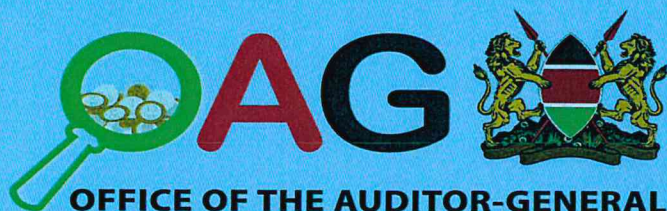



REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 23 SEP 2021	DAY: Thursday
TABLED BY:	L.O.M
CLERK-AT THE-TABLE:	Mainah Wanjiku

THE AUDITOR-GENERAL

ON

**KENYA SAFARI LODGES AND HOTELS
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2019**

- **MOMBASA Beach Hotel**
- **NGULIA Safari Lodge**
- **VOI Safari Lodge**



KENYA SAFARI LODGES & HOTELS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019**

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

KENYA SAFARI LODGES & HOTELS

Box 90414 - 80100 Mombasa, Kenya & Box 42013 Nairobi - Kenya

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KEY ENTITY INFORMATION

a) Background information

Kenya Safari Lodges & Hotels Ltd (“KSLH”, “The Company”) was incorporated under the Kenya Companies Act (Cap 486) in 1966. The shareholders of KSLH are Tourism Finance Corporation (TFC,) Mountain Lodges Ltd and Kenya Wildlife Services (KWS). Tourism Finance Corporation is the majority shareholder in KSLH with a direct controlling stake of 82.45% shares. From a management control perspective, KSLH is classified as a State Corporation by virtue of being a subsidiary of TFC. The company operates three units namely; Mombasa Beach hotels, Ngulia Safari Lodge and Voi Safari Lodge.

b) Principal Activities

The Principal activity of the Kenya Safari Lodges and Hotels is ownership and operation of hotel and lodge facilities in Kenya. KSLH vision is to provide premiere hospitality experiences in Kenya; the mission is to enhance customer value by offering premiere Hospitality experiences with an African heritage and core values are Integrity Service excellence Discipline Team work Innovation Social responsibility Dedication and commitment

c) Directors

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

Name of Director		Date of Appointment	Alternate	Date of Appointment
Mr Franklin Ndii	Director	14 th June 2019	-	-
Mr Michael Matu	Chairman	11 th Dec 2009	-	-
Mr Jonah Orumoi-TFC	Director	1 st Feb 2016	Ms.Nora Ratemo	18 th Sept 2017
Mr Brigadier (retired) John Migui Waweru	Director	13 th March 2019	Mr Edwin Wanyonyi	09 th Oct 2015
Mr Joe Okudo - PS, Ministry of Tourism	Director	1 st Jan 2016	Mr Jonam Kinama	24 th Jan 2019
Ms Fridah Njeru	Director	14 th June 2019		
Mr.Paul Kurgat	Director	1 st March 2018, Left 30 th September 2018		
Ms Pauline Rwamba	Director	9 th Jun 2016, Left 30 th September 2019		

d) Corporate Secretary

John Saitoti Karia
Corporation Secretary
Tourism Finance Corporation
P.O. Box 42013-00100
Nairobi.

KENYA SAFARI LODGES AND HOTELS LIMITED
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e) General Manager of the Company- KSLH

Registered Office

Mombasa Beach Hotel
Mt. Kenya Road, Nyali
P.O. Box 90414, 80100
Mombasa.

f) Corporate Headquarters

P.O. Box 90414, 80100
Mombasa Beach Hotel
Mt. Kenya Road, Nyali
Mombasa.

g) Corporate Contacts

Tel: 041-471861-5/ +254 722 203143/4
Email: info@kenya-safari.co.ke
Website: www.safari-kenya.com

h) Corporate Bankers

Kenya Commercial Bank
Treasury Square
P.O. Box 90254-80100
Mombasa.

Barclays Bank
Nkrumah Road, Mombasa
P.O. Box 90182 – 80100
Mombasa.

i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084- 00100
Nairobi.




j) Principal Legal Advisers


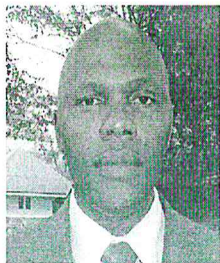
The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112- 00200
Nairobi.



Miller & Company Advocates
P.O Box 90088-80100, GPO, Mombasa.
Kishore Nanji Advocates
P.O Box 86878 – 80100, Mombasa.

M. F. Khatib Advocates
P.O Box 83566 - 80100 GPO, Mombasa.

THE BOARD OF DIRECTORS




Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
1. Mr. Franklin Mbuba Ndii		<p>DoB: 25 May 1952</p> <p>Mr. Franklin Mbuba Ndii is the Chairman of The Board. He holds a Master of Business from the University of Free State, is a Certified Public Accountant (CPA-K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).</p> <p>Mr. Ndii is a career accountant having worked in various organizations; the most recent being Kenya Utalii College (KUC) where <i>he</i> was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd. He brings a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management & Administration. Mr. Ndii was re-appointed to the Board of Directors of Tourism Finance Corporation on 3rd May 2019</p>
2. Mr Michael Matu		<p>DoB: 13th September 1968</p> <p>Mr. Michael Matu was the chairman of the Board from 1st September 2018 to 10th July 2019. Currently he is the Chairman of the Board Audit Committee. He holds a Masters in Business Administration (United States International University), a BA (University of Guelph, Canada) and a Graduate Diploma (McGill University, Canada). He serves as the Executive Director, Heri Group and Deputy Chairman & Chief Executive Officer, Olympia Capital Holdings Limited</p>
3. Mr.Orumoi T. Jonah		<p>DoB: 20th October 1978</p> <p>Mr. Orumoi the Chairman of the Finance, HR and Administration Committee of the Board.</p> <p>He holds a Master of Science Degree in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He graduated with a BA (Hons.) in Accounting & Finance from the University of East London, UK. Currently he is the Managing Director of Tourism Finance Corporation, and has served as Head of Finance & ICT at the Kenya Tourism Board. He has previously worked as Finance & Leasing Contracts Manager/ Acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.</p>

