

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

**PARLIAMENT  
OF KENYA  
LIBRARY**

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**KENYA TOURISM FINANCE  
CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE 2014**

*Paper Laid  
By Hon. A. Duque (MOM)  
on Mrs. 12.11.2015  
Mmw*



**TOURISM FINANCE CORPORATION**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> of  
JUNE 2014**

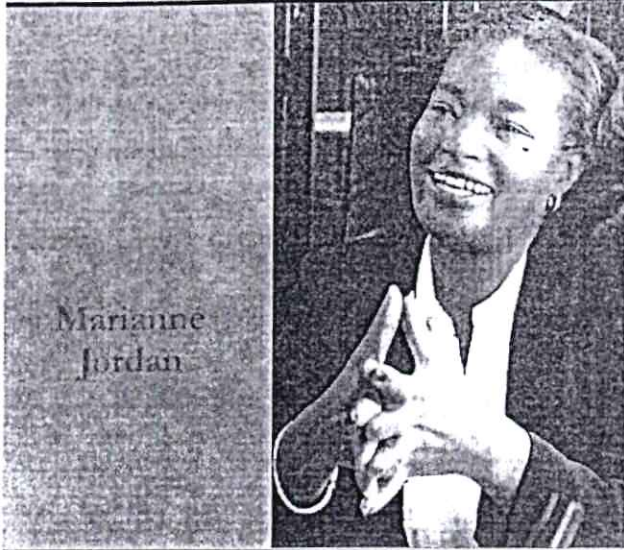
**Prepared in accordance with the Accrual Basis of Accounting Method under the International  
Financial Reporting Standards (IFRS)**

# KENYA TOURIST DEVELOPMENT CORPORATION

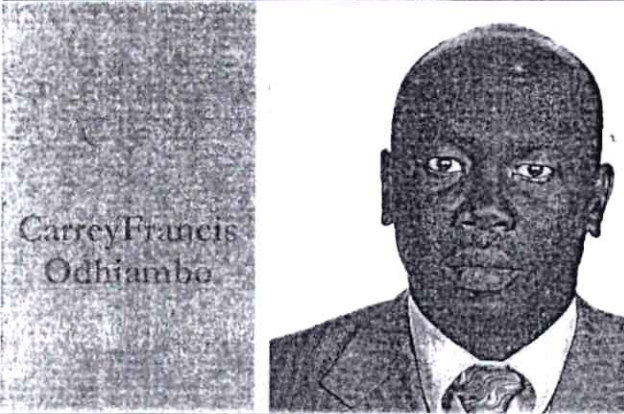
## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2014.

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**BOARD OF DIRECTORS**








Managing Director



Bachelor of Laws  
(LLB),  
Dip. Law  
Member Institute of  
Chartered Arbitrators  
(MCI Arb)  
Head of Legal  
Services

MANAGEMENT TEAM

<p>Marianne Jordan</p>		<p>Msc. Finance &amp; Investment                  Bsc. Hospitality Management &amp; Tourism                  Diplome d'Hotellerie et Tourisme</p>	<p>Managing Director</p>
<p>Abraham Muthogo</p>		<p>Master of Arts (Economics of Multilateral trading Systems- ongoing                  Bachelor of Arts (Hons) in Economics                  Associate of the Chartered Institute of Bankers</p>	<p>Head of Credit</p>
<p>Dominic Ndewa</p>		<p>MA(Economics Policy Management)                  BA (Econ)                  Certified Public Accountant of Kenya (CPAK)                  Certified Investments and Financial Analysts (CIFA)</p>	<p>Head of Investments</p>
<p>Carrey Francis Odhiambo</p>		<p>Bachelor of Laws (LLB),                  Dip. Law                  Member Institute of Chattered Arbitrators (MCI Arb)</p>	<p>Head of Legal Services</p>
<p>Carolyn Misoi</p>		<p>Master of Business Administration(MBA)                  Bachelor of Arts                  Diploma in PR and Personnel Management</p>	<p>Head of Human Resources &amp; Administration</p>

## REPORT OF THE CHIEF EXECUTIVE OFFICER



**Marianne N. Jordan**

**MANAGING DIRECTOR**

It is my pleasure to present to you Tourism Finance Corporation's financial statements for the year ended 30<sup>th</sup> of June 2014.

The Corporation has continued to execute its mandate to Kenya's tourism sector through our competitive strategy, unique culture and strong brand.

Profit before taxation increased by 49% to KShs. 707 million from KShs. 473 million realized the previous year. This was achieved despite there being no lending for the entire financial year due to absence of a duly constituted Board of Directors as provided for under Section 77 of the Tourism Act, CAP 383 of the Laws of Kenya.

The lack of loan disbursements coupled with pay-offs/redemptions of existing loans by customers saw interest income reduce by 9% to KShs. 67 million from KShs. 74 million in the previous year. However, in compliance with International Financial Reporting Standards (IFRS) the Corporation recorded a surplus on revaluation of investment property which boosted the Corporation's revenue.

It is also worth noting that the Corporation's Cost to Income ratio recorded a remarkable reduction to 29% from 43% in the previous year, attributable to prudent management of costs.

I am pleased to report that the Corporation's balance sheet has continued to record growth with total assets posting an increase of 19% to close at KShs 3.3 billion up from 2.8 billion. This was mainly supported by a growth of 57% in Net Book Value of investment property and maturity of short term government securities.

It is also worth noting that the Corporation's equity investments are reported at cost and therefore a fair market valuation will yield an even stronger asset position.

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REPORT OF THE CHIEF EXECUTIVE OFFICER



The Corporation has continued to execute its investment mandate of developing products to enable the tourism sector achieve the objectives of the Kenya Vision 2030. To this end the Corporation is at various stages of implementing key flagship projects for the tourism sector.

Ultimately, these achievements have been possible courtesy of a passionate and enthusiastic team at Tourism Finance Corporation and with strong guidance of the Ministry of East African Affairs, Commerce and Tourism, The National Treasury and sector stakeholders.

In conclusion, the Corporation will continue to implement a growth strategy that focuses on delivering value and playing a lead role in fostering an enabling investment environment to Kenya's tourism sector and with the expected infusion of capable Board of Directors, scale even greater heights of success and prosperity for our country.

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of the Corporation is accountable to the government and the people of Kenya for ensuring that the Corporation undertakes its mandate in full compliance with the law, regulations, the highest standards of corporate governance and business ethics.

The Corporation being a Development Financial Institution (DFI) and a member of the Association of Africa Development Institutions (AADFI) has endeavored to adopt and incorporate the governance standards set by the Association wherever possible.

The Corporation continues to participate in the association's peer reviews to gauge its level of compliance with the Association's governance and compliance standards.

The Corporation continues to operate under and in compliance with the governing law being the Tourism Act CAP 383 of the Laws of Kenya and other relevant Acts of Parliament such as the State Corporation's Act CAP 446 of the laws of Kenya.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Corporation is in the process of putting together a Corporate Social Responsibility Policy that will be presented to the Board for consideration for approval once it is duly constituted. The Corporation however continues to sponsor events that are socially driven on a case by case basis pending approval of the policy by the Board.

## 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 Tourism Finance Corporation's affairs.

## PRINCIPAL ACTIVITY

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

## RESULTS

The results of the Corporation for the year ended June 30, 2014 are set out on page 1 to 25

## DIVIDENDS

The Director's do not recommend any dividend.

## DIRECTORS

The Corporation does not have a dully constituted Board of Directors at the moment.

## AUDITORS

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

## APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Permanent Secretary, Ministry of East African Affairs, Commerce and Tourism and the Corporation's Managing Director on ... 24/03/15 .....

By Order of the Board

  
.....  
Corporation Secretary

Date: 24/03/15 .....

# TOURISM FINANCE CORPORATION

## Reports and Financial Statements

### For the Year ended June 30, 2014

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#### KEY CORPORATE INFORMATION

The main Corporate information of the Corporation is as follows:

#### BACKGROUND INFORMATION

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

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

#### PRINCIPAL ACTIVITY

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

#### BOARD OF DIRECTORS

As indicated in the statement of Directors' Responsibilities on page 2 the Corporation did not have a duly constituted Board of Directors during the financial year 2013/2014.

#### CORPORATION SECRETARY

Maonga Ndonge Associates

#### REGISTERED OFFICE

Utalii House,  
Uhuru Highway,  
P.O Box 42013,  
NAIROBI ,KENYA.  
Telephone: +254 20 311474  
E.mail: info@ktdc.co.ke  
Website: www.ktdc.co.ke

#### INDEPENDENT AUDITORS

The Auditor General,  
Kenya National Audit Office (KENAO),  
Anniversary Towers, University way  
P.O Box 30084-00100,  
NAIROBI ,KENYA.

#### CORPORATE BANKERS

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

#### PRINCIPAL LEGAL ADVISER

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

# TOURISM FINANCE CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014.

The Kenya Tourism Finance Corporation did not have a fully constituted Board of Directors, as provided for under section 77 of the Tourism Act 2011, CAP 383 of the Laws of Kenya, for the entire financial year. The term of the previous Board of directors expired on 17<sup>th</sup> April 2013 and no other Directors have been appointed since then.

The Directors who take responsibility for the financial Statements for the financial year ending 30<sup>th</sup> June 2014 are the Permanent Secretary, Ministry of East African Affairs, Commerce and Tourism as the Accounting officer in the absence of the Board and the Managing Director of the Corporation.

The Directors accept the responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards, in the manner required by the PFM Act, the requirements of the Tourism Act and the February 1991 Treasury guidelines on Investment. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation'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 Corporation will not remain a going concern for at least twelve months from the date of this statement.

Director:.....

*[Handwritten signature]*

Date:.....

*24/3/2015*

Director:.....

*[Handwritten signature]*

Date:.....

