and rehabilitate 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 2014.


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 audited financial statements for the year ended June 30, 2014 which show the state of the hotel's affairs.

Principal activities

The principal activities of the hotel are to operate the hotel providing accommodation and catering services to customers.

Results

The results of the company for the year ended June 30, 2014 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. Carrey Francis
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, 2014. 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, 2014, 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.

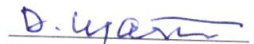
Nothing has come to the attention of the Directors to indicate that the *company* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The company's financial statements were approved by the Board on 1st September 2014 and signed on its behalf by:



Director



Director

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 KABARNET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

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 2014, and the statement of comprehensive income, statement of changes in equity and 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 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.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the 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 13 of the Public Audit Act, 2003.

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 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. 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 judgment, 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 Hotel'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

1.0 Property, Plant and Equipment

- 1.1. The statement of financial position reflects the property, plant and equipment net book value of Kshs.63,091,000 as at 30 June 2014 as compared to Kshs.64,814,000 as at 30 June 2013. However, as in the previous year, the Hotel did not maintain a fixed asset register. Consequently, the non-current assets balance of Kshs.63,091,000 as at 30 June 2014 could not be confirmed.
- 1.2 As observed in the previous years, a part of the hotel that got burnt in a fire incident in 2002 has not been repaired and continues to deteriorate due to weather expose over the years. It has also not been clarified how the loss as a result of the fire was treated in the books of account.
- 1.3 In addition, excluded from the property, plant and equipment revalued balance of Kshs. 63,091,000 is a hotel motor vehicle registration no.KTR 625 Volkswagen (Kombi) valued at Kshs.430,074 which was not physically verified, and therefore its location could not be ascertained. Further, the revalued amount also include a fully depreciated motor vehicle KYU 313 which was registered on 30 December 1987 costing Kshs.120,000 with net book value of Kshs.38,000 as at 30 June 2014. The vehicle appears unserviceable as it has been grounded for more than nine (9) years. Evidently, the Hotel is not benefiting from the vehicle and it is not clear why it has not been disposed.
- 1.4 As reported in the previous year, the Hotel has not taken an insurance cover for its buildings, motor vehicles, furniture & office equipment to ensure continuity of operations in the occurrence of any uncertainty or event which could adversely affect its operations.

In the circumstances, it has not been possible to ascertain the existence, completeness and accuracy of the balance of Kshs.63,091,000 and that the property, plant and equipment balance is fairly stated as at 30 June 2014.

2.0 Trade and other Receivables

Included in trade and other receivables balance of Kshs.5,640,000 as at 30 June 2014 are sundry debtors of Kshs.359,000, advances of Kshs.194,000 and others indicated as recoverable of Kshs.489,000 whose analyses were not provided for

audit review. The balance also include a long outstanding amount of Kshs.4,544,000 which relate to 2012/2013 and previous years. However, the management has not make any provision for bad debts despite the fact that some debtors have been outstanding for long period of time and their recoverability is in doubt.

Under the circumstances, the accuracy and recoverability of the trade and other receivables balance of Kshs.5,640,000 as at 30 June 2014 could therefore not be confirmed.

3.0 Trade and Other Payables

Included in trade and other trade payables balance of Kshs.10,189,000 as at 30 June 2014 are trade payables of Kshs.2,293,000 which have been outstanding for over four years and no reason has been provided as to why the same have not been paid.

The trade and other payables also include statutory dues totalling Kshs.7,490,500 and provisions of Kshs.404,500. The statutory dues in addition include amounts totalling Kshs.6,172,000 relating to 2012/13 and previous years and no reason has been provided for non-remittance of these statutory dues which may attract penalties and other charges. In addition the provision balance of Kshs.404,500 include accumulated audit fees of Kshs.240,000 payable to Auditor-General which has been outstanding for five years. Non-payment of audit fees contravenes Section 19(1) and (2) of the Public Audit Act, 2003 which requires every state corporation to meet the cost of the audit.

Consequently, the accuracy of trade and other payables of Kshs.10,189,000 as at 30 June 2014 could not be confirmed.

4.0 Bank and Cash Balances

The statement of financial position reflects bank and cash balance of Kshs.2,751,000 which include cash on hand of Kshs.36,000 and cash at bank of Kshs.2,715,000. However, the cash books availed for audit review reflected that cash at bank of Kshs2,768,000 resulting in a difference of Kshs.53,000 which has not been explained or reconciled.

Consequently, the accuracy and validity of the bank and cash balance of Kshs.2,751,000 could not be confirmed.

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 the Hotel as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of the Laws of Kenya.

Emphasis of matter

Going Concern

During the year under review, the Hotel made a loss of Kshs.965,000 as compared to a loss of Kshs.4,405,000 during 2012/2013 resulting in accumulated losses of Kshs.66,088,000 as at 30 June 2014. Further, the current liabilities of Kshs.47,317,000 as at 30 June 2014 exceeded current assets of Kshs.8,489,000 resulting to a negative working capital of Kshs.38,828,000. Further, the Hotel has been unable to settle long outstanding liabilities including long term loans of Kshs.18,559,000 and advances of Kshs.37,128,000 due to Kenya Tourism Finance Corporation(TFC), statutory liabilities of Kshs.7,490,500 and other trade payables amounting to Kshs.2,293,356.

Consequently, the Hotel is technically insolvent and may not be able to meet its current obligations as and when they fall due and its continued operation as a going concern is dependent on the support of the parent corporation, creditors and bankers. My opinion is not qualified in respect to this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Companies Act, I report on my audit; that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit; and
- (ii) In my opinion, proper books of account have been kept by the Hotel, so far as appears from my examination of those books; and,
- (iii) The Hotel's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR GENERAL

Nairobi

14 July 2015

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 KShs '000'	2013 KShs '000'
Sales			
Other Income	1	6,019	6,368
Grants From TFC - Payroll support	3 2	561- 4,790	- -
TOTAL REVENUES		<u>11,370</u>	<u>6,368</u>
REVENUES			
OPERATING EXPENSES			
Administration Costs			
Selling and Distribution Costs	4(a)	10,229	8,710
Depreciation of property, plant and equipment	5 7	157 1,949	80 1,983
TOTAL OPERATING EXPENSES		<u>12,335</u>	<u>10,773</u>
OPERATING PROFIT/(LOSS)		(965)	(4,405)
Finance Income		-	-
Finance Costs		-	-
PROFIT/ (LOSS) BEFORE TAXATION		<u>(965)</u>	<u>(4,405)</u>
PROFIT/ (LOSS)		<u><u>(965)</u></u>	<u><u>(4,405)</u></u>

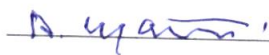
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2014

	Note	2014 Kshs '000'	2013 Kshs '000'
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	63,091	64,814
Total Non-Current Assets		<u>63,091</u>	<u>64,814</u>
Current Assets			
Inventories	9	98	108
Trade and other receivables	10	5,640	4,910
Bank and cash balances	11	2,751	2,096
Total Non-Current Assets		<u>71,580</u>	<u>71,928</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	12	5,000	5,000
Revaluation reserve	13	66,793	66,793
Fair value adjustment reserve	14	-	-
Accumulated losses		(66,088)	(60,333)
Proposed dividends		-	-
Capital and Reserves		<u>5,705</u>	<u>11,460</u>
Non-Current Liabilities			
Borrowings			
Deferred tax liability	15	18,559	18,559
		-	-
Total Non-Current Liabilities		<u>18,559</u>	<u>18,559</u>
Current Liabilities			
Borrowings			
Trade and other payables	17(b)	37,128	32,338
Retirement benefit obligations	16	10,189	9,571
Provision for leave pay		-	-
Dividends payable		-	-
Total Current Liabilities		<u>47,317</u>	<u>41,908</u>
TOTAL EQUITY AND LIABILITIES		<u><u>71,580</u></u>	<u><u>71,928</u></u>

The financial statements were approved by the Board on _____ 2015 and signed on its behalf by:



Chairman



Member

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014**

	Ordinary share capital ksh'000'	Revenue Reserve ksh'.000'	Revaluation Reserve ksh'000'	Shareholders Equity Ksh.'000'
At July 1, 2012	5,000	(55,928)	66,793	15,865
Total comprehensive income		(4,405)	-	(4,405)
At June 30, 2013	5,000	(60,333)	66,793	11,460
At July 1, 2013	5,000	(60,333)	66,793	11,460
Total comprehensive income		(965)		(965)
Grants from TFC		(4,790)		(4,790)
At June 30, 2014	5,000	(66,088)	66,793	<u>5,705</u>

KABARNET HOTEL LIMITED
Reports and Financial Statements
For the year ended June 30, 2014

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 Kshs '000'	2013 Kshs '000'
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	17(a)	882	1,971
Net cash generated from/(used in) operating activities		<u>882</u>	<u>1,971</u>
INVESTING ACTIVITIES			
Purchase of intangible assets			
Purchase of investment property		(226)	(215)
Purchase of quoted investments			
Net cash generated from/(used in) investing activities			
FINANCING ACTIVITIES			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash generated from/(used in) financing activities		<u>656</u>	<u>1,756</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>656</u>	<u>1,756</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,095	339
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>2,751</u></u>	<u><u>2,095</u></u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED JUNE 30, 2014

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 equipment 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. 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 handing 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, 2013.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	Kshs	Kshs
	'000'	'000'
1. SALES		
Gross sales of goods	9,452	9,184
Gross sales of services	-	-
Less: Cost of Sales	(3,433)	(2,816)
	<u>6,019</u>	<u>6,368</u>

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

2. GRANTS FROM NATIONAL GOVERNMENT

TFC- payroll support	4,790	-
Capital grants received	-	-
	<u>4,790</u>	<u>-</u>
	<u><u>4,790</u></u>	<u><u>-</u></u>

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

3. OTHER INCOME

Cash donations	-	-
Other miscellaneous receipts-	561	-
	<u>561</u>	<u>-</u>
	<u><u>561</u></u>	<u><u>-</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. (a) ADMINISTRATION COSTS

Staff costs (note 4b)	4,483	4,063
Directors' emoluments	25	15
Electricity and water	943	646
Transportation, travelling and subsistence	209	141
Advertising, printing, stationery and photocopying	188	155
Rent expenses	-	-
Staff training expenses	105	-
Hospitality supplies and services	61	56
Insurance costs	-	-
Bank charges and commissions	26	18
Office and general supplies and services	-	-
Auditors' remuneration	48	48
Legal fees	-	-
Consultancy fees	-	-
Repairs and maintenance	695	456
Provision for bad and doubtful debts	-	-
Other operating expenses	3,445	3,112
	<u>10,229</u>	<u>8,710</u>
	=====	=====

4 b) STAFF COSTS

Salaries and allowances of permanent employees	3,466	3,233
Wages of temporary employees	927	724
Compulsory national social security schemes	47	48
Leave pay and gratuity provisions	5	58
Staff welfare	44	-
	<u>4,483</u>	<u>4,063</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	12	10
	<u>31</u>	<u>29</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 SELLING AND DISTRIBUTION COSTS

	Ksh 000	Kshs 000
Salaries and wages of sales personnel	-	-
Marketing and promotional expenses	157	80
Sales commissions	-	-
Sales discounts and rebates	-	-
Other selling and distribution costs	-	-
	<u>157</u>	<u>80</u>
	=====	-----

6 OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):

Staff costs (note 4)	-	-
Depreciation of property, plant and equipment	1,949	1,983
	1,949	1,983

7 PROPERTY, PLANT AND EQUIPMENT

	Freehold land ksh'.000'	Buildings ksh'.000'	Motor Vehicle ksh'.000'	Furniture And Equipment ksh.'.000'	TOTAL ksh.'.000'
COST OR VALUATION					
At July 1, 2013	6,000	60,000	120	4,894	71,014
Additions	-	-	-	226	226
Transfers	-	-	-	-	
Disposals	-	-	-	-	
At June 30, 2014	6,000	60,000	120	5,120	71,240
DEPRECIATION					
At July 1, 2013		4,000	69	1,629	6,199
Charge for the year		2,000	13	436	1,949
Impairment loss					-
Eliminated on disposal					-
At June 30, 2014	-	6,000	82	2,066	8,148
NET BOOK VALUE					
At June 30, 2014	6,000	54,000	38	3,053	63,091
As at 30 June 2013	6,000	55,500	51	3,264	64,815

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	Kshs	Kshs
	'000'	'000
8. INVESTMENT PROPERTY		
Opening valuation	71,014	70,799
Movements during the year		
Additions	226	215
Transfer from operating lease rentals (note 20)	-	-
Disposals	-	-
Fair value gains/(losses)	-	-
Closing valuation	<u>71,240</u>	<u>71,014</u>
AMORTISATION		
At July 1, 2013	6,199	4,216
Charge for the year	1,949	1,983
Disposals	-	-
Impairment loss	-	-
At June 30, 2014	<u>8,148</u>	<u>6,199</u>
NET BOOK VALUE		
At June 30, 2014	<u>63,091</u>	<u>64,814</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	Ksh.	Ksh.
9. INVENTORIES	'000'	'000'
Food	11	15
Drink	54	54
Tobacco	2	2
Kitchen/restaurant and Bar	.5	.5
Stationery and general stores	-	11
Cleaning stock	2	1
Toilet Requisite	-	-
Containers	28	24
Guest Suppliers	-	1
	<u>98</u>	<u>108</u>

[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]

10. TRADE AND OTHER RECEIVABLES.

Gross trade receivables	5,640,	4,910
Provision for doubtful receivables	-	-
	<u>5,640</u>	<u>4,910</u>

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

Less than 30 days	1,096	445
Between 30 and 60 days	90	173
Between 61 and 90 days	151	9
Between 91 and 120 days	5	13
Over 120 days	4,298	4,270
	<u>5,640</u>	<u>4,910</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	KShs	KShs
	'000'	'000'
11. BANK AND CASH BALANCES		
Cash at bank	2,714	2,073
Cash in hand	36	23
	<u>2,750,</u>	<u>2,096</u>

(Cash at bank ,and petty cash balance at june 2014)

12. ORDINARY SHARE CAPITAL

Authorised:

250,000 ordinary shares of Kshs.20 par value each	5,000	5,000
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Issued and fully paid:

250,000 ordinary shares of Kshs. 20 par value each	5,000	5,000
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[The share capacity as at June 2014 is the same as it was on June 30th, 2013]

13. 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.

	2014	2013
	Ksh.	Ksh.
	'000'	'000'
Revaluation at beginning of the year	66,793	66,793

There were no revaluation during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. 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.

15. BORROWINGS	2014	2013
	KSh.	KSh.
	‘000’	‘000’
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)

16. TRADE AND OTHER PAYABLES

Trade Payables	2,293	2,353
Accrued expenses	-	-
Other payables	<u>7,896</u>	<u>7,218</u>
	<u>10,189</u>	<u>9,571</u>

(Statutory deduction, VAT, CLT, and suppliers)

17. NOTES TO THE STATEMENT OF CASH FLOWS

	ksh.	Ksh.
	‘ 000’	‘ 000’
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations	2014	2013
Operating profit/(loss)	(965)	(4,405)
Depreciation	1,949	1,983
Amortisation	-	-
Operating profit/(loss) before working capital changes	<u>984</u>	<u>(2,422)</u>
(Increase)/decrease in inventories	10	(42)
(Increase)/decrease in trade and other receivables	(730)	678
Increase/(decrease) in trade and other payables	618	(297)
Increase (decrease) in TFC		4,054
Cash generated from/ (used in) operations	<u>882</u>	<u>(1,971)</u>

17.(b) Analysis of changes in loans

Balance at the beginning of the year	32,338	28,283
Receipts during the year	4,790	4,055
Repayments during the year	-	-
Balance at end of the year	<u>37,128</u>	<u>32,338</u>

(Advance for payroll support from TFC)

18. INCORPORATION

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