4. Mr Joe R. Okudo		<p>DoB:</p> <p>Mr. Okudo holds a Bachelor of Arts degree from the University of Nairobi and Masters in Business Administration (MBA) from Copenhagen Business School/Inoorero University.</p> <p>Mr Okudo is the Principal Secretary at the Ministry Tourism formerly Principal Secretary of sports responsible for art and culture. Since 2013, he worked as the Business Partnership Programme Manager at Dinida, as Team leader of the Business Sector Support Programme and he was Co-chair of the private Sector Donor Coordinating Group in Kenya. He also sat in the Programme Investment Committee (PIC) the highest decision making organ within the Trade Mark East Africa group.</p> <p>Prior to joining the department of culture and Art, he was the Team Leader of Green Growth-Private Sector where he was in charge of representing the Danish Embassy in Business Advocacy Fund Board, Kenya Climate Innovation Centre, The Trade Mark East Africa's and the World Green Growth Forum. Prior to that he worked as the program Manager/Private sector Advisory at the Business Sector Programme and Business-Business Programme at the Royal Danish Embassy.</p>
5. Mr. Edwin Wanyonyi		<p>DoB: 26th June 1975</p> <p>Mr. Edwin a member of Board of Directors holds an MBA(UON) , Bachelor of Business Administration , Dip in Resource Mobilization, Certificate in Strategic Leadership from Kenya Institute of Administration and a post graduate Diploma in Resource Mobilization from Kenya Institute of Management and certificate in Project Management. Member of KIM, Kenya Fundraising Professionals and National Steering Committee Member of UNDP Small Grants. A Taskforce Member of the Tourism Recovery Taskforce in Kenya.</p> <p>Currently he is the deputy directors, strategy and changes at KWS Over 12 years experience in strategic management both in the public and private sector.</p>




<p>6. Ms. Fridah Njeru</p>		<p>DoB: 26th January 1977</p> <p>Ms. Njeru is a Entrepreneur & Hospitality Professional with over ten (10) years experience in the Hospitality industry during which period she was in charge of executing sales and marketing strategies to maximize the profitability of the hotels she worked for. Ms. Njeru has a track record of building and supporting key client relationships and driving sales revenue of some of the biggest city hotels, park lodges and beach properties in the country.</p> <p>She is currently the Managing Director of Kilimani Bakeries Ltd; one of the top bakeries in Nairobi, where she oversee the daily operations, distribution, delivery and the business development of the bakery. Ms. Njeru is dedicated to professionalism and customer service and takes pride in providing a culture of collaboration that is based on mutual respect and building long-term, trusting relationships. She believes in sustainable living and is constantly looking to live in better harmony with the natural world.</p>
<p>7. Mr. Paul Kurgat</p>		<p>DoB: 9th May 1969</p> <p>Mr. Kurgat was the chairman of the Board of Directors with effect from 1st March 2018 30th September 2018 when he left the Board. He holds a Masters Degree in Tourism Management and a Bachelor's Degree in Hospitality and Events Management from Moi University; and he is also a graduate of the Kenya Utalii College. Mr. Kurgat is a member of The Tourism Professionals Association (TPA, Kenya), the General Assembly of Action Aid and is the National Chairman of the Kenya Utalii College Alumni Association. He has served in senior management positions in several hospitality organizations and brings to the Board over twenty-one (21) years' experience in the Tourism and Hospitality industry.</p>

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Name of Director	Director's Photo	Key Professional/Academic Qualifications & Work Experience
8. Ms. Pauline Rwamba		<p>DoB: 29th December 1972</p> <p>Ms. Pauline Rwamba is a member of the Board and holds a Master's degree in Business Administration, Marketing Option from the Kenya Methodist University and an undergraduate degree in Business Administration, Entrepreneurship option. She is a career Social/Community Development Specialist. She is a consultant with Polypat Consultancy Firm offering training on Donor Relations, Youth and Women Empowerment, Table Banking and Revolving Fund, Strategic Plans, Market and Value Chains, Group Dynamics and Conflict Resolution, Psychosocial Support, Impact Evaluation and Documentation, Financial Literacy and Resource Mobilization.</p>
9. Mr John Karia Company Secretary		<p>DoB: 25th May, 1984</p> <p>Mr. John Saitoti Karia is an Advocate of the High Court of Kenya and a Certified Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Chartered Institute of Arbitrators (Kenya Branch). He holds a Master's degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi. ICPSK – Member No. CPSB/2714</p>
10. Victor Mwambui Ag. General Manager		<p>Date of Birth: 28th April 1962</p> <p>Mr. Victor Mwambui, Administration Manager, is a graduate of Kenya Utalii College, Nairobi (Diploma in Hotel Management). He has a wide experience in hotel operations, administration and human resources management having worked in various hotels and lodges for 28 years including properties managed by the former African Tours & Hotels Ltd (1990 – 1998). Now with Kenya Safari Lodges & Hotels Ltd (wef. July 1998 to date) and has served on acting appointments as General Manager from April to November 2016 and from August 2018 to- date. He is a member of the Tourism Professionals Association (TPA) Kenya; an Associate Member of the Association of Business Executives (UK) and holds an Advanced Diploma in Human Resource Management (ABE level 6) from the same institution. He is also a member of the Society for Human Resource Management (SHRM,USA).</p>