*24.3.2015*

# REPUBLIC OF KENYA

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Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA TOURISM FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tourism Finance Corporation set out on pages 3 to 25, 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**

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 to 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

#### **1. Loan to Buffalo Springs**

As previously reported and as indicated in note 7 to the financial statements, included in the loan balance of Kshs.816,439,741 is an amount of Kshs.10,130,507 (2012/2013-Kshs. 9,261,694) loaned to Buffalo Springs Limited, an associate of Tourism Finance Corporation. According to information available, the premises in which the company operated were leased to another tenant by the defunct Isiolo Town Council due to failure by the Corporation to pay land rent arrears. This effectively crippled operations of the company leading to its inability to repay the loan. In the circumstances, the recoverability of the loan balance of Kshs.10,130,507 is doubtful as at 30 June 2014.

#### **2. Irregular Award of Provision of Secretarial Services**

The Corporation contracted a local firm to provide various secretarial services which included custodial services for statutory records, maintenance of register of members, directors and secretaries as well as the minutes' book, preparation and filling of annual returns; and convening and attending board and board committee meetings, and processing of minutes among other services. However, all the above functions ought to be handled internally by the Managing Director's office in conjunction with existing legal department which has a full time employee paid by the firm. Accordingly, the amount of Kshs.301,310 paid for the services is not a proper charge on public funds.

#### **3. Unsupported Share Certificates**

Investments of 245,000 and 22,289 shares in Kabarnet Hotel Limited and Mt. Elgon Hotel worth Kshs.4,900,000 and Kshs.445,780 respectively were not supported by share certificates. Consequently, the authenticity of ownership of the shares and value could not be ascertained as at 30 June 2014.

### **Qualified Opinion**

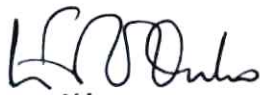
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2014, and of its financial performance

and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Tourism Act, 2011, of the Laws of Kenya.

### **Emphasis of Matter**

#### **Appointment of the Board**

I draw attention to the matter of appointment of the Board. Section 77 of the Tourism Act No.28 of 2011, provides that there shall be the Board of the Corporation which shall consist of a chairperson appointed by the President, Principal Secretary, Ministry of Tourism, Principal Secretary, Ministry of Finance, Chief Executive Officer and six other members appointed by the Cabinet Secretary through a competitive process. The Corporation has been operating with no Board in place after appointment of the previous Board was revoked vide Gazette Notice No. 10233 of 19 July 2012. As a result, several policy matters of the Corporation had not been undertaken during the year under review due to lack of policy direction and ownership of decisions made by the management. My opinion is not however qualified in respect of this matter.



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

**Nairobi**

**8 April 2015**

**TOURISM FINANCE CORPORATION**  
**Reports and Financial Statements**  
**For the year ended June 30 , 2014**

STATEMENT OF FINANCIAL POSITION

		2014	2013
	Note	KShs	KShs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investment Property	3	2,151,997,694	1,366,997,694
Property, Plant and Equipment	4	71,782,087	91,359,875
Intangible Assets	5	5,724,871	9,924,871
Investments	6	322,188,840	322,188,840
Loans	7	816,439,741	950,697,384
Deferred Tax Asset	22	26,327,237	104,666,737
		<u>3,394,460,470</u>	<u>2,845,835,401</u>
<b>Current Assets</b>			
Debtors and Prepayments	8	156,186,867	196,396,451
Cash and Cash Equivalents	9	344,691,762	223,356,346
		<u>500,878,629</u>	<u>419,752,797</u>
<b>TOTAL ASSETS</b>		<u><b>3,895,339,099</b></u>	<u><b>3,265,588,198</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Equity Funds	28	106,000,000	106,000,000
Pre-Investment Studies Grant	29	281,212	281,212
GOK Grant	25(i)	857,722,200	843,472,200
Capital Reserve	10 (a)	20,506,020	20,506,020
Revaluation Reserve	10 (b)	655,398,703	655,398,703
Retained Earnings	10 (c)	1,999,223,075	1,372,449,158
Restructuring Reserve	11	88,580,842	88,580,842
		<u>3,727,712,052</u>	<u>3,086,688,135</u>
<b>Non-Current Liabilities</b>			
Irredeemable GOK Revolving Fund Loan	12	48,000,000	48,000,000
Employees Benefits Provision	39	43,216,648	37,889,895
		<u>91,216,648</u>	<u>85,889,895</u>
<b>Current Liabilities</b>			
Creditors and Provisions	13	76,410,399	93,010,168
		<u>76,410,399</u>	<u>93,010,168</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>3,895,339,099</b></u>	<u><b>3,265,588,198</b></u>

These financial statements were not presented to the Board for approval as the Corporation does not have a duly constituted Board of Directors.

However they have been signed on its behalf by the Permanent Secretary, Ministry of East African Affairs, Commerce and Tourism as the Accounting Officer in the absence of the Board and by the Managing Director of the Corporation.

  
 .....  
 PRINCIPAL SECRETARY, MINISTRY OF EAST  
 AFRICAN AFFAIRS, COMMERCE & TOURISM

..... 24/3/2015  
 DATE

  
 .....  
 MANAGING DIRECTOR, TTC

..... 24/3/2015  
 DATE

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

# TOURISM FINANCE CORPORATION

## Reports and Financial Statements

### For the Year ended June 30, 2014

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#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2014	2013
	Note	<u>KShs</u>	<u>KShs</u>
<b>REVENUES</b>			
Interest From Loans	30	67,771,100	74,445,704
Rental Income	27	125,563,434	117,932,540
Dividend Income	17	-	26,807,000
Other Income	19	175,612	413,622
Surplus on Revaluation of Investment Property	31	785,000,000	593,054,528
<b>TOTAL REVENUES</b>		<b>978,510,146</b>	<b>812,653,394</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	23	132,173,546	190,128,916
Personnel Costs	24	129,660,171	134,181,820
Directors' Emoluments and Expenses	26	120,640	2,554,800
Depreciation	3 & 4	23,777,788	24,005,566
<b>TOTAL OPERATING EXPENSES</b>		<b>285,732,145</b>	<b>350,871,102</b>
<b>OPERATING PROFIT/(LOSS) - see page 22</b>		<b>692,778,001</b>	<b>461,782,292</b>
Finance Income (Bank Deposit Interest Income)	18	14,512,254	11,907,608
<b>Profit/(Loss) Before Taxation</b>		<b>707,290,255</b>	<b>473,689,900</b>
<b><u>Income Tax Expense/( credit)</u></b>			
Deferred Tax (Income)/Expense	22	(17,205,269)	(36,649,819)
Withholding Tax Paid		2,176,838	1,786,141
		<b>(15,028,431)</b>	<b>(34,863,678)</b>
<b>Profit/(Loss) After Taxation</b>		<b>722,318,686</b>	<b>508,553,578</b>
<b>RETAINED PROFIT/(LOSS) FOR THE YEAR</b>		<b>722,318,686</b>	<b>508,553,578</b>

**TOURISM FINANCE CORPORATION**  
**Reports and Financial statements**  
**For the year ended June 30,2014**

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

	Equity Funds KShs	Pre-Investment Studies Grant KShs	GOK Grant KShs	Capital Reserve KShs	Revaluation Reserve KShs	Retained Earnings KShs	Restructuring Reserve KShs	Total Equity KShs
As at 1st July 2012	106,000,000	281,212	783,472,200	20,506,020	655,398,703	864,528,057	88,580,842	2,518,767,034
New GOK Grant Received - Note 25	-	-	60,000,000	-	-	-	-	60,000,000
Reversal of Loan Interest Arrears-Note 10(c)	-	-	-	-	-	(632,477)	-	(632,477)
Retained Profit/(Loss) For the Year	-	-	-	-	-	508,553,578	-	508,553,578
<b>As at 30th June 2013</b>	<b>106,000,000</b>	<b>281,212</b>	<b>843,472,200</b>	<b>20,506,020</b>	<b>655,398,703</b>	<b>1,372,449,158</b>	<b>88,580,842</b>	<b>3,086,688,135</b>
New GOK Grant Received - Note 25	-	-	14,250,000	-	-	-	-	14,250,000
Reversal of unused Losses - Note 10 ( C)	-	-	-	-	-	(95,544,769)	-	(95,544,769)
Retained Profit/(Loss) For the Year	-	-	-	-	-	722,318,686	-	722,318,686
<b>As at 30th June 2014</b>	<b>106,000,000</b>	<b>281,212</b>	<b>857,722,200</b>	<b>20,506,020</b>	<b>655,398,703</b>	<b>1,999,223,075</b>	<b>88,580,842</b>	<b>3,727,712,052</b>

# TOURISM FINANCE CORPORATION

## Reports and Financial statements

### For the year ended June 30,2014

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#### STATEMENT OF CASH FLOWS

		2014	2013
	Note	<u>KShs</u>	<u>KShs</u>
<b><u>Cash Flows From Operating Activities</u></b>			
Net Income/(Loss) for the year after Exceptional Item but before Taxation		707,290,255	473,689,900
<b>Adjustments:</b>			
Depreciation	3 & 4	23,777,788	24,005,566
Increase/(Decrease) in Loans' Provision	15	-	9,258,994
Increase/(Decrease) in Employees Benefits Provision		5,326,753	4,300,778
(Surplus)/Deficit on Revaluation of Investment Property	3	(785,000,000)	(593,054,528)
De-recognition of Investment Asset	6(c)	-	38,659,077
Income from Investment (Dividend)	17	-	(26,807,000)
Interest From Bank Deposits	18	(14,512,254)	(11,907,608)
Operating Income/(Loss) before Working Capital Changes		(63,117,458)	(81,854,821)
(Increase)/Decrease in Debtors	8	40,209,584	18,086,644
Increase/(Decrease) in Creditors	13	(16,599,769)	7,980,013
Cash generated from Operations		(39,507,643)	(55,788,164)
Corporation & Withholding Taxes for the year Paid	10	(2,176,838)	(1,786,141)
Loans Interests' Recovered/(Capitalized) - see (a) on next page		(21,538,330)	(33,812,166)
<b>Net Cash Inflow/(Outflow) From Operating Activities</b>		<b>(63,222,811)</b>	<b>(91,386,471)</b>
<b><u>Cash Flows From Investing Activities:</u></b>			
Dividends Received	17	-	26,807,000
Interest from Bank Deposits	18	14,512,254	11,907,608
Purchase of Fixed Assets	4	-	(7,975,791)
Capital Work In Progress (CWIP)	3	-	(7,163,453)
Principal Loans Disbursed - see (b) on next page		(178,859)	(8,074,750)
Principal Loans Recovered - see (c) on next page		155,974,832	57,855,927
<b>Net Cash Inflow/(Outflow) From Investing Activities</b>		<b>170,308,227</b>	<b>73,356,541</b>

**TOURISM FINANCE CORPORATION**  
**Reports and Financial statements**  
**For the year ended June 30,2014**

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STATEMENT OF CASH FLOWS

		2014	2013
		<u>KShs</u>	<u>KShs</u>
	Note		
<u>Cash Flows From Financing Activities:</u>			
GOK Grant Received	25	14,250,000	60,000,000
Net Cash Inflow/(Outflow) From Financing Activities		<u>14,250,000</u>	<u>60,000,000</u>
Net Increase/ (Decrease) in Cash and Cash Equivalents		121,335,416	41,970,070
Cash & Cash Equivalents at Beginning of the Period		223,356,346	181,386,276
Cash & Cash Equivalents at End of the Period	9	<u>344,691,762</u>	<u>223,356,346</u>
<u>NOTE:Cash &amp; Cash Equivalents are reconciled below</u>			
Cash at Bank		37,053,785	135,777,602
Cash in Hand		20,935	55,165
Flexi Treasury Bills		307,617,042	87,523,579
Cash & Cash Equivalents at end of the period	9	<u>344,691,762</u>	<u>223,356,346</u>

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

	2014	2013
	<u>KShs</u>	<u>KShs</u>
Interest Recovered from Loans	46,232,770	40,633,538
Interest Charged to Loans & Earned as Income	(67,771,100)	(74,445,704)
Interest Capitalized	<u>(21,538,330)</u>	<u>(33,812,166)</u>

b) Principal Loans Disbursed during the current financial year 2013/2014 were not new Loans. These were payments that affected loans portfolio as legal fees KShs 123,800 in respect to Proland Ltd, refund of loan balance overpayment KShs 49,669 in respect to Mohazo Ex-Impo Ltd and bank charges on dishonoured repayment cheques affecting a number of borrowers KShs 5,390. All these totalled to KShs 178,859. Disbursements in the previous year were for new loans approved in the 2011/2012 year and amounted to KShs 8,074,750.

	2014	2013
	<u>KShs</u>	<u>KShs</u>
Principal Loans Disbursed	178,859	8,074,750
	<u>178,859</u>	<u>8,074,750</u>

c) Principal Loans Recovered during the current financial year 2013/2014 were more than that of the previous year. This is since the Corporation continued to put more efforts in the recovery process and also lumpsum loan clearance by some borrowers. The amount involved was in respect to principal balance and principal arrears recovered both which totalled to KShs 155,974,832(2013:KShs 57,855,927). Interest recovered is explained in (a) above.

	2014	2013
	<u>KShs</u>	<u>KShs</u>
Principal Loans Recovered	155,974,832	57,855,927
	<u>155,974,832</u>	<u>57,855,927</u>

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#### NOTES TO THE FINANCIAL STATEMENTS

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

###### a) Statement of Compliance

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

###### b) basis of presentation

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies.

###### c) Changes in accounting policy and disclosures

###### (i) New and amended standards adopted by the Corporation:

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning on or after 1 July 2013:

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income is effective for accounting period beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of the amendments has mainly impacted the presentation of the primary statements.

Amendment to IFRS 7, 'financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning 1 July 2013 that would be expected to have a material impact on the Corporation.

###### (ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Corporation:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2010, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Management is yet to assess IFRS 9's full impact and intend to adopt IFRS 9 no later than the accounting period beginning 1 July 2015. The Management will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

###### d) Consolidation

The Corporation has more than 50% shareholding in some of its investee companies. However, consolidated financial statements of the Corporation and its subsidiaries are not prepared as the Corporation does not have power, directly or indirectly, to govern the financial and operating activities of these entities so as to obtain benefits from the activities. Control lies with the Government of Kenya through the National Treasury.

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#### e) Accounting for unquoted investments in subsidiary and associated companies

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

#### f) Classification of funds

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

##### i) Equity Fund:

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

##### ii) Commercial Loans Fund:

Funds provided by the Government to lend on a commercial basis to tourism related companies and to be repaid to the Government over a period of fifteen years from January 1991. The Loan was fully repaid in the year 2000/2001. However the Corporation continues to lend on commercial basis even after fully repaying the Government as it has build up a stable lending base from loan recoveries.

##### iii) Revolving Loans Fund:

This fund was set up by the Government for the corporation to manage and provide loan finance to assist Kenyans to become established in the tourism industry.

However following Board approval on 21st of September 2010, these two Loan Funds were merged into one TFC Loans Fund by opening a new Bank Account to manage it. The Revolving and Commercial Funds Bank Accounts were consequently closed to conform with this approval and also with the the Revised Credit Policy and Manual.

#### g) 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.

#### h) 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.

Loans which are non-performing and which have no further recovery prospects are written off against their Specific Provisions upon approval by the Board (see Note 6 on Loans)

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#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

##### **i) Property, plant & Equipment**

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

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

##### **j) Investment property**

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

Increase(or decreases) in the carrying amounts of assets arising from revaluation are credited(or debited) to income statement in the year of revaluation as the case may be.

Capital work in progress(CWIP) relates mainly to the costs of ongoing but incomplete works on buildings, civil works and installations.

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

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

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

##### **k) Revenue**

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

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

##### **i) Finance Income:**

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

##### **ii) Loan Interest Income:**

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

##### **iii) Rental Income:**

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

##### **iv) Other Income:**

Major items in this category include Personnel Loan's interest, Loan Appraisal and Commitment fees, proceeds received from sale of Tender documents and Directors fees received and receivable during the financial year.

##### **v) Dividend income**

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

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#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continuation

##### **m) Intangible Assets**

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, for over three years.

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

##### **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 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.

##### **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 Kenya Commercial Bank at the end of the financial year.

##### **q) Trade and other payables**

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

##### **r) Comparative figures**

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

##### **s) 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, 2014.

##### **t) Employee benefits**

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

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

The Corporation has provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving. This is payable to eligible employees who serve a continuous term not less than two(2) years from the date of employment to date of leaving. Each employee earns twenty one(21) terminal leave days per every served year. The Benefits due for current staff as at 30th June 2014 based on their accumulated terminal leave days and their basic Salaries.

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#### 2. FINANCIAL RISK MANAGEMENT

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

Taking risk is core to the Corporation's business, and the operational risks are an inevitable consequence of being in business. The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The key types of risk include:

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

#### **Credit Risk:**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's loans and advances to customers and investment securities. For risk management reporting purposes, the Corporation considers all elements of credit risk exposure such as individual obligator default risk and sector risk. In the normal course of its business, the Corporation incurs credit risk from loans and advances to customers. The credit risk exposure is, however, managed through assessment of each borrower taking into account financial position, past experience and other factors as well as monitoring the performance of borrowers businesses during the loan term.

#### **Market Risk :**

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

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

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

#### **Liquidity risk:**

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

Liquidity position is monitored through daily cash position as well as monthly cash forecast that monitors debt structure and expected cash position. The responsibility for managing daily and monthly liquidity assessment resides with the Financial Manager.

However, the statement of financial position liquidity management resides with the Corporation's Finance and administration Committee.

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

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Year ended 30 June 2013	3. INVESTMENT PROPERTY				4. PROPERTY, PLANT AND EQUIPMENT				5. INTANGIBLE ASSETS			
	Land & Buildings	Capital Work In Progress (CWIP)	Total Investment Property	Furniture, Fittings and Equipment	Computer and Computer Accessories	Cutlery and Holloware	Motor Vehicles	Total of Property, Plant & Equipment	ERP Software	Capital Work In Progress (CWIP)	ERP Software	Total of ERP Software
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
<b>Cost/Valuation</b>												
At cost on 01 July 2012	751,945,472	14,834,241	766,779,713	111,141,052	6,684,882	31,497	19,316,076	137,173,507	-	14,000,000	14,000,000	
C.W.I.P. Realized (see 13b)	-	-	-	-	-	-	-	-	13,583,762	(13,583,762)	-	
Additions during the year	-	-	-	5,338,941	2,636,850	-	-	7,975,791	-	-	-	
Disposals During the Year	-	-	-	-	-	-	-	-	-	-	-	
Capital Work In Progress(CWIP)	-	7,163,453	7,163,453	-	-	-	-	-	-	-	-	
Surplus on Revaluation of Assets	593,054,528	-	593,054,528	-	-	-	-	-	-	-	-	
As at 30 June 2013	1,345,000,000	21,997,694	1,366,997,694	116,479,993	9,321,732	31,497	19,316,076	145,149,298	13,583,762	416,238	14,000,000	
<b>Depreciation</b>												
01 July 2012	-	-	-	20,908,182	5,211,727	-	7,739,077	33,858,986	-	-	-	
Charge for the year	-	-	-	14,282,525	1,525,162	-	4,122,750	19,930,437	4,075,129	-	4,075,129	
Elimination on Disposal	-	-	-	-	-	-	-	-	-	-	-	
As at 30 June 2013	-	-	-	35,190,707	6,736,889	-	11,861,827	53,789,423	4,075,129	-	4,075,129	
<b>Net Book Value</b>												
Balance as at 30 June 2013	1,345,000,000	21,997,694	1,366,997,694	81,289,286	2,584,843	31,497	7,454,249	91,359,875	9,508,633	416,238	9,924,871	
<b>Year ended 30 June 2014</b>												
<b>Cost/Valuation</b>												
At cost on 01 July 2013	1,345,000,000	21,997,694	1,366,997,694	116,479,993	9,321,732	31,497	19,316,076	145,149,298	13,583,762	416,238	14,000,000	
C.W.I.P. Realized (see 13b)	-	-	-	-	-	-	-	-	416,238	(416,238)	-	
Surplus on Revaluation of Assets	785,000,000	-	785,000,000	-	-	-	-	-	-	-	-	
As at 30 June 2014	2,130,000,000	21,997,694	2,151,997,694	116,479,993	9,321,732	31,497	19,316,076	145,149,298	14,000,000	-	14,000,000	
<b>Depreciation</b>												
01 July 2013	-	-	-	35,190,707	6,736,889	-	11,861,827	53,789,423	4,075,129	-	4,075,129	
Charge for the year	-	-	-	14,238,467	1,216,571	-	4,122,750	19,577,788	4,200,000	-	4,200,000	
As at 30 June 2014	-	-	-	49,429,174	7,953,460	-	15,984,577	73,367,211	8,275,129	-	8,275,129	
<b>Net Book Value</b>												
Balance as at 30 June 2014	2,130,000,000	21,997,694	2,151,997,694	67,050,819	1,368,272	31,497	3,331,499	71,782,087	5,724,871	-	5,724,871	

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**Notes:**

a) IAS 16 requires that the comparative figures for movements in property, plant and equipment be disclosed. These are recognized at cost incurred initially to bring the asset to working condition for the intended use. The initial cost includes costs of purchase, site preparation, delivery, installation and professional fees. The cost is netted with accumulated depreciation and impairment where applicable to arrive at the net book value which is the carrying amount of the asset at the end of the financial year. The corporation revalues its assets regularly so as to establish their current fair values thus ensuring that these values do not differ materially from their carrying amounts at the balance sheet date. Any increase in value of the asset resulting from revaluation is added to the asset and credited to revaluation reserve as surplus and vice versa as a deficit if a decrease arises. The surplus is depreciated accordingly and charged to profit and loss account. The corporation derecognises and removes from the statement of financial position any asset through disposal when no future economic benefits are expected to accrue from its disposal. Any gain or loss on disposal is recognized through the profit and loss account. Where there is evidence that an asset is impaired, the corporation assesses the extent of the incurred loss as the difference between the asset's carrying amount and the present value of estimated future cash flows. The assessed impairment loss is recognised in the profit and loss account.

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

c) A revaluation of Utalii House was carried out in June 2004 by Crystal Valuers Ltd, professional valuers, on an open market basis and gave the value as KShs. 570,000,000. The resulting revaluation surplus of KShs. 497,972,875 was transferred to Revaluation Reserve(note 10). As per IAS 16 we adopted the approach where the balance in the revaluation reserve in respect to an asset to be transferred to retained earnings when the asset is sold,as at that point it is a realised gain. As indicated under Accounting Policies in note 1(j), the first financial year of depreciating this revaluation surplus was 2004/2005. The original cost was KShs 72,027,125.

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

A revaluation was carried out during the current 2012/2013 year by Metrocosmo Ltd, professional valuers, on open market basis with respect to KTDC's Mombasa Island Plot. The market value was given as KShs 600,000,000 against previously carrying cost of KShs 6,945,472 resulting into surplus of KShs 593,054,528 which was realized through the Statement of Comprehensive Income as provided by International Accounting standard(IAS) 40 paragraph 35.

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

d) Capital Work In Progress (CWIP) KShs 13,583,762 realized for previous year and KShs 416,238 for current year refers to contracted Capital Works during the 2011/2012 financial year. These works were with respect to the implementation of an integrated Enterprise Resource Planning(ERP) software by Coretec Systems and Solutions Ltd which began in the previous 2011/2012 year at KShs 14,000,000. The works were fully completed in the current year and the ERP which is re-classified as an Intangible Asset is fully operational.

Capital Work In Progress (CWIP) carrying amount of KShs 21,997,694 as at 30th of June 2014 comprises the amount of architectural services paid in the previous year(s) with respect to Utalii House phase II rehabilitation works KShs 17,937,694 and deposit and survey fees with respect to the proposed acquisition of Marina land in Shimoni, Kwale KShs 4,060,000 (deposit KShs 3,500,000 and fees KShs 560,000). There were no further payments made during the current 2013/2014 financial with respect to these projects(2013 KShs 7,163,453 comprising Utalii House phase II rehabilitation works KShs 3,103,453 and Marina land KShs 4,060,000.

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

	30 th of June 2014		30 th of June 2013	
	Cost or Valuation	Normal annual depreciation	Cost or Valuation	Normal annual depreciation
	KShs	KShs	KShs	KShs
Furniture, Fittings and Equipment	2,746,945	343,368	2,746,945	343,368.00
Computer and Accessories	4,074,236	1,222,271	3,904,236	1,171,271.00
Motor Vehicles	2,825,075	706,269	2,825,075	706,269.00
	<u>9,646,256</u>	<u>2,271,908</u>	<u>9,476,256</u>	<u>2,220,908</u>

## 6. INVESTMENTS

Project	Percentage Held KShs	Equity Investment 2014 KShs	Equity Investment 2013 KShs
<b>(i) Subsidiaries</b>			
Kenya Safari Lodges & Hotels Ltd - Performing	89.00	40,507,553	40,507,553
Bomas of Kenya Ltd - Performing	100.00	5,080,000	5,080,000
Mt. Elgon Lodge Ltd - Non-performing	72.90	1,345,780	1,345,780
Sunset Hotel Ltd - Performing	95.40	11,450,000	11,450,000
Kabarnet Hotel Ltd - Non-performing	98.20	5,432,120	5,432,120
Golf Hotel Ltd, Kakamega - Performing	80.00	4,000,000	4,000,000
African Tours & Hotels Ltd - Non-performing,being Wound up	52.60	4,691,900	4,691,900
<b>Subtotals</b>		<b>72,507,353</b>	<b>72,507,353</b>
<b>(ii) Associates</b>			
Mountain Lodges Ltd - Performing	39.70	2,893,520	2,893,520
International Hotel (K) Ltd - Performing	40.05	135,939,167	135,939,167
Kenya Hotel Properties Ltd - Performing	33.80	114,189,360	114,189,360
Buffalo Springs Ltd - Non-performing(see below)	41.00	1,000,000	1,000,000
<b>Subtotals</b>		<b>254,022,047</b>	<b>254,022,047</b>
<b>(iii) Others</b>			
Maralal Safari Lodge Ltd - Non-performing	15.50	802,000	802,000
The Ark Ltd - Performing	5.50	549,340	549,340
African Tours & Hotels Preference Shares - Non-performing	-	29,100	29,100
<b>Subtotals</b>		<b>1,380,440</b>	<b>1,380,440</b>
<b>Grand Totals</b>		<b>327,909,840</b>	<b>327,909,840</b>
Less: Provision for Investment in AT & H Ltd.		(4,721,000)	(4,721,000)
Provision for Investment in Buffalo Springs Ltd.		(1,000,000)	(1,000,000)
<b>INVESTMENTS</b>		<b>322,188,840</b>	<b>322,188,840</b>

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

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

- b) All the investments indicated above as performing are those that are operating on a day to day basis and the Corporation does not finance any of their operating costs. The others indicated as non-performing are either operating below capacity or are already dissolved awaiting removal from the books.
- i) Mt. Elgon Lodge Ltd. and Kabarnet Hotel Ltd. are operating below capacity and have requested the Corporation to finance their rehabilitation so as to resume full capacity. The Corporation is currently paying monthly salaries to staff of these two companies.
- ii) African Tours & Travel Hotels Ltd. was placed under receivership in 1998 and later woundup. The Investment in both ordinary and in preference shares is already provided as shown above.
- iii) Malalal Safari Lodge Ltd. is generally operating on low scale and largely depends on seasoned guests and customers.
- c) Watalii Street project was initiated by the Corporation to develop the Hilton Plot along Moi Avenue, Nairobi. The project didn't continue as the title issued by the City Council of Nairobi is user restricted. The amount invested is what the Corporation paid in the 1990's to Consultants before the project was discontinued. During the previous 2012/2013 year, this investment Asset was de-recognized and eliminated from the Statement of Financial Position through Statement of Comprehensive Income as it is not in use and as there has been no economic benefit in the past or expected in the future that would flow into the Corporation. This was done as provided by International Accounting Standard(IAS) 40 paragraphs 16-19 and 66-71. The cost involved and derecognized in the 2012/2013 financial year was KShs 38,659,077.

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**7. LOANS**

Project	Principal	Principal	Interest	2014	2013
	Balance	Arrears	Arrears	Total	Total
	KShs	KShs	KShs	KShs	KShs
1-Delight Dreamland Hotel Ltd.	-	2,900,000	-	2,900,000	2,900,000
2-Kenya Agro Business Ltd	-	800,000	-	800,000	800,000
3-Hotel Big Five Ltd.	368,335	8,213,025	16,734,432	25,315,792	23,144,662
4-Pawn Crafts Company Ltd.	-	-	-	-	305,070
5-Mohazo Ex - Impo Ltd.	-	-	-	-	1,417,725
6-Pafido Fast Foods Ltd.	2,350,000	1,827,902	128,471	4,306,373	5,482,208
7-Profund Ltd	7,666,619	3,520,445	3,398,790	14,585,854	13,910,805
8-Kabarnet Hotel Ltd	10,164,859	8,194,085	9,250,939	27,609,883	27,609,883
9-Golf Hotel Ltd, Kakamega	28,460,019	(2,212,337)	-	26,247,682	27,895,303
10-Bomas of Kenya Ltd.	2,211,647	6,119,883	-	8,331,530	9,682,489
11-Buffalo Springs Ltd.	988,822	3,955,488	5,186,197	10,130,507	9,261,694
12-Mt Elgon Lodge Ltd.	1,764,795	831,576	930,852	3,527,223	3,527,223
13-Kenya Safari Lodges & Hotels Ltd.	38,439,157	31,249,916	5,864,550	75,553,623	75,553,623
14-Sunset Hotel Ltd, Kisumu.	46,863,207	21,108,641	11,825,421	79,797,269	76,945,462
15-Metro Enterprises Ltd.	4,580,015	15,019,386	43,684,167	63,283,568	62,204,098
16-Sosa Cottages Ltd.	-	-	-	-	10,009,543
17-Polyphar Kenya Ltd.	-	-	-	-	667,823
18-Motto Tours & Travels Ltd.	-	1,146,879	-	1,146,879	3,308,420
19-Olimo Synergy Ltd.	10,794,390	4,205,610	1,953,127	16,953,127	16,359,085
20-Kogelo Hotel Ltd.	15,780,671	7,222,794	3,972,830	26,976,295	26,748,120
21-Lake Victoria Beach Resort Ltd	6,754,360	3,245,640	3,021,711	13,021,711	11,998,444
22-Willow Ltd.	10,263,156	4,736,844	5,159,006	20,159,006	18,430,132
23-Pinecone Hotel Ltd.	36,574,073	13,425,927	12,368,362	62,368,362	57,019,536
24-Kitale Nature Conservancy Ltd.	11,780,695	5,219,305	4,091,947	21,091,947	19,312,840
25-Kidee Investments Ltd.	13,082,016	5,717,984	3,620,215	22,420,215	21,273,560
26-Le Savanna Country & Hotel Ltd.	-	-	-	-	22,240,460
27-Greenwood Park Village Ltd.	14,210,513	5,789,487	5,102,417	25,102,417	22,949,587
28-Ketarak Cottages Ltd.	1,421,048	(92,177)	-	1,328,871	1,592,257
29-Reef Hotels (Management) Co. Ltd	33,769,375	(21,745,256)	238,075	12,262,194	40,160,434
30-Embeut Resort Ltd.	22,777,772	7,222,228	5,500,369	35,500,369	33,433,222
31-Isiolo Mashallah Hotel & Lodge Ltd.	-	-	-	-	8,855,682
32-Kisii Country Lodge Ltd.	-	-	-	-	23,586,621
33-Savona Enterprises Ltd.	7,368,400	2,632,205	2,063,544	12,064,149	11,273,409
34-Athi Holiday Resort Company Ltd.	11,805,553	3,194,997	2,734,602	17,735,152	16,214,153
35-Gamasil Company Ltd.	20,462,957	5,537,043	4,442,764	30,442,764	28,515,751
36-West Vision Holdings Ltd.	19,907,396	5,092,604	1,151,443	26,151,443	25,713,682
37-Triple Trojan Investment Ltd.	11,447,367	519,674	-	11,967,041	14,228,827
38-Valley View Prime Lodge Ltd.	-	-	-	-	34,000,069
39-Mwingi Hotels Ltd.	9,352,085	924,031	238,241	10,514,357	10,662,754
40-Lagoon Development Ltd	26,851,850	22,770,317	371,589	49,993,756	49,994,290
41-Marura Ikumi Ltd.	12,881,575	223,118	-	13,104,693	14,813,717
42-Kipini Swahili Eco - Lodges Ltd	41,203,703	8,569,359	100,521	49,873,583	49,983,694
43-New Mara Ol - Kupelia Lodge Ltd.	-	-	-	-	15,929,949
44-Kangocho & Company Ltd.	40,789,463	5,646,768	449,156	46,885,387	50,616,539
45-Trinity Tours & Safaris Ltd	1,703,698	326,866	46,031	2,076,595	2,214,472
<b>TOTALS</b>	<b>524,839,591</b>	<b>193,060,257</b>	<b>153,629,769</b>	<b>871,529,617</b>	<b>1,002,747,317</b>
Less: Total Provision For Interest In Suspense				(19,758,225)	(16,718,282)
<b>Total of Loans Book Values</b>				<b>851,771,392</b>	<b>986,029,035</b>
Less: Total Provision For Bad Debts On Loans				(35,331,651)	(35,331,651)
<b>TOTAL LOANS NET OF PROVISIONS</b>				<b>816,439,741</b>	<b>950,697,384</b>

**Note:**

- a) Loans with Nil balances in the 2014 column managed to repay their balances in full within the current 2013/2014 financial year  
b) The provision for bad debts on all these Loans of KShs 35,331,651 remained the same as was last year. This includes general provision of KShs 9,258,993 on loans made in the previous year as provided in the Credit Policy at 1% of gross loans balance.

	2014	2013
	Total	Total
	KShs	KShs
i) Loans Bad Debts Provision Brought Forward on 1st of July	35,331,651	53,967,294
ii) Provision Made / (Write Back) per Note 15 (a)	-	9,258,994
iii) Less: Loans Written off to Provisions		
Kithyululu Farm Ltd (Board approval of 30th & 31st March 2010)	-	(27,894,637)
Sub total of Loans Written off	-	(27,894,637)
iv) Net Increase / (Decrease) in Provisions i.e (ii) - (iii)	-	(18,635,643)
<b>v) Loans Bad Debts Provision Carried Forward on 30th June i.e. (i) + (iv)</b>	<b>35,331,651</b>	<b>35,331,651</b>

c) No new loans were disbursed during the current 2013/2014 financial year as there was no Board in operation

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8. DEBTORS AND PREPAYMENTS	2014 KShs	2013 KShs
These Comprise:		
Debtors (Note (a) below)	287,759,130	311,200,036
Deposit and Prepayments	10,794,494	27,563,172
	298,553,624	338,763,208
Fixed Deposit at Euro Bank Ltd (In Liquidation)	47,819,761	47,819,761
	346,373,385	386,582,969
Less: F Provision For Bad Debts on Debtors	( 142,366,757)	( 142,366,757)
Provision For Bad Debt - Deposit in Euro Bank Ltd(in Liquidation)	( 47,819,761)	( 47,819,761)
	<u>156,186,867</u>	<u>196,396,451</u>
<b>Note (a)</b> Debtors comprise of:		
(i) Current Tenants Debtors	60,020,168	51,889,529
(ii) Unit Debtors(excluding Dividends)	131,119,010	122,269,568
(iii) Dividends due from Kenya Hotel Properties Ltd.	27,064,677	27,064,677
(iv) Dividends due from Golf Hotel Ltd., Kakamega	1,600,000	1,600,000
(v) Ex-Tenants Debtors	59,911,564	59,911,564
(vi) Staff Debtors	1,579,863	2,286,259
(vii) Ex-Staff Debtors	6,118,872	6,046,151
(viii) Other Debtors(see below)	344,976	40,132,288
	<u>287,759,130</u>	<u>311,200,036</u>

Included in the amount for Deposit & Prepayments for current year is the balance of deposit of KShs 8,861,125 which was received of 2nd of July 2014. This was received from Bench Events Ltd following cancellation of Africa Hotel Investment Forum(AHIF) conference that was to be held in Nairobi in September 2014. The amount paid for the conference was KShs 25,637,500 whose part was received in the current 2013/2014 year leaving the said balance. Other amounts are payments in advance especially in respect to County Government Rates for 2014/2015 year paid as at 30th of June 2014.

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

Current tenant debtors were more for current year with notable ones being rent due from Government Ministries which had relatively large balances compared to previous. Staff debtors were slightly less than previous year as staff continued to make monthly repayments through payroll recoveries. New advances given during the year also commenced recoveries through payroll.

Ex-tenants debtors are those who gave up office and parking spaces and left with rent balances. The dividends due are the ones declared as per note 17 but had not been received as at the year end. As reported in the previous year, payment of monthly salaries to staff of Kabarnet Hotel Ltd & Mt Elgon Hotel Ltd continued to be met by TFC and treated as advances to them thereby increasing the Unit debtors from what was reported in the previous year.

These payments out of TFC Privatization Funds were approved by Treasury. The increase in Ex - staff debtors is as a result of reclassification of former employees who otherwise had been classified as current employees in previous year(s).

Other Debtors reduced drastically due to payment of balance of KShs 40,000,000 by Davetronics Company Ltd which bought the Corporation's Lavington House during the 2011/2012 financial year.

9. CASH AND CASH EQUIVALENTS	2014 KShs	2013 KShs
<b>a. Short term deposits</b>		
Flexi Treasury Bills	307,617,042	87,523,579
<b>b. Bank and cash balances</b>		
Cash at Bank	37,053,785	135,777,602
Cash in Hand	20,935	55,165
	<u>37,074,720</u>	<u>135,832,767</u>
<b>Total cash &amp; Cash Equivalents</b>	<u>344,691,762</u>	<u>223,356,346</u>

For the purpose of Cash Flow Statement, the year end Cash and Cash equivalents shown above is offset and reduced, where applicable, by Bank Overdraft if any. During the current year 2013/2014 no new Loans were disbursed. Cash and cash equivalents as at 30th June 2014 were more than that of previous year mainly due lumpsum loan clearance by some borrowers.

All these Funds, except the Euro Bank Deposit mentioned in note 8, are held at Kenya Commercial Bank Ltd, University Way, Nairobi.

**10. GENERAL FUND**

This Comprises:

a) CAPITAL RESERVE	2014 KShs	2013 KShs
Invested in equity portfolio	4,741,000	4,741,000
Invested in commercial advances	2,000,000	2,000,000
	6,741,000	6,741,000
Surplus on revaluation	13,765,020	13,765,020
	<u>20,506,020</u>	<u>20,506,020</u>
<b>b) REVALUATION RESERVE</b>		
Surplus on Revaluation of Utalii House B/f	655,398,703	655,398,703
Deferred Tax ( Note 22)	-	-
Surplus on revaluation of Utalii House C/f	655,398,703	655,398,703
<b>c) RETAINED EARNINGS</b>		
Balance Brought Forward	1,372,449,158	864,528,057
Prior Period Adjustment	-	-
Reversal of Interest Arrears Accrual on Kithyululu Farm Ltd Loan	-	(632,477)
Reversal of unused losses on deferred tax	(95,544,769)	-
Restated Balance	1,276,904,389	863,895,580
Retained Earnings/(Loss) for the year	722,318,686	508,553,578
Retained Earnings/(Loss) Carried Forward	1,999,223,075	1,372,449,158
<b>TOTAL GENERAL FUND</b>	<u>2,675,127,798</u>	<u>2,048,353,881</u>

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**10. GENERAL FUND-(continuation)**

During the previous 2012/2013 financial year interest arrears relating to previous years on borrower Kithyululu Farm Ltd KShs 632,477 was reversed against Retained Earnings. This followed successful satisfaction of the terms of the settlement offer approved by the TFC Board sitting on the 30th and 31st of March 2010.

Withholding tax paid during current year of KShs. 2,176,838 was on Bank Deposit interest earnings(2013: Kshs 1,786,141)

Reversal of unused losses on deferred tax have resulted from compliance with Kenyan tax legislation which requires that tax losses be carried forward to a maximum of four(4) years. These losses were for the years 2001/2002 and 2002/2003 and had been carried on upto 30th June 2013. The amount of KShs 95,544,769 being the losses carried over for more than four years have therefore been reversed in the deferred tax workings in note 22.

	2014	2013
	<u>KShs</u>	<u>KShs</u>
Revolving Fund Programme	16,701,086	16,701,086
Commercial Fund Programme	71,879,756	71,879,756
	<u>88,580,842</u>	<u>88,580,842</u>

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

Restructuring in subsidiary companies resulted in deferment of outstanding loans interests which were then separated from the loans to retain them at principal loan balances. The subsequent interest charges on these loans were suspended. The deferred interest before the suspension of the interest so far forms the possible loss on these loans and has already been offset from the Reserve. Currently the corporation does not have any deferred interest on loans in its books. The February 1991 Investment Guidelines provided for the restructuring of the subsidiary companies through the above referred Capital Restructuring Reserve. No new additional Loan Restructuring Reserve was provided out of Profits during the current year(2013: KShs Nil)

**12. IRDEEMABLE GOK REVOLVING FUND LOAN**

This Loan was given by the Government of Kenya (GOK) at the inception of the Corporation to finance the disbursement of loans to indigenous Kenyans to establish tourist-related business enterprises under the Revolving Fund loans programme. The Government later rescheduled this loan in December 1986 by writing off the arrears and retaining the loan at Principal at KShs 48,000,000 being irredeemable and carrying an interest of 8.5% p.a. as from 1st January 1990.

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

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

Interest for the current year 2013/2014 has therefore not been charged as per note 16 and only the Principal Loan is now due as shown below.

	2014	2013
	<u>KShs</u>	<u>KShs</u>
Irredeemable GOK Revolving Fund Loan	48,000,000	48,000,000
	<u>48,000,000</u>	<u>48,000,000</u>

**13. CREDITORS AND PROVISIONS**

	2014	2013
	<u>KShs</u>	<u>KShs</u>
These Comprise:		
(a) Creditors (Note (a) below)	67,446,426	85,664,952
(b) Provisions:		
(i) Gratuity for Employees on Contract Terms	4,926,575	3,029,990
(ii) Employees Leave and Off days Benefits	4,037,398	4,315,226
	<u>76,410,399</u>	<u>93,010,168</u>

**Note (a) Creditors are comprised of:**

(i) Creditors for Accrued Expenses	7,965,500	16,704,107
(ii) Current Tenants for Rent Deposit	7,911,721	6,896,925
(iii) Current Tenants Payments in Advance	731,642	1,284,676
(iv) Unit Booking Deposits	912,515	912,515
(v) Audit Fees	406,000	812,000
(vi) VAT - Output and Withholding	43,636,445	43,916,101
(vii) Payroll Recoveries	2,799,841	6,020,611
(viii) Current Staff Creditors	83,398	14,404
(ix) Ex - Staff Creditors	2,982,767	4,773,525
(x) Other Creditors	16,597	4,330,088
	<u>67,446,426</u>	<u>85,664,952</u>

**a) Creditors**

Creditors include, among others, creditors for expenses, tenants rent deposits received, tenants who had paid in advance as at the year end & VAT-output and withholding.

**b) (i) Gratuity for employees on contract**

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

**b) (ii) Employees Leave and Off days Benefits**

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

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**14. OFFICE EXPENSES**

	<b>2014</b>	<b>2013</b>
	<b><u>KShs</u></b>	<b><u>KShs</u></b>
These Comprise:		
Publicity, Advertising & Public Relations	62,334,026	60,815,956
Printing and Stationery	343,269	1,262,257
Telephone and Postages	1,560,533	1,800,585
Subscriptions and Donations	2,857,792	1,396,282
General Office Expenses	1,411,815	1,327,848
Repairs and Maintenance of Office Equipment	643,263	519,411
ASK Shows	284,510	726,180
	<b><u>69,435,208</u></b>	<b><u>67,848,519</u></b>

Included in the Publicity, Advertising and Public Relations expenditure of KShs 62,334,026 is KShs 49,225,000 paid to Bench Events Ltd for organizing and hosting the Africa Hotel Investment Forum(AHIF) conference in Nairobi in September 2013(September 2012: KShs. 43,468,750)

**15. BAD DEBTS PROVISION**

This comprises provisions made or written back during the year as analysed below;

	<b>2014</b>	<b>2013</b>
	<b><u>KShs</u></b>	<b><u>KShs</u></b>
<b>(a) Provision on Loans</b>		
General Provision on Loans.	-	9,258,994
<b>Sub Total on Loans</b>	<b><u>-</u></b>	<b><u>9,258,994</u></b>
<b>(b) Provision on Ex-Tenants' Debtors</b>		
( i ) Waku Waku Safaris(Parking)	-	3,480
( ii ) Skywards Electronics(Office)	-	59,136
( iii ) Capital Design(Office)	-	43,287
( iv ) African Relief(Office)	-	229,478
( v ) S. Ngugi & Mburu Ngooro(Office)	-	249,674
( vi ) New Beginning Tianshi(Office)	-	658,242
( vii ) Party Tours & Safaris(Office)	-	88,476
( viii ) Viviennes Super Florists(Parking)	-	39,263
( ix ) Bimarite International(Office)	-	209,991
( x ) Nelma Associates(Office)	-	1,937
( xi ) Coast Car Park & Amusement Centre(Parking)	-	13,743,577
( xii ) Unifield Insurance Brokers(Parking)	-	160,899
( xiii ) Skywards Electronics(Parking)	-	13,860
( xiv ) Track Card Systems(Parking)	-	37,700
( xv ) Barclays Bank of Kenya Ltd(Parking)	-	115,098
( xvi ) Charles Ngundo(Parking)	-	13,920
( xvii ) Dr. Mukiri wa Githendu(Parking)	-	6,960
( xviii ) United Way Kenya Ltd(Parking)	-	22,620
<b>Sub Total on Ex-Tenants' Debtors</b>	<b><u>-</u></b>	<b><u>15,697,598</u></b>
<b>Grand Total of Provisions (written back)/made</b>	<b><u>-</u></b>	<b><u>24,956,592</u></b>

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

No new provisions were made on loans for current year as the current general provision balance of KShs 9,258,994 fully satisfies credit policy which provides for 1% general provision on total loans portfolio which as at 30th June 2014 stood at KShs. 871,529,617 .

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

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

The book value of this deposit as at 30th of June 2014 stood at KShs 47,819,761 per note 5(2013: KShs 47,819,761)

No further provision was made to cover possible losses on debts from Ex-tenants for Utalii House as they are adequately provided(2013: KShs 15,697,598 was mad

Total provision made for current financial year stood at KShs Nil compared to last year's total provision made of KShs 24,956,592.

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#### 16. INTEREST EXPENSE

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

Following successful request by the Corporation, the Ministry of Finance waived the annual interest due on the Irredeemable GOK Revolving Fund Loan vide their letter dated 4th of September 2009.

Therefore no interest has been charged during the current year as was the case last year.

The Corporation, despite having an operational Bank Overdraft facility on its Administration account, managed its cash flows well and hence did not overdraw this bank account. There was, therefore, no interest on overdraft this year as was the case the previous year.

#### 17. DIVIDEND INCOME

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

	2014	2013
	<u>KShs</u>	<u>KShs</u>
<u>Mountain Lodges Ltd.</u>		
- final for year ending 31st December 2012	-	1,525,390
<u>Kenya Hotel Properties Ltd(KHP)</u>		
- final for year ending 31st December 2012	-	23,681,610
<u>Golf Hotel Ltd, Kakamega</u>		
- final for year ending 30th June 2012	-	1,600,000
	<u>-</u>	<u>26,807,000</u>

The dividends are recorded as gross. This is since the Corporation as a Resident Payee is automatically exempted from withholding tax on dividends received under the provisions of the Income Tax Act as it holds more than 12.5% shareholding in each of the four companies which gives it considerable voting power.

The above companies together with International Hotels (Kenya) Ltd did not declare dividends during the current 2013/2014 financial year.

Dividends declared in the previous year(s) of KShs 27,064,677 from Kenya Hotel Properties Ltd and KShs 1,600,000 from Golf Hotel Ltd are still outstanding as at 30th June 2014.

#### 18. BANK DEPOSIT INTEREST INCOME

	2014	2013
	<u>KShs</u>	<u>KShs</u>
This Comprises:		
Interest from Flexible Treasury Bills	14,512,254	5,559,585
Interest from Fixed & Call Deposits	-	6,348,023
	<u>14,512,254</u>	<u>11,907,608</u>

This is interest earned during the financial year from Flexi Treasury Bills, Fixed & Call Deposits held by the Corporation at Kenya Commercial Bank Ltd. The Bills interest rates for the current financial year were on an upward trend from as low as 6.25% p.a. in 2012/2013 financial year to as high as 9.95% p.a. in 2013/2014 financial year resulting into higher interest income compared to the previous year.

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

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

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#### 19. OTHER INCOME

	2014	2013
This Comprises:	<u>KShs</u>	<u>KShs</u>
Personnel Loans Interest	18,015	57,239
Directors Fees	87,500	-
Loan Appraisal Fees	-	100,000
Loan Commitment Fees	-	23,000
Miscellaneous Income	70,097	233,383
	<u>175,612</u>	<u>413,622</u>

Included in Miscellaneous Income for previous year are Tender application fees received.

There were no Tender Fees received for current 2013/2014 financial year as there was no tendering during the year..

Loan appraisal fees KShs 50,000 were received from one loan applicant during the year and included in miscellaneous income.

#### 20. CONTINGENT LIABILITY - TAX LIABILITY

As at 30th June 2006, there was a contingent liability resulting from penalties and interest on outstanding tax for the years 1993 to 1999 charged by the Kenya Revenue Authority. The Corporation has been in negotiations for a 100% waiver with the Kenya Revenue Authority(KRA).

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

The total penalties and interest stood at KShs 167,689,035 out of which KShs 83,844,517.50 was waived by the Minister for Finance on 21st January 2005 leaving a balance of KShs 83,844,517.50. This is after paying all the principal taxes due. By a letter dated 12th of March 2009 to KRA, Treasury indicated that it was considering our justifications for request for waiver with a view of coming up with an acceptable solution and sought KRA indulgence in the matter.

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

The Tax Consultant called PKF Taxation Services Ltd was engaged during the previous financial year. The Consultant managed to get a breakthrough at KRA on all Tax matters to date. The Corporation paid as requested by KRA Principal Taxes of KShs 1,442,792 for year of Income 2000 and KShs 1,843,862 for year of Income 2001 so as to qualify for application of waiver of penalties and interest on both years. All Principal Tax arrears to date were therefore cleared. Consequently the Corporation through the Parent Ministry of Tourism wrote to the Minister for Finance requesting for waiver of penalties and interest for years 2000 & 2001 totalling to KShs 29,575,483 and also for full waiver of balance of KShs 83,844,517.50 for years 1993 to 1999.

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

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**21. NUMBER OF EMPLOYEES**

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

	2014	2013
Beginning of the year	46	49
Less: Resignation	(2)	(3)
Terminations	-	(1)
Add: Recruitments	3	1
End of the year	<u>47</u>	<u>46</u>

During the current year the serving staff reduced by the resignation of the Head of Audit and the Business Development Officer Recruitment was in respect to one(1) Business Development Officer and two(2) Investment Officers.

These changes brought the staff level to forty seven (47) out of the total approved structure of fifty four (54). The resulting seven (7) vacant positions including those of the Head of Public Relations, Head of Finance, Head of Audit and for Officers who resigned are expected to be filled in the next financial year 2014/2015 when the Board is expected to be constituted.

**22. DEFERRED TAX LIABILITY**

The computations of the Deferred Tax is as below:

	2014	2013
The net deferred tax liability is made up of	<b>KShs</b>	<b>KShs</b>
Accelerated Capital Allowance	4,299,889	1,863,305
Tax Losses	(14,972,940)	(95,544,770)
Provision for terminal dues	(12,964,994)	(8,781,707)
Provision for gratuity	(1,477,973)	(908,997)
Provision for leave pay	(1,211,219)	(1,294,568)
	<u>(26,327,237)</u>	<u>(104,666,737)</u>

	2014	2013
	<b>KShs</b>	<b>KShs</b>
Deferred tax (income)/expense	(17,205,269)	(36,649,819)
	<u>(17,205,269)</u>	<u>(36,649,819)</u>

There is no current tax charge due to accumulated tax losses

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

	2014	2013
	<b>KShs</b>	<b>KShs</b>
Accounting profit/(loss) before taxation	<u>707,290,255</u>	<u>473,689,900</u>
Tax at applicable rate (30%)	211,161,395	142,106,970
Expenses not subject to tax(Depreciation)	7,133,336	7,201,669
Income not subject to tax(Dividend income)	-	(8,042,100)
Income not subject to tax(Valuation Gain)	(235,500,000)	(177,916,358)
	<u>(17,205,269)</u>	<u>(36,649,819)</u>

**Movement in deferred tax account**

	2014	2013
	<b>KShs</b>	<b>KShs</b>
Opening Balance	(104,666,737)	(68,016,918)
Reversal of unused Losses	95,544,769	-
(Credit)/Charge to Income Statement	(17,205,269)	(36,649,819)
Deferred Tax Liability/(Asset) Closing Balance	<u>(26,327,237)</u>	<u>(104,666,737)</u>

Reversal of unused losses on deferred tax have resulted from compliance with Kenyan tax legislation which requires that tax losses be carried forward to a maximum of four(4) years. These losses were for the years 2001/2002 and 2002/2003 and had been carried on upto 30th June 2013. The amount of KShs 95,544,769 being the losses carried over for more than four years have therefore been reversed in the deferred tax workings and also in the retained earnings in note 10.

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## 23. ADMINISTRATION COSTS

	Note	2014 KShs	2013 KShs
These Comprise:			
Entertainment	32	260,000	309,240
Travelling Costs	33	21,169,044	18,532,794
Motor Vehicle Expenses	34	2,232,683	2,200,207
Office Expenses	14	69,435,208	67,848,519
General Repairs and Maintenance	27	910,065	740,412
Security	27	5,278,390	6,716,855
Cleaning Costs	27	3,241,004	3,798,052
Utalii House Generator Running Costs	27	156,507	426,518
Utalii House Management Fees	27	574,016	650,568
Lifts Maintenance	27	1,256,630	1,720,705
Electricity	27	13,214,604	12,817,529
Water & Conservancy	27	1,069,388	416,181
Rent and Rates	27	1,983,975	1,739,681
Auditors Remuneration	35	182,000	462,000
Legal, Valuation & Consultancy Fees	38	9,077,906	6,354,244
Bank Charges	36	391,166	251,695
Bad Debts Provision Made	15	-	24,956,592
Insurances	37	1,740,960	1,528,047
De-recognition of Investment Asset	6( C)	-	38,659,077
		<b>132,173,546</b>	<b>190,128,916</b>

The Profit of KShs 707,290,255( 2013:KShs 473,689,900 has been arrived at after charging/(crediting):

	2014 KShs	2013 KShs
Personnel Costs - note 24	129,660,171	134,181,820
Directors' Emoluments and Expenses - note 26	120,640	2,554,800
Depreciation - note 3 & 4	23,777,788	24,005,566
Auditors Remuneration - note 35	182,000	462,000
Provision for bad debts - note 15	-	24,956,592
Finance Income (Bank Deposit Interest Income) - note 19	(14,512,254)	(11,907,608)
Finance Cost (Loan Interest Expense) - note 16	-	-
Rental Income - note 27	(125,563,434)	(117,932,540)

## 24. PERSONNEL COSTS

	2014 KShs	2013 KShs
The analysis of the various items forming the Personnel Costs are shown below:		
Salaries and Wages	63,129,748	64,937,124
House Allowance	16,782,444	17,652,931
Employer's Pension Contribution	9,503,129	8,669,924
Employers NSSF Contribution	110,000	111,600
Medical Aid and Surgical scheme	8,231,884	10,594,969
Staff Recruitment	104,400	-
Staff Training	3,295,978	3,499,806
Staff Gratuity	2,725,028	4,284,408
Leave Travel Cost ,Leave & Off Days Provision	5,673,320	6,137,930
Staff Uniforms and Uniforms Cleaning	121,832	22,204
Terminal Benefits Provision Expense	5,997,143	4,300,778
Staff Welfare	3,790,148	3,147,998
Staff Group Life & Personal Accident Cover	1,101,734	1,295,361
Commuting Allowance	7,139,027	7,405,849
Staff Telephone Allowance	1,124,000	1,257,855
MD's Other Remunerative Allowances	720,000	720,000
Internship Allowance	110,356	143,083
	<b>129,660,171</b>	<b>134,181,820</b>

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

The reduction in number of employees as shown in Note 21 resulted into relative reduction in payroll related expenses as shown above.

This mainly contributed to the lower Personnel Costs for the current year compared to the previous year.

The recruited employees as shown in Note 21 reported during the second half of the current 2013/2014 financial year.

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### 25. RELATED PARTY TRANSACTIONS

#### (a) Government of Kenya

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

#### (b) Employees

The Corporation provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

The following were the transactions with related parties during the financial year.

#### i) GOK Grant

The treatment of GOK Grant is as provided under the International Accounting Standard No. 20 which provides for recognition of costs or expenses related to a Government Grant as income in the same period as the relevant expense/disbursements. This Income approach and was adopted to the grant received in the 2001/2005 financial year.

The Corporation however adopted the Capital approach in relation to Grant received in 2009/2010 and that received afterwards where the Grants are classified as Shareholders Funds as they are not earned. Disbursements or expenses out of them are therefore no longer realized as income. The analysis of the GOK Grand Fund is as shown below;

	2014 KShs	2013 KShs
GOK Grant Received in 2004/2005 Financial Year	7,500,000	7,500,000
Disbursement/Expense realized to Income in 2005/06 Financial Year	(2,027,800)	(2,027,800)
Balance of Grant Fund	5,472,200	5,472,200
GOK Grant Received in 2009/2010 Financial Year	400,000,000	400,000,000
GOK Grant Received in 2010/2011 Financial Year	300,000,000	300,000,000
GOK Grant Received in 2011/2012 Financial Year	78,000,000	78,000,000
GOK Grant Received in 2012/2013 Financial Year	60,000,000	60,000,000
GOK Grant Received in 2013/2014 Financial Year	14,250,000	-
Balance of Grant Fund as at 30th of June	<u>857,722,200</u>	<u>843,472,200</u>

#### ii) Investee Companies

The following balances are the Related Parties' Relationships between the Corporation and the Investee Companies shown above as per IAS. These amounts are in respect to loans granted by the corporation and also debtors amounts from contracted services which the corporation has extended. The amounts are payable to the corporation by way of consideration of cash payment.

	Type of Debt	2014 KShs	2013 KShs
i) Kenya Safari Lodges & Hotels Ltd	Loan	75,553,623	75,553,623
	Unit Debtors	12,650,463	12,650,463
ii) Bomas of Kenya Ltd	Loan	8,331,530	9,682,489
	Unit Debtors	1,535,951	1,535,951
iii) Mt.Elgon Lodge Ltd	Loan	3,527,223	3,527,223
	Unit Debtors	20,301,919	17,092,622
iv) Sunset Hotel Ltd, Kisumu	Loan	79,797,269	76,945,462
	Unit Debtors	22,790,408	22,661,648
v) Kabamet Hotel Ltd	Loan	27,609,883	27,609,883
	Unit Debtors	36,955,904	32,165,811
vi) Golf Hotel Ltd, Kakamega	Loan	26,247,682	27,895,303
	Unit Debtors	6,704,558	6,704,558
vii) African Tours & Hotels Ltd	Unit Debtors	149,543	149,543
	Tenant Debtors	8,016,872	8,016,872
viii) Mountain Lodges Ltd	Unit Debtors	622,678	622,678
ix) International Hotel (K) Ltd	Unit Debtors	11,415,080	11,415,080
x) Kenya Hotel Properties Ltd	Unit Debtors	41,745,449	41,692,344
xi) Buffalo Springs Ltd	Loan	10,130,507	9,261,694
	Unit Debtors	649,193	649,193
xii) Maralal Safari Lodge Ltd	Unit Debtors	60,000	60,000
xiii) The Ark Ltd	Unit Debtors	354,482	354,482
	<b>Total</b>	<u>395,150,217</u>	<u>386,246,922</u>

### 26. DIRECTORS' EMOLUMENTS AND EXPENSES

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

	2014 KShs	2013 KShs
Chairman's Remuneration	-	49,973
Chairman's Cell Phone & Direct Line Allowances	-	4,372
Directors' Sitting Allowances	-	1,180,000
Directors' Mileage Claims & Subsistence Allowances	-	795,364
Board Secretarial Services	120,640	525,091
	<u>120,640</u>	<u>2,554,800</u>

As indicated under Statement of Directors' Responsibilities, the appointment of the Board was revoked vide Gazette Notice No. 10233 of 19th of July 2012. The newly appointed Board was not able to assume office thereby resulting into KShs Nil spending on this expenditure item other than on the contracted Board's Secretarial Services for services rendered during the year.

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**27. RENTAL INCOME**

	2014	2013
	KShs	KShs
The Rental Income is from investment properties follows.		
Offices Rental Income	115,589,608	107,806,297
Parking Rental Income	9,973,826	10,132,223
	<u>125,563,434</u>	<u>117,938,520</u>

The increase in Offices Rental income is as a result of rent escalation effected after every two years to Utalii House Tenants. Parking Rental income experienced a slight decrease as, on average, less space was occupied than was in the previous year.

The direct operating expenses arising from investment property is as follows:

	2014	2013
	KShs	KShs
General Repairs and Maintenance	910,065	740,412
Security	5,278,390	6,716,855
Cleaning Costs	3,241,004	3,798,052
Utalii House Generator Running Costs	156,507	426,518
Utalii House Management Fees	574,016	650,568
Lifts Maintenance Costs	1,256,630	1,720,705
Electricity Costs	13,214,604	12,817,529
Water and Conservancy	1,069,388	416,181
Rent & Rates	<u>1,983,975</u>	<u>1,739,681</u>
	<u>27,684,579</u>	<u>29,026,501</u>

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

Management fees were due to Gimco Ltd who were awarded a Contract to manage Utalii House.

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

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

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

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

**28. EQUITY FUNDS**

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

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

**29. PRE-INVESTMENT STUDIES GRANT**

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

	2014	2013
	KShs	KShs
Pre - Investment Studies Grant	281,212	281,212
	<u>281,212</u>	<u>281,212</u>

**30. INTEREST FROM LOANS**

This is interest income earned during the year from balances of loans disbursed out of KTDC Loan Fund. The applicable Interest Rate is 9% p.a. from October 2010 following Board approval of 21st of September 2010.

	2014	2013
	KShs	KShs
Interest from Loans	67,771,100	74,445,704
	<u>67,771,100</u>	<u>74,445,704</u>

**31. SURPLUS ON REVALUATION OF INVESTMENT PROPERTY**

Investment Property along Moi Avenue in Nairobi was valued during the current financial year. The open market value given was KShs 800,000,000 against its original carrying cost of KShs 15,000,000 thereby resulting into surplus of KShs 785,000,000. The gain in the fair value of this investment property was recognized through the income statement as provided for by the International Accounting standard (IAS) No. 40 paragraph 35.

	2014	2013
	KShs	KShs
Surplus on Revaluation of Investment Property	785,000,000	593,054,528
	<u>785,000,000</u>	<u>593,054,528</u>

**32. ENTERTAINMENT**

This was incurred during the year as paid through payroll to Heads of Departments(HODs) as provided in the Terms and Conditions of Service. The expense for current year was lower as three(3) HODs positions were unoccupied during the current year.

	2014	2013
	KShs	KShs
Entertainment	260,000	309,240
	<u>260,000</u>	<u>309,240</u>

**33. TRAVELLING COSTS**

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

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

	2014	2013
	KShs	KShs
Local Travelling costs	13,290,765	13,587,844
Overseas Travelling costs	7,878,279	4,944,950
	<u>21,169,044</u>	<u>18,532,794</u>

**34. MOTOR VEHICLE EXPENSES**

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

	2014	2013
	KShs	KShs
Fuel and Oil	1,178,437	1,446,581
Repairs and Service	1,054,246	753,626
	<u>2,232,683</u>	<u>2,200,207</u>

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### 35. AUDITORS RENUMERATION

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

The VAT amount is recoverable as input VAT and offset against output VAT due.

The expenseable fees for current year KShs 350,000 have been netted against the input VAT of KShs 168,000 which was expensed in the previous three(3) financial years at KShs 56,000 each year to arrive at KShs 182,000.

The accrued amount for previous year was KShs 406,000 plus KShs 56,000 VAT omitted in the accrual for 2011/2012 financial year to total at KShs 462,000. The annual fees are as follows:

	2014	2013
	KShs	KShs
Auditors Remuneration	182,000	462,000
	<u>182,000</u>	<u>462,000</u>

### 36. BANK CHARGES

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

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

	2014	2013
	KShs	KShs
Bank Charges	391,166	251,695
	<u>391,166</u>	<u>251,695</u>

### 37. INSURANCES

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

The comparative amounts for the two years is as follows:

	2014	2013
	KShs	KShs
Insurances	1,740,960	1,528,047
	<u>1,740,960</u>	<u>1,528,047</u>

### 38. LEGAL, VALUATION & CONSULTANCY FEES

	2014	2013
	KShs	KShs
Legal Fees	5,065,135	4,405,364
Valuation Fees	1,430,089	1,948,880
Consultancy Fees	2,582,682	-
	<u>9,077,906</u>	<u>6,354,244</u>

#### Legal Fees

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

#### Valuation Fees

Valuation fees for current year were paid to Metrocosmo Ltd for valuing the Corporation's Moi Avenue Plot during the year(see note 3(A)(c)). Valuation Fees paid for previous year were for valuation of the Corporation's Mombasa Island plot.

#### Consultancy Fees

There were no Consultancy Fees expenses incurred during the previous 2012/2013 financial year.

The main consultancy services for current year were from PKF Consulting Ltd for advice on the corporation's compliance with IFRSs and auctioneer services by Baseline Auctioneers with respect to sale of Lavington House the previous year.

### 39. RETIREMENT BENEFIT OBLIGATION

#### a) KTDC Staff Retirement Benefits Scheme

The Corporation operates a Defined Contribution Staff Retirement Benefits Scheme for its employees who are on Permanent & Pensionable Terms of Service. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions made by Employer at 15% and by Employee at 7.5% of Basic Salary. The Corporation's contributions to the scheme are charged to Statement of Comprehensive Income in the year in which they relate. All Employer and Employee contributions due for the current year 2013/2014 had fully been paid as at 30th June 2014.

#### b) KTDC Terminal Benefits Provision

The Corporation has provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving. This is payable to eligible employees who serve a continuous term not less than two(2) years from the date of employment to date of leaving. Each employee earns twenty one(21) terminal leave days per every served year. The Benefits due for current staff as at 30th June 2014 based on their accumulated terminal leave days and also their Basic Salaries was KShs 43,216,648(2013: KShs 37,889,895) which reflects an increase of KShs 5,326,753 from the previous year. This increase is mainly because of the normal annual Salary increase to staff effected from 1st of July 2013 and also increase accumulated terminal leave days as at 30 June 2014 and also additional employees during the year. Employees who left within the year as shown in note 21, however, caused a slight reduction.