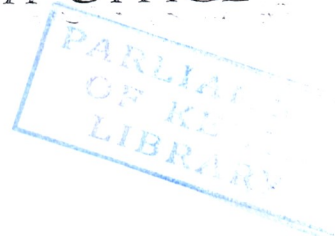


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT OF
THE
AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
KABARNET HOTEL LIMITED FOR THE
YEAR ENDED 30 JUNE 2012**

KABARNET HOTEL LIMITED.

FINANCIAL STATEMENTS

FOR

THE YEAR ENDED 30TH JUNE 2012

KABARNET HOTEL LIMITED.

TABLE OF CONTENT

	Page
1. Corporate information	3
2. Managements' Responsibility for the Financial Statements	4
3. Report of the Directors	5
4. Chairman's Statement	6
5. Balance Sheet	7
6. Trading, Profit And Loss Account	8
7. Statement of Changes in Equity	9
8. Statement of Cash Flow	10
9. Notes on the Financial Statements	11

KABARNET HOTEL LIMITED.

CORPORATE INFORMATION

Al-Hajj Yussuf M.K. Murigu - Chairman
Mrs. Marianne Jordan - Managing Director KTDC
Ms. Delila Kadzo -Director KTDC
Mr. Abdilalim Saleh -Director KTDC
Mr. Dickson Yatich -Director

COMPANY SECRETARY

Mr. Carry Francis Odhiambo

AUDITORS

Auditor General
Kenya National Audit Office
P O B ox 30084 – 00100
NAIROBI

PRINCIPAL BANKERS

Kenya Commercial Bank Limited - Kabarnet Branch.

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS-----

Kabarnet Hotel Limited	Kabarnet Town
Utalii House – Uhuru Highway	P. O. Box 109,
P.O. Box 42013 – 00100	<u>KABARNET.</u>
<u>NAIROBI</u>	

MANAGEMENTS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Companies Act requires the Directors to prepare financial statements for each financial year that give true and fair view of state of affairs of the company at the end of the financial year and of the state of the company for that year. It also requires the Directors to ensure that the company keeps proper accounting records that disclose with responsible for safeguarding the assets of the company.

The Directors accepts responsibility for the Annual Financial Statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting and requirements of the company's Act.

The Directors are of the opinion that the financial statements give a true and fair view of the state if the financial affairs of the company.

The Directors further accept the responsibility of the maintenance of accounting records that may be relied upon in the preparation of the Financial Statements as well as adequate systems of Internal Financial Control.

DIRECTOR *Marianne Josten*

SIGNATURE *Marianne Josten*

DIRECTOR *DICKSON K. MATILU*

SIGNATURE *Dickson K. Matilu*

REPORT OF THE DIRECTORS

The Directors submit their Report and the amended Financial Statements for the year Ended 30th June 2012

PRINCIPAL ACTIVITY

The principal Activity of the Company is that of operating a Tourist hotel in Kabarnet Town.

RESULTS

The Financial results for the year posted a loss of ksh.5.5millions.The accounting policies and notes that form part of these financial statements are set out from pages 9 to 18.

DIVIDEND

The Directors do not recommend payment of dividend.

RESERVES

The Directors propose to carry forward the balance of accumulated losses amounting Ksh. (55,927,583)

AUDITORS

Auditor-General continue in Office in accordance with section 14(3) of the state Corporation Act Cap 446.

CHAIRMAN'S REPORT

I am privileged to present this annual report for the year ended 30th June 2012. Kabarnet Hotel Ltd's financial performance and position was not impressive owing to relatively low Hotel operations. Even though the sales increases from Ksh 6. million in 2010-2011 to Ksh 6.4 million this year. This is limited resources at the disposal of the Hotel. The Hotel registered losses throughout the year. The trend is expected to persist for as long as the debt burden remains on the shoulders of the Hotel. It is however refreshing to note that the Shareholders have also committed to settle the liabilities including statutory obligations, suppliers and pay salaries to staff within the financial year.

Financial Performance

On the financials, a loss of Kshs. 5.5 million was reported adding to the previous losses of Kshs. 50 million. The total net current assets increased from negative Kshs. 28 million to negative Kshs. 32 million. The Shareholders' loans stands at Kshs.19 million while the advances increased to Kshs. 28 million. The continued support through cash injection reflects the shareholders' confidence in the Hotel's potential upon full restoration and modernization given its strategic physical position in the region.

Appreciation

The continued survival of the Hotel was made possible as a result of support of our shareholders, stakeholders and customers. As Chairman of the Board of Directors of the Hotel, I am indebted to my fellow Board members for their invaluable insights and support. I also wish to acknowledge the staff for their valuable support and dedication in ensuring that the Hotel weathers the challenges it is currently facing. Finally, on behalf of the Board, I would like to thank the Government for guidance and continued support through the Ministry of Tourism and other Agencies.

Al-Hajj Yussuf M.K. Murigu

Chairman



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KABARNET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kabarnet Hotel Limited set out on pages 7 to 19, which comprise the statement of financial position as at 30 June 2012, 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

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 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 audit opinion.

Basis for Qualified Opinion

1. Going Concern

During the year under review, the Hotel recorded a loss of Kshs.5,529,817 compared to 2011 loss of Kshs.5,061,436 resulting in accumulated losses of Kshs.55,927,583 as at 30 June 2012. The current liabilities of Kshs.38,151,210 as at 30 June 2012 exceeded the current assets of Kshs.5,993,141 as at the same date by Kshs.32,158,069. Further, the Hotel has been unable to settle long outstanding liabilities, including a long term loan of Kshs.18,358,944 (whose agreement was not produced for review) and advances of Kshs.28,283,219 due to the Hotel's parent Corporation – Kenya Tourism Development Corporation, statutory liabilities of Kshs.6,856,005 and other trade creditors amounting to Kshs.2,353,356.

The Hotel is therefore technically insolvent and its continued operation as a going concern is dependent on the support of the parent corporation and creditors.

2. Property, Plant and Equipment

As observed in the previous year, a part of the Hotel that got burnt in a fire incident in 2002 has not been repaired and continues to deteriorate due to vagaries of weather 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. In addition, excluded from the property, plant and equipment revalued balance of Kshs.66,582,446 is a Hotel motor vehicle registration No.KTR 615 Volkswagen (Kombi) valued at Kshs.430,074 but which had been reflected in the previous years' financial statements. Further, the revalued amount also included a fully depreciated motor vehicle KYU 313 which was registered on 30 December 1987 costing Kshs.120,000 with book value of Kshs.67,500. The vehicle appears unserviceable as it has been grounded for more than seven (7) years. Evidently, the Hotel is not benefiting from the vehicle and it is not clear why it has not been disposed.

In the circumstances, it has not been possible to confirm the accuracy of the property, plant and equipment balance of Kshs.66,582,446 as at 30 June 2012.

3. Trade and Other Receivables

Included in trade and other receivables balance of Kshs.5,587,926 is Kshs.848,458 which relates to debtors whose identity has not been disclosed. Further, included in this balance are long outstanding debts of Kshs.4,403,786 and against which no provision was made in the financial statements.

Under the circumstances, the recoverability of the trade and other receivables balance of Kshs.5,587,926 could therefore not be confirmed as at 30 June 2012.

Opinion

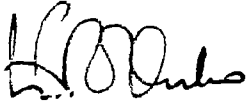
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Hotel as at 30 June 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, I report based 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;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,

iii. The Company'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

22 April 2013

KABARNET HOTEL LIMITED.

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2012

	NOTE	2012 Ksh.	2011 Ksh.
Non-Current Assets			
Property, Plant & Equipment	2	<u>66,582,446</u>	<u>68,641,775</u>
		<u>66,582,446</u>	<u>68,641,775</u>
Current assets			
Inventories	7	66,007	73,729
Trade & other Receivables	8	5,587,926	4,975,831
Cash & Bank balances	10	<u>339,208</u>	61,191
		5,993,141	5,110,751
Current Liabilities			
Trade & other payables	9	9,867,991	9,485,176
K. T. D. C Advances	4	<u>28,283,219</u>	<u>24,313,156</u>
		<u>38,151,210</u>	<u>33,798,332</u>
Net Current Assets		<u>(32,158,069)</u>	<u>(28,687,581)</u>
NET ASSETS		<u>34,424,377</u>	<u>39,954,194</u>
FINANCED BY:			
Share Capital	3(a)	5,000,000	5,000,000
Revaluation Reserve		66,793,016	66,793,016
Revenue Reserves	1 (vii)	<u>(55,927,583)</u>	<u>(50,397,766)</u>
		<u>15,865,433</u>	<u>21,395,250</u>
Non-Current Liabilities			
Long term loan K.T.D.C	6	18,358,944	18,358,944
Unallocated shares – H. Kiplagat	3(b)	<u>200,000</u>	<u>200,000</u>
		<u>18,558,944</u>	<u>18,558,944</u>
TOTAL EQUITY & LIABILITIES		<u>34,424,377</u>	<u>39,954,194</u>

The financial statement were approved by Broad of Directors on 11/07/2012 and were signed on behalf by:-

DIRECTOR *Marianne Mungai Kidegyo*

DIRECTOR *DICKSON K. MATIUKU*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2012

REVENUE	NOTES	2012 KSHS	2011 KSHS
Sales	11	6,459,280	6,098,840
Cost of sales	12	(2,338,300)	(2,119,633)
Gross profit		4,120,980	3,979,207
EXPENDITURE			
Provision and accrued expenses		-	-
Salaries and wages	13	3,459,308	2,824,086
Staff Expenses	14	1,423,719	1,351,006
Staff travel	15	199,350	124,275
Property up keep expenses	16	303,785	956,193
Repair and renewal	17	412,108	168,988
Operating costs	18	1,357,071	975,012
Office Expense	19	114,611	143,793
Bank charges	20(a)	26,342	19,942
Audit fees	20(b)	48,000	48,000
Advertising promotion	21	43,549	215,490
General Charges	22	67,630	72,033
Central Services- Stationery	23(a)	18,000	18,000
Central Services –Board expenses	23(b)	70,000	15,000
Depreciation	2	2,107,324	2,108,825
Valuation Fees		-	-
Interest and other expense		-	-
Total Expenditure		9650797	9,040,643
NET PROFIT/(LOSS)		<u>(5,529,817)</u>	<u>(5,061,436)</u>

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDING 30TH JUNE 2012

	Share capital (Kshs.)	Revenue Reserve (Kshs)	Revaluation Reserve (Kshs)	Shareholders' equity (Kshs)
At 1 st July 2010	5,000,000	(52,328,956)	66,793,016	19,464,060
Add prior year Adjustments		6,992,626	-	6,992,626
Bal. At 1 st July 2010 (Restated)	5,000,000	(45,336,330)	66,793,016	26,456,686
Deficit for the year	-	(5,061,436)	-	(5,061,436)
At 30 th June 2011	5,000,000	(50,397,766)	66,793,016	21,395,250
At 1 st July 2011	5,000,000	(50,397,766)	66,793,250	21,395,250
Deficit for the year	-	(5,529,817)	-	(5,529,817)
At June 2012	5,000,000	(55,927,583)	66,793,016	15,865,433

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2012

	2012	2011
	<u>KSH</u>	<u>KSH</u>
Cash From Operating Activities		
Net profit/loss for the year	(5,529,817)	(5,061,436)
ADJUSTMENTS:		
Prior year adjustments	-	6,992,626
Depreciation	2,107,324	2,108,825
Operating profit/loss before working capital changes	(3,422,493)	4,040,015
(Increase) decrease in stock	7,722	(8,803)
(Increase) decrease in debtors	(612,095)	(536,818)
increase (decrease) in creditors	382,815	(9,142,613)
Increase/ (decrease) in K.T.D.C Advances	3,970,063	3,383,736
	-	-
Net cash inflow (outflow) from operating Activities	3,748,505	(6,304,498)
Net cash flow generated from operations	326,012	(2,264,483)
Cash flow from Investing activities		
Purchase of fixed assets	(47,995)	-
Cash flow from financing activities		
Increase (Decrease)in KTDC Loans	-	2,149,996
Net Cash flow (outflow) from Financing Activities	(47,995)	2,149,996
Net increase (Decrease) in cash and cash equivalents	278,017	(114,487)
Cash and cash equivalent at the beginning	61,191	175,678
Cash & cash equivalent at the end of the year	339,208	61,191

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2011

NOTES ON THE FINANCIAL STATEMENTS

Summary of significant accounting policies

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

i. Accounting Convention

Accounts have been prepared in accordance with the historical cost convention.

ii. Turnover

The turnover represents the amount receivable for services provided net of government taxes and levies.

iii. No depreciation is charged on land

The company's policy regarding depreciation is to write off the following rates:

Buildings	2.5% per annum
Motor vehicles	25% per annum
Equipment	12.5% per annum
Furniture & fittings	12.5% per annum

In case of a revalued asset, no depreciation is charged during the year of revaluation and on the revaluation surplus. Full year depreciation is therefore provided during the next year and all other subsequent years.

Depreciation for Building and Equipments

The method used in depreciating the building is straight line method whereas the equipment is reducing balance method.

iv. Stocks

Stocks are valued at the lower cost or net realizable values less further costs expected to be incurred.

v. Foreign currency

Foreign currency transactions during the year were converted at the exchange rates at the date of transactions and any gains or losses were taken to the profit and loss account.

vi. Corporation Tax

Corporation tax has been provided for since the company incurred a loss

Vii. Statement of Retained profit and loss

	2012 Ksh.	2011 Kshs
Balance b/f	(50,397,766)	(52,328,956)
Prior year adjustments	-	6,992,626
Profit/loss of the year	(5,529,817)	(5,061,436)
Retained profit /loss c/f	(55,927,583)	(50,397,766)

Viii . Currency

shs- Kenya shillings

NO.2 Non-current asset as at 30th June 2012

COST	LAND	BUILDING	MOTOR VEHICLE	FURNITURE AND EQUIPMENT	TOTAL
	Ksh	Ksh	Ksh	Ksh	Ksh
1 st July, 2011	6,000,000	60,000,000	120,000	4,630,600	70,750,600
Addition	-	-	-	47,995	47,995
Total	6,000,000	60,000,000	120,000	4,678,595	70,798,595
Depreciation					
Depreciation as at 1 st July 2011	-	1,500,000	30,000	578,825	2,108,825
Charges for the year	-	1,500,000	22,500	584,824	2,107,324
Total		3,000,000	52,500	1,163,649	4,216,149
Depreciation as at 30 th June 2012					
NET BOOK VALUE					
N.B.V as at 30 th June 2012	6,000,000	57,000,000	67,500	3,514,946	66,582,446
NBV as at 30, June,2011	6,000,000	58,500,000	90,000	4,051,775	68,641,775

3(a). Share Capital

Authorized, issued and fully paid:	SHARES	VALUE
	No	Ksh.
250,000 ordinary shares of Ksh.20 @		
Kenya Tourist development Corporation	245,000	4,900,000
Kipngochoch farm Ltd.	5,000	100,000
	<u>250,000</u>	<u>5,000,000</u>

3(b) Unallocated shares

MR. H. Kiplagat	200,000	200,000
-----------------	---------	---------

4. Advances:

During the year the Hotel received advances to pay salaries Ksh.3, 970,063 from
KTDC.

Kshs.

KTDC advances B/f	1,376,145
Add: Additional advances to clear salary arrears 2009-2010	19,158,707
Add: Valuation fees paid by KTDC	211,568
Add: Advances July 2010 to June 2011	3,566,736
Add Advances july2011 to june 2012	
	3,970,063
Total	28,283,219

5. Corporation Tax

Corporation tax has not been provided for since the company incurred a loss.

6. K.T.D.C Loan

Interest on K.T.D.C loan is based at 9% during the year, for 10 years.

Loan Principal amount	Kshs. 16,208,948.00
Add: Loan January 2011	Kshs. 2,149,996.00

Balance as 30 June2012	Kshs. <u>18,358,944.00</u>
------------------------	----------------------------

tes to financial statement

Inventory	2012	2011
Food	6,086	4,445
Drinks	28,320	37,600
tobacco	1,348	4,460
Kitchen/ restaurant and bar	1,324	315
Cleaning stock	1,195	755
Toilet Requisite	-	-
Containers	27,734	26,154
Guest suppliers		
	66,007	73,729
Trade & other Receivables		
Trade Debtors	4,853,607	4,133,984
Staff Advances & imprest	734,319	841,847
	5,587,926	4,975,831
Trade & other payables		
Trade Creditors	2,353,356	2,371,022
Statutory Creditors	6,856,005	6,536,524
Staff payables	169,530	169,530
Provision	273,500	192,500
Advances payments		
	215,600	215,600
	9,867,991	9,485,176

KABARNET HOTEL LIMITED.

Cash & Bank	13,948	35,998
Petty Cash	313,873	12,806
Main account	11,387	11,387
Cash control(front office)	339,208	61,191

as to financial statement

Sales

Accommodation	2,147,695	2,114,051
Food –Resident	1,223,657	909,470
-Casual	1,532,854	1,424,756
Beverages	1,100,093	1,152,566
Tobacco	17,670	23,415
Laundry	-	-
Service charge	39,669	38,827
Other income	397,642	435,756
	6,459,280	6,098,841

Cost of Sales

Food	1,592,353	1,225,387
Beverage	745,947	894,246
	2,338,300	2,119,633

Salaries & Wages

Administration	992,997	758,924
Rooms	725,935	607,671
Food	646,920	657,759
Maintenance	385,806	332,004
NSSF Employers Contribution	48,000	47,200
Casuals	507,165	295,060
Terminal Benefits	-	-
Bar	152,485	125,486
	3,459,308	2,824,086

KABARNET HOTEL LIMITED.

Staff expenses

Staff meals	371,518	251,974
Staff housing	1,016,621	1,085,932
Medical expenses	14,680	3,100
Other expenses	-	-
Staff welfare	20,900	-
	1,423,719	1,351,006

Staff Travel

Leave Travel	125,750	89,050
Staff Transport	9,000	11,800
Staff travel	64,600	23,425
	199,350	124,275

Property upkeep & Expenses

Building maintenance	297,985	953,643
Garden & Grounds	5,800	2,550
	303,785	956,193

Repair & Renewals

Misc. Electrical tools	52,122	63,640
Staff uniform	2,350	12,840
Plant & Machinery	254,491	34,600
Linen	52,700	57,708
Cutlery and Holloware	22,465	200
Furniture & Fittings	27,980	-
Minor Repair	-	-
	412,108	168,988

Operation Cost

Electricity	279,440	295,800
Fuel & Gas	305,392	270,960
Water sanitation	136,812	148,600
Laundry expenses	-	-

KABARNET HOTEL LIMITED.

Cleaning	44,847	54,153
Toilet requisite	48,575	39,474
Kitchen restaurant and bar	87,501	68,577
Guest supply	56,796	38,405
Licenses	397,708	59,043
	1,357,071	975,012

Office Expenses

Telephone & postage	40,659	34,829
Printing & stationery	52,072	74,454
Office miscellaneous	21,880	34,510
	114,611	143,793

a) Administration Expenses

Bank charges	26,342	19,942
--------------	--------	--------

b) Audit fees	48,000	48,000
---------------	--------	--------

	74,342	67,942
--	---------------	---------------

Advertising & promotion

Guest entertainment	22,629	91,590
---------------------	--------	--------

Agent commission	14,720	119,200
------------------	--------	---------

Marketing	6,200	4,700
-----------	-------	-------

	43,549	215,490
--	---------------	----------------

General Services

Flowers & Decorations	2,330	-
-----------------------	-------	---

Delivery charges	65,240	72,033
------------------	--------	--------

	67,630	72,033
--	---------------	---------------

Central Services

Secretarial services	18,000	18,000
----------------------	--------	--------

Directors fees	15,000	15,000
----------------	--------	--------

Directors Expenses	55,000	55,000
--------------------	--------	--------

	88,000	88,000
--	---------------	---------------