MANAGEMENT TEAM

Name	Photo	Key Professional/Academic Qualifications & Work Experience
1. Victor Mwambui		<p>Mr. Victor Mwambui, Administration Manager, is a graduate of Kenya Utalii College, Nairobi (Diploma in Hotel Management). He has a wide experience in hotel operations, administration and human resources management having worked in various hotels and lodges for 28 years including properties managed by the former African Tours & Hotels Ltd (1990 – 1998). Now with Kenya Safari Lodges & Hotels Ltd (wef. July 1998 to date) and has served on acting appointments as General Manager from April to November 2016 and from August 2018 to- date.</p> <p>He is a member of the Tourism Professionals Association (TPA) Kenya; an Associate Member of the Association of Business Executives (UK) and holds an Advanced Diploma in Human Resource Management (ABE level 6) from the same institution. He is also a member of the Society for Human Resource Management (SHRM,USA).</p>
2. Benard Chepkwony		<p>Mr.Chepkwony, Finance Manager (KSLH) holds Master's degree in Business Administration from Nairobi university Bachelor of Arts degree in Economics from Kenyatta university and his professional qualifications include CPA(K), CPS(K) ICPAK –Member No. 7192</p> <p>Work Experience:</p> <p>August 2005-December 2007: Accountant (NSL and VSL) November 2010-October 2011: Accountant Sunset November 2011-January 2013: Finance Manager (KSLH) February 2013-September 2017 : Group Credit Controller October 2017 – to date: Finance Manager (KSLH)</p>
3. Lillian Obura		<p>Ms. Obura, the internal auditor holds bachelor of Commerce degree (Accounting Option) from Africa Nazarene University and Diploma in Banking. Member of Institute of Internal Auditors (Kenya chapter) & ISACA.</p> <p>Work Experience:</p> <p>2007- 2008- Accountant, Tamarind Mombasa 2008-2013: Asst. Internal Auditor – KSLH 2014 – to date : Internal Auditor – KSLH</p>

KENYA SAFARI LODGES AND HOTELS LIMITED
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For The Year Ended June 30, 2019



Name	Photo	Key Professional/Academic Qualifications & Work Experience
4. Eunice Nzilani		<p>Ms. Nzilani is the Human Resource Manager (KSLH). She holds Bachelor of Business Administration Human Resource degree from Jomo Kenyatta University, Higher Diploma in HRM and Industrial relations Technical University of Mombasa, Diploma in HRM and Industrial Relations(TUM).</p> <p>Member of Institute of Human Resource Management</p> <p>She is currently pursuing MBA from JKUAT.</p> <p>Work Experience: 2014 – to date: Human Resource Manager-KSLH Jan 2012-Apr 2014 HRO –AWL 2011-HRO-A. Apparels 2006-2010 –HRM Sai Rock Hotel</p>

CHAIRMAN'S STATEMENT

OVERVIEW

Kenya's image as a global tourism destination continued to be sustained and Kenya continued to be a choice destination for the adventure travelers market segment. World Travel Awards named Kenya as the world's leading Safari Destination in 2018 and Rough Guides named Kenya as one of its top-10 destinations.

Overall Kenya tourist arrivals in 2018 rose a remarkable 37.7% to more than 2 million visitors. This was attributable to the forgoing factors as well as a favorable business climate. It was a period of economic growth, enhanced security leading to easing of travel advisories making Kenya, the largest economy in Eastern Africa, a choice holiday destination.

An increase of charter flights from European source markets and improved air travel connectivity played a major role. Kenya Airways introduced a non-stop flight to New York, USA. Kenya Airways also resumed daily flights to Gabon after a six year absence. Qatar Airways added flights between Doha and Mombasa. Air France also made a comeback to the market with three weekly flights.

The terrorist attack at a Nairobi up market hotel in January 2019 brought fears that tourism numbers would drop drastically. However, the effects were short term and Kenya Coastal tourism was not adversely impacted. Kenya Tourist Board undertook a massive "magical Kenya" promotional campaign which positioned Kenya as an appealing destination to a wider global audience.

Overall sales revenue increased to Ksh 407.9 million compared to actual performance the previous year of Ksh 283.3 million representing a 43 % rise in sales turnover. Compared to budget of Kshs 380,000,000, this was a 7% improvement over estimated total revenues.

MOMBASA BEACH HOTEL

Conferencing continued to be the main stay of business at MBH and a majority of conference guests are sourced from Government ministries, departments and agencies (MDAs) either as residential or non-residential delegates. The hotel recorded annual average room occupancy of approximately 34%, indicating that it is struggling to attract clients willing to take up accommodation. Nevertheless, uptake of accommodation at Mombasa Beach Hotel was more sustained during the festive month of December 2018; the utilization of its aged conference facilities was encouraging resulting in Food and Beverage sales surpassing the revenue from accommodation.

VOI & NGULIA SAFARI LODGES

The second half of 2018 witnessed an upsurge in the foreign tourist market confidence in Kenya. The rich wildlife heritage of Tsavo East and Tsavo West National Parks and the proximity of these parks to the Kenya Coast tourist destination were associated with high demand for both Voi and Ngulia Safari Lodges. As a result accommodation and lunch bookings by residential and drive through tourists associated with the Tsavo Safari circuit helped contribute to the improved financial performance of the lodges. Ngulia Safari Lodge with its aging facilities continued to struggle against very strong competition in Tsavo West National Park.

Thus for the first time in 6 years KSLH moved into a profitability position. Improvement of sales turnover for Voi and Ngulia Safari Lodges was premised on the refurbishment to be undertaken at a total cost of Kshs 100 mil on which had been factored in the 2018/19 FY Capital Budget.

The National Treasury had no objection to the funding of KSLH 2018/19 FY capital budget by a shareholders loan from Tourism Finance Corporation. However this was subject to the required approval by the TFC Board and consultations with the Privatization Commission and the Ministry of Tourism and Wildlife.

CAPITAL PROJECTS

The company was only able to undertake minimal capital improvement such as installation of an additional 32 new split –unit air-conditioners in 32 guest rooms at Mombasa Beach Hotel. This brought the total number of rooms with new AC units to eighty-two and much more is yet to be achieved. As a result KSLH properties are unable to command a leadership position in market share within their respective locations.

In the new financial year the refurbishment and upgrading of KSLH facilities will need to be prioritized and the associated funding availed. The re-investment in improvement of facilities will allow enable KSLH to attract more high value clients resulting in growth in sales and profitability.

CHALLENGES FACING THE COMPANY

Facilities: all three KSLH units require a comprehensive programme of complete renovations and upgrading.

Plant, equipment, furniture and fittings: a large proportion of these across the Company are fully depreciated, unserviceable and obsolete. They require complete overhaul.

Motor vehicles: The set of seven vehicles are fully depreciated, unserviceable and obsolete. There is need for total replacement with new ones.

Business challenges: the company faces stiff competition especially at the lodges from hotel companies with modern facilities and has challenges attracting and retaining high value clients owing to the aged status and tired look of the facilities.

Trade creditors, statutory liabilities, and unremitted payroll deductions: the Company is struggling to clear outstanding past VAT, PAYE and Tourism Fund levy because of constrained cash flows associated with poor business and financial performance. Payment plans in place relate to historical debts and KSLH is still unable to meet current tax liabilities and other obligations (pension scheme contributions, SACCO and staff terminal benefits arrears etc)

Debt Collection: Debt recovery slow and negatively impacts on cash flows due to long processes in payments by government institutions.

Technical Insolvency: the Company has been on the brink of technical insolvency arising from persistent losses and very weak and negative working capital. KSLH continued operation as a going concern is dependent upon the support of its creditors, shareholders and Government.



Chairman- Board of Directors

23rd November, 2019

REPORT OF THE GENERAL MANAGER

Kenya Safari Lodges & Hotels Ltd (KSLH) properties offer accommodation, catering/restaurant services and event venue facilities to a diversity of clientele. In 2018 – 2019 FY, sales promotion efforts at Mombasa Beach Hotel focused on the conferencing product offered to the market as either residential or non-residential packages. The high priced full board conference package contributed a large portion of sales revenue for the hotel. Equally the day-conference package proved to be very popular with seminar and work shop participants drawn from a wide cross-section of the Government market (both national and county level governments). The MDAs segments provided conferencing business throughout the year under review with some large groups holding workshops lasting several weeks during the second quarter of the 2018 – 2019 FY.

The unique geographical spread and positioning of KSLH Units in the Kenya coastal tourist circuit i.e. a beach hotel at the Mombasa North Coast and two lodges in the renowned Tsavo National Parks provided leverage for them to handle the increased demand witnessed during the mid and peak seasons of the foreign leisure market.

Sales

KSLH recorded an annual sales turnover of Kshs 407.9 million as at 30 June 2019 against a sales turnover of Kshs 283.3 million for the previous year (2017/18 FY), this represents a 43% growth in revenues.

Cost of Sales

For the 2018/2019 FY stood at Kshs 105.9 million compared to Kshs 69.4 million for 2017/2018 FY.

Gross Profit

Gross margin achieved for 2018/2019 FY was Kshs 302 million against an estimate of Kshs 295 million representing an increase of 2 % above budget. A comparison with the gross profit of Kshs 213 million for 2017/2018 FY, translates to an increase of 41% above the previous year.

Operating Expenditure

The total operating expenditure for the year ended 30 June 2019 was Kshs 300.6 million compared to actual cost of Ksh 264.7 million the previous year. The higher than estimated operating expenditure is in proportion to the increased sales turnover. Total HR costs represented the largest portion of this expenditure at Ksh 172.6 million but this amount was way below the budget by Ksh 6.2 million or 3 %. The Company managed to contain personnel costs by not undertaking any recruitment but only filling a few critical positions essential for sustaining KSLH trading activities. The only vacant positions filled include procurement officer and front officer supervisor. Property upkeep, repair and renewals expenses stood at Ksh 22.1 million which was 81% higher than actual cost of Ksh 12.2 million incurred last financial year. This high cost is due to the poor state of the facilities, plant, machinery and equipment across the Company. Expenditure on utilities formed the bulk of day to day operating costs which amounted to Ksh 66.8 million compared to last year cost of Ksh 51.3 representing an increase of 30%. Operating costs vary with increases/decreases in business levels and this variance was proportionate to sales turnover increase.

Operating Profit

Overall KSLH achieved an operating profit of Kshs 26.8 million compared to a loss of Kshs 35.7 million which was 175% higher than last year performance. The tremendous improvement in financial performance as at 30 June 2019 is mainly attributable to Mombasa Beach Hotel conferencing business sourced from government ministries, departments, agencies and SAGAs. Additionally the remarkable growth in Voi Safari Lodge revenues driven by improved foreign market bed occupancy levels also contributed to growth in Company sales turnover leading to KSLH transition into a profitability position for the first time in six years.

The forgoing shows that KSLH business units recorded improvements in utilization of their room capacities especially for accommodation business on full board basis at the two lodges. Ngulia Safari Lodge with its aging facilities continues to struggle against very strong competition in Tsavo West National Park. Although uptake of accommodation at Mombasa Beach Hotel was more sustained during the festive month of December 2018, the utilization of its aged conference facilities was encouraging resulting in Food and Beverage sales surpassing the revenue from accommodation.

Thus for the first time in 6 years KSLH moved into a profitability position. Improvement of sales turnover for Voi and Ngulia Safari Lodges was premised on the refurbishment to be undertaken at a total cost of Kshs 100 million that had been factored in the FY 2018/19 Capital Budget. The National Treasury had no objection to the funding of KSLH 2018/19 FY capital budget by a shareholders loan from Tourism Finance Corporation. However, this was subject to the required approval by the TFC Board and consultations with the Privatization Commission and the Ministry of Tourism and Wildlife.

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The company was only able to undertake minimal capital improvement such as installation of an additional 32 new split –unit air-conditioners in 32 guest rooms at Mombasa Beach Hotel. This brought the total number of rooms with new AC units to eighty-two and much more is yet to be achieved. As a result KSLH properties are unable to command a leadership position in market share within their respective locations.

In the new financial year the refurbishment and upgrading of KSLH facilities will need to be prioritized and the associated funding availed. The re-investment in improvement of facilities will allow enable KSLH to attract more high value clients resulting in growth in sales and profitability.

TSAVO LODGE LEASES WITH KENYA WILDLIFE SERVICE

In August 2018 Kenya Wildlife Service, gave notice of non-renewal of the 50- year leases for both Voi and Ngulia Safari Lodges citing failure to clear pending rent arrears, status of the facilities and issues related to operational quality standards and negative customer feedback. The two lodge leases have now expired (i.e. lease for Voi Safari Lodge expired on 30 November 2018 and that of Ngulia Safari Lodge expired on 31 March 2019). Prior to the expiry, the two parties had engaged in long-drawn negotiations of draft new leases since 2012 culminating in reviewed, agreed final leases in January 2015. The final leases were not executed then because KWS preferred to have this done closer to the expiry date. Under the circumstances, Tourism Finance Corporation wrote to KWS in

August and November 2018 in support of the KSLH request for renewal and pledging financial support in form of a capital improvement loan of Ksh 100 million to refurbish the two lodges within the 2018-19FY. Management drew up Lodge Improvement Proposals and submitted them to KWS. In March 2019, management were invited to appear before the KWS Board of Trustees and submitted

plans to clear the rent arrears and confirmed the development plans to improve the facilities and the business. All rent arrears have since been cleared. The plans for the renovation projects were set to be rolled-out in the next financial year with an advert for Expression of Interest for consultants to manage the project.

CHALLENGES FACING THE COMPANY

Facilities: all three KSLH units require a comprehensive programme of complete renovations and upgrading.

Plant, equipment, furniture and fittings: a large proportion of these across the Company are fully depreciated, unserviceable and obsolete. They require complete overhaul.

Motor vehicles: The set of seven vehicles are fully depreciated, unserviceable and obsolete. There is need for total replacement with new ones.

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Trade creditors, statutory liabilities, and unremitted payroll deductions: the Company is struggling to clear outstanding past VAT, PAYEE and TF levy because of constrained cash flows associated with poor business and financial performance. Payment plans in place relate to historical debts and KSLH is still unable to meet current tax liabilities and other obligations (pension scheme contributions, SACCO and staff terminal benefits arrears etc)

Debt Collection: Debt recovery is slow and negatively impacts on cash flows due to incomplete invoice support documentation.

Technical Insolvency: the Company has been on the brink of technical insolvency arising from persistent losses and very weak and negative working capital. KSLH continued operation as a going concern is dependent upon the support of its creditors, suppliers and Government.


General Manager

23rd

November

, 2019

CORPORATE GOVERNANCE STATEMENT

Kenya Safari Lodges & Hotel Ltd (“KSLH”) is a limited liability company registered under the Kenya Companies Act whose share holding is as follows:

Shareholder	No. of Shares	% Shareholding
Tourism Finance Corporation	4,110,855	82.45%
Mountain Lodges Ltd	884,853	17.53%
Kenya Wildlife Service	1,016	0.02%

Board of Directors

Kenya Safari Lodges & Hotel has Articles of Association as prescribed by the law and under Article 85 the authority to appoint Directors is vested in the Board of Directors. It is the practice that directors are nominated for appointment to the Board of Directors by the shareholders mainly on prorata basis.

During the period under review the Board consisted of 4 substantive directors and 3 alternate directors as follows:

TFC

3 directors including the chairman of the Board.

1 alternate director (alternate to Managing Director , TFC)

Mountain Lodges Ltd

1 director

KWS

1 alternate director to the Director-General (KWS)

Ministry of Tourism

1 alternate director representing the Principal Secretary, Tourism

Changes in Directorships

The tenure of the Board of two KSLH directors who are nominees from Tourism Finance Corporation expired on 3rd October 2018. The directors whose term expired were Ms. Pauline Rwamba and Mr. Paul Kurgat. The latter also served as chair of the Board effective March 2018. The tenure of Mr. Patrick Osero who had also been representing TFC in the Board of KSLH also ended in May 2019.

The appointment and gazettelement of new TFC Board members on May 2019 made it possible for TFC to have new nominees appointed to the Board of KSLH on 14 June 2019.

KSLH Articles of Association Clause 84 provide that the number of Directors shall not be less than two and not more than ten directors. Under Clause 85 of the Articles of Association, provision has been made for the Board, from time to time, to appoint any other person as director, either to fill a casual vacancy or as an addition to the Board so long as at any time the number of directors shall not exceed the maximum number fixed.

Clause 91 of the Articles of Association of the Company provides that directors may elect a Chairman of their meeting and determine the period for which he is to hold office.

The chairman of the Board is a non executive independent director along with another director nominated by TFC. The directors have a wide range of business and professional skills and experience.

Board Responsibilities

The roles of the board and Management are separate and their responsibilities clearly defined.

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

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

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

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

Board Committees

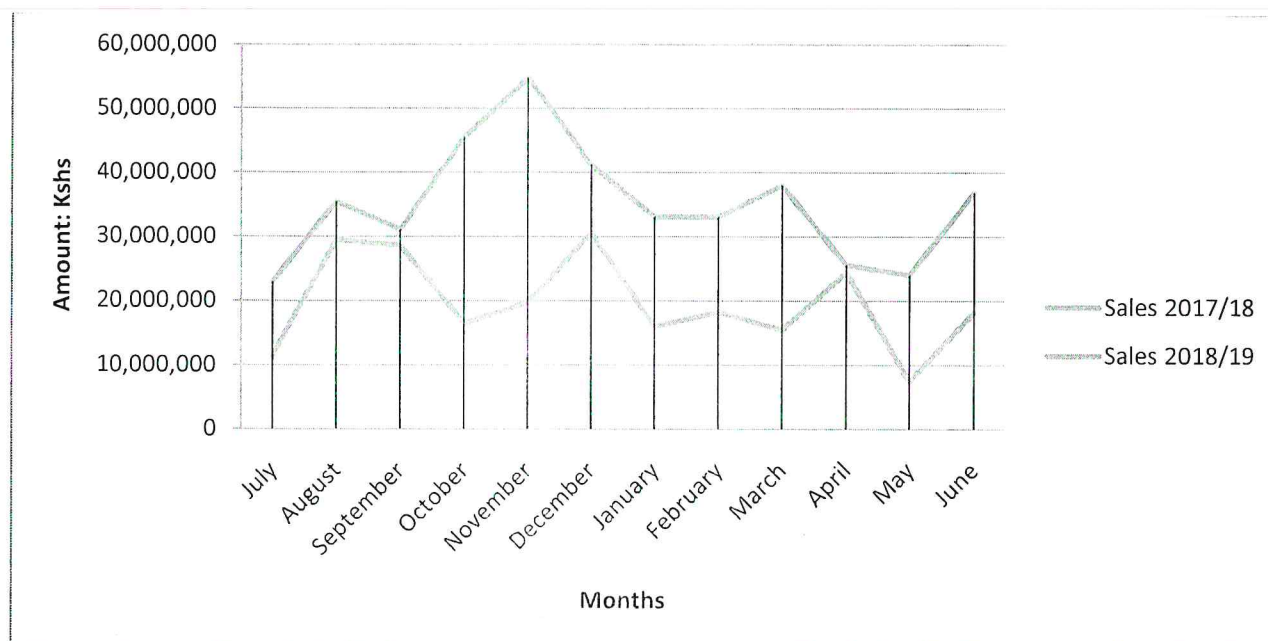
The Board has set up 2 main committees as outlined below and delegated specific mandates to each one of them. The committees are:

Board Audit Committee: the membership comprised of Mr. Michael Matu (Chair), Ms. Pauline Rwamba (Member) and Mr. Edwin Wanyonyi (Member). Since Kenya Safari Lodges and Hotel is a state corporation, this committee is guided by the guidelines for audit committees in the public sector issued by the Treasury. Its main activities are to determine whether risks, internal controls and compliance maturities are reasonably in place, planned and directed, for goals of KSLH to be realized as expected by stakeholders. It does this by overseeing the auditing and financial reporting processes of KSLH.

Finance, HR and Administration Committee comprised Mr. Orumoi T Jonah (Chair), Mr. Edwin Wanyonyi (Member) and Ms Pauline Rwamba (Member). Operates under specific terms of reference that cover the financial, human resource and administrative aspects of the company including legal, marketing and procurement matters.

MANAGEMENT DISCUSSION AND ANALYSIS

The company sales revenue increased to Kshs 435.9m a 44% rise from Kshs301m attained in FY2017/2018. All the 3 Units of KSLH recorded increased sales revenues compared to the previous year. The total Turnover achieved was surpassed the target budgeted by 15%. This is attributed to high occupancy on international clientele in the lodges coupled to with high government seminar business at Mombasa Beach Hotel.



Although the renovation projects were scheduled to begin during the second quarter of the period under review this was set-aside in favor a new re-development project that is the Mombasa International Convention Centre. The latter is yet to be rolled-out therefore the company was only able to undertake minimal capital improvement such as installation of 82 new split –unit air-conditioners for guest rooms at Mombasa Beach Hotel and much more is yet to be achieved. As a result KSLH properties are unable to command a leadership position in market share within their respective locations.

The company's statutory and other financial obligations have continued to increase has shown below. This state of affairs is attributed mainly by the company decreasing revenues and profitability experienced in the last five years.

	AMOUNT
VAT	211,451,855
WITHHOLDING TAX	9,943,449
PAYE	148,512,967
CLT	46,457,339
PENSION	44,063,612
SACCO	8,410,171
TRADE CREDITORS	123,568,900

KENYA SAFARI LODGES AND HOTELS LIMITED

Annual Report and Financial Statements

For The Year Ended June 30, 2019



Consequently the company is still facing liquidity risk, due to the negative working capital casting doubt on the ability of the company to meet its financial obligation when they fall due and its continued existence as a going concern depends on the continued support from its creditors.

The Management is hopeful that the company profitability will significantly increase in the next financial year since the insecurity problem in the coastal region has been minimized and also the travel advisories have been lifted and stable political climate in the country. Meanwhile the Management has reviewed its marketing strategies, the plans are underway to strengthen the marketing department by employing Sales and Marketing Manager and three support sales executives. Out of court settlement and negotiations on payment modalities have also been undertaken between trade creditors and KSLH, the company having been issued with demand letters.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KSLH is committed to carrying out its business and affairs in a socially responsible, sustainable and meaningful way, taking into account ethics, economic development and the environment while improving the quality of life of the workforce, their families, local community and society at large.

KSLH will focus its commitment and contributions along the lines of the following core themes:

- (i) *Environmental protection***- During the year KSLH undertook several beach cleaning exercises geared towards protection and rehabilitation of the environment more specifically the beach environment.
- (ii) *Education***- During the year KSLH endeavored to support educational activities which include HIV/AIDS awareness, Career development among the vulnerable groups, Special projects geared towards empowerment of the youth through internship.
- (iii) *Sports promotion*** -KSLH has sports teams for men and women which participate in local tournaments.
- (iv) *Beautification projects*** - KSLH sought to partner with other stakeholders in beautification of the city of Mombasa. The lodges have also partnered with KWS on environmental clean-ups within the parks.
- (vi) Local community programs**-During the year KSLH donated food stuffs and clothing to Orphanage homes

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Kenya Safari Lodges and Hotels affairs.

Principal activities

The Principal activity of the Kenya Safari Lodges and Hotels is ownership and operation of hotel and lodge facilities in Kenya. KSLH vision is to provide premiere hospitality experiences in Kenya; the mission is to enhance customer value by offering premiere Hospitality experiences with an African heritage and core values are Integrity Service excellence Discipline Team work Innovation Social responsibility Dedication and commitment

Results

The results of the entity for the year ended June 30, 2019 are set out on page 1.

Dividends

The Directors' do not recommend the payment of dividend this year.

Directors

The members of the Board of Directors who served during the year are shown on page iv to vii. In accordance with Regulations of the Kenya Safari Lodges and Hotels Ltd Memorandum and Articles of Association; Mr Michael Matu was appointed as the new chairman of the board of directors with effect from 1st October 2018 replacing Mr. Paul Kurgat

Auditors

The Auditor General is responsible for the statutory audit of the Kenya Safari Lodges and Hotels Ltd in accordance with article 229(4) (5) (6) and (7) of the Constitution of Kenya and Public Audit Act 2015 and the Public Finance Management (PFM) Act 2012.

By Order of the Board


Mr. John Karia
Corporation Secretary

Mombasa

Date:..... 22/11/2019

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of Kenya Safari Lodges and Hotels Ltd, which give a true and fair view of the state of affairs of Kenya Safari Lodges and Hotels Ltd at the end of the financial year and the operating results of the Company for that year. The Directors are also required to ensure that Kenya Safari Lodges and Hotels Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of Kenya Safari Lodges and Hotels Ltd.

The Directors are responsible for the preparation and presentation of Kenya Safari Lodges and Hotels Ltd financial statements, which give a true and fair view of the state of affairs of Kenya Safari Lodges and Hotels Ltd for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of Kenya Safari Lodges and Hotels Ltd; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for Kenya Safari Lodges and Hotels Ltd statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that Kenya Safari Lodges and Hotels Ltd financial statements give a true and fair view of the state of Kenya Safari Lodges and Hotels Ltd transactions during the financial year ended June 30, 2019, and of Kenya Safari Lodges and Hotels Ltd financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of Kenya Safari Lodges and Hotels Ltd financial statements as well as the adequacy of the systems of internal financial control.

The directors noted the liquidity risk facing the company and within the year the major shareholder supported the company in improving the facility to generate more revenues.

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

Approval of the financial statements

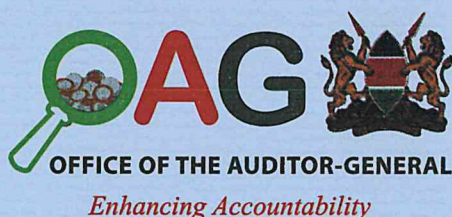
The Company's financial statements were approved by the Board on the 23 Day of November 2019 and signed on its behalf by:

Chairman

Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA SAFARI LODGES AND HOTELS LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Safari Lodges and Hotels Limited set out on pages 1 to 25, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Safari Lodges and Hotels Limited (the Company), as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Act, 2012 and the Kenyan Companies Act, 2015.

Basis for Qualified Opinion

1.0 Errors in the Financial Statements

The statement of comparison of budget and actual amounts reflects consolidated sales totalling Kshs.435,948,000. However, the reflection of the consolidated balance is contrary to the format prescribed by the Public Sector Accounting Standards Board (PSASB) which requires income to be itemized under sale of goods, transfers from government, sales of services and donations-in-kind.

Further, the Company's budget document reflected advertising and promotion expenses totalling Kshs.4,165,000 and adjustments totalling Kshs.(2,880,000) resulting to a final budget of Kshs.1,285,000. However, the statement of comparison of budget and actual amounts reflects a final budget of Kshs.1,385,000 resulting to an unexplained difference of Kshs.101,000 between the two sets of records. Similarly, the statement reflects a

variance of Kshs.7,038 between budgeted and actual operating expenses but a recast of the items that comprise the two balances yields a difference of Kshs.6,937,000.

Consequently, the financial statements are not accurate.

2.0 Undisclosed Penalties for Outstanding Statutory Deductions

The statement of financial position as at 30 June, 2019 reflects trade and other payables totalling Kshs.695,903,000. Included in the balance are payroll deductions totalling Kshs.208,162,568 due to various agencies which have been outstanding for a long period of time. However, penalties and other liabilities arising from the defaults have not been factored in the financial statements.

Therefore, the statutory deductions totalling Kshs.208,162,568 may not be fairly stated.

3.0 Property, Plant and Equipment

3.1 Unexplained Depreciation Charge

The statement of financial position reflects property, plant and equipment balance totalling Kshs.650,221,000 as at 30 June, 2019, as further disclosed in Note 16 to the financial statements. The balance is net of the depreciation charge for the year amounting to Kshs.21,692,000 which however has not been explained with workings to show how it was arrived at.

Consequently, disclosure, accuracy and completeness of property, plant and equipment balance totaling Kshs.650,221,000 as at 30 June, 2019 could not be confirmed.

3.2 Undisclosed Fully Depreciated Assets

As reported in the previous year, the statement of financial position as at 30 June, 2019 reflects a balance of Kshs.650,221,000 and a nil balance in respect to property, plant equipment and intangible assets respectively. Included in the balance are fully depreciated assets with a total cost of Kshs.195,418,000 and Kshs.3,845,000 as disclosed in Notes 16 and 17 to the financial statements. Although some of the assets are in use, their economic value has not been disclosed in the financial statements contrary to International Financial Reporting Standard No.16 which requires assets to be revalued so that their carrying amounts may not differ materially from their fair value at the balance sheet date.

Consequently, the valuation and completeness of property, plant, equipment and intangible assets balance totalling Kshs.650,221,000 as at 30 June, 2019 could not be confirmed.

3.3 Expired Leasehold Agreements

As similarly reported in year 2017/2018, the statement of financial position reflects property, plant, equipment and intangible assets balance totalling Kshs.650,221,000 as

at 30 June, 2019, as further disclosed in Note 16 to the financial statements. The balance includes Kshs.40,000,000 in respect of leasehold land for Voi and Ngulia Safari Lodges. The Lease Agreements presented for audit indicated that the two leases expired in November, 2018 and March, 2019 respectively and Management thereafter applied for their renewal. However, there was no indication that the Kenya Wildlife Service had acceded to the request.

Consequently, there is no certainty that the two lodges will be leased to the Company to enable it maintain its current revenue-generating capacity. Further ownership by the Company of the leasehold land valued at Kshs.40,000,000 as at 30 June, 2019 could not be confirmed.

3.4 Unconfirmed Ownership of Freehold Land

As similarly reported in the previous year, the statement of financial position reflects property, plant and equipment balance totalling Kshs.650,221,000 as at 30 June, 2019 and further disclosed in Note 16 to the financial statements. Included in the balance is freehold land balance valued at Kshs.360,000,000 whose lease title was not presented for audit. In addition, the physical beacons demarcating the land could not be identified by Management. Further, handing over reports between successive General Managers of the Company did not make mention of the freehold land.

In view of these issues, the ownership and valuation of freehold land with historical cost of Kshs.360,000,000 as at 30 June, 2019 could not be confirmed.

4.0 Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance totaling Kshs.186,378,000. However, examination of the records on the balance revealed the following anomalies:

4.1 Dormant Trade Debtors

Two hundred and ninety-five(295) trade debtors who owed sums totalling Kshs.53,735,501 had not made any payments as at 30 June, 2019 to offset their respective their debts in the previous two years. However no specific provision had been made for the impairment of debts.

Consequently, the accuracy and recoverability of trade and other receivables balance totalling Kshs.186,378,000 as at 30 June, 2019 could not be confirmed.

4.2 Non-Existent Debtors

Included in the aggregate trade and other receivables balance totalling Kshs.186,378,000 reflected in the statement of financial position are debts totaling Kshs.9,134,671 owed by four entities which have since ceased to exist. However, there is no specific provision made for impairment of the debts in these financial statements. Therefore, the provision

for bad debts totaling Kshs.8,985,096 may not be sufficient to cover the expected losses from unpaid debts.

In the circumstance, the valuation and recoverability of the trade and other receivables balance totalling Kshs.186,378,000 as at 30 June, 2019 could not be confirmed.

4.3 Credit Balances Offset on Debtors and Other Receivables

The statement of financial position reflects other trade and other receivables totalling Kshs.186,378,000 as at 30 June, 2019, as further disclosed in Note 19 to the financial statements. The balance includes other debtors and prepayments balance amounting to Kshs.46,337,000. However, examination of debtors' records indicated that the balance was arrived at after the gross amount was offset against credit balances totaling Kshs.477,137. The source and nature of the credit balances was not explained and as a result, the validity of the reduction in the debtors' balance could not be confirmed.

Consequently, the accuracy, and completeness of other debtors and prepayments balance totalling Kshs.46,337,000 as at 30 June, 2019 could not be confirmed.

5.0 Long Outstanding Trade and Other Payables

As similarly reported in the previous year, the statement of financial position reflects trade and other payables balance totalling Kshs.695,093,000 as at 30 June, 2019, as further disclosed in Note 24 to the financial statements. Included in the balance are long outstanding payables owed to various statutory bodies for unremitted payroll deductions, value added tax and other levies totaling Kshs.479,059,000. However, provisions for penalties payable on the delayed remittances have not been made in the financial statements and therefore the payables totalling Kshs.479,059,000 may not be fairly stated.

In view of these issues, the accuracy and completeness of the trade and other payables balance totalling Kshs.695,093,000 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Safari Lodges and Hotels Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Uncertainty on Going Concern Status

As previously reported, the Company converted a loan of Kshs.75,554,000 received from the Tourism Finance Corporation in 2013/2014. However, despite the debt being

converted into equity and interest thereon waived, the financial performance of the Company has not improved. Further, the Company is behind schedule in repayment of another Tourism Finance Corporation loan amounting Kshs.20,740,045 taken in April, 2016 and expected to be fully repaid by April, 2021. Records on the loan indicated that out of the expected repayments totalling Kshs.10,585,578 as at 30 June, 2019, only Kshs.6,226,922 had been paid, resulting in an outstanding balance of Kshs.4,358,656.

In addition, the statement of financial position as at 30 June, 2019 reflects current liabilities totalling Kshs.704,140,000 which exceeds the current assets balance of Kshs.250,378,000 by Kshs.453,762,000. In addition, the Company's accumulated losses totaled Kshs.425,805,000 as at 30 June, 2019, as reflected in the statement of changes in equity for the year then ended.

This condition indicates the existence of material uncertainty on the Company's ability to meet its financial obligations as they fall due, and to continue as a going concern. Therefore, the Company's existence as a going concern is dependent upon continued support from its shareholders, bankers and creditors.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters in the year under review.

Other Information

The Directors are responsible for the other information which is comprised of the report of directors as required by the Kenyan Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for conclusion on Lawfulness

and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Failure to Establish a Sinking Fund

The Company's budget for the year under review did not provide for the renewal of depreciating assets, contrary to Section 16(1) of the State Corporations Act, Cap 446 which requires every state corporation to make provision for the renewal of depreciating assets by establishing sinking funds. An audit inspection in November, 2019, indicated that the buildings and other key aspects of the Hotel were in need for renewal in order to enable the business remain competitive in the industry.

Consequently, Management contravened Section 16(1) of the State Corporations Act, Cap 446.

2.0 Failure to Prepare a New Strategic Plan

The Company's Strategic Plan for the period 2012-2018 expired in November, 2018 but at the time of audit in November, 2018 a new plan had not been prepared. Therefore the Company was operating contrary to Section 68(2)(g) of Public Finance Management Act, 2012 which requires the Accounting Officer in each National Government entity to prepare a strategic plan that conforms to medium-term fiscal framework objectives.

Consequently, the Management contravened Section 68(2)(g) of Public Finance Management Act, 2012.

3.0 Forfeited Receipts on Sale of Shares

As reported in the previous year, the share capital of the Company was increased from Kshs.9,319,000 to Kshs.100,954,700 in October, 2013 through creation of 5,047,724 Ordinary, shares of Kshs.20 each under a Rights Issue offered to existing shareholders. However, the net assets of the Company as at 30 June, 2013 amounted to Kshs.667,399,000, and the net asset value per share amounted to Kshs.145.65. Therefore, the Rights Issue price set at Kshs.20 per share was undervalued and may have resulted in the Company forfeiting a significant amount of cash receipts from the sale of the shares.

The receipts would have provided the much needed boost to the Company's unfavorable cash position.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT SYSTEMS AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Effective Control on Printing of Accountable Documents

Examination of accountable documents indicated that although the contract for printing cash receipts had expired five (5) years previously, orders for new documents were still placed with the same printing firm. Therefore, the Company was at risk of loss in the event the orders were not executed in a satisfactory way. In addition, Management had no control on the custody and use of the respective printing plates as these were kept by the printing firm.

2.0 Non-integration of the Accounting System

Information provided for audit indicated that the Hotel uses an electronic accounting system to maintain its books of accounts at Mombasa Beach Hotel. Although the system can be operated in multiple locations via a network, it has not been rolled out to Voi and Ngulia Safari Lodges and as a result, the two Lodges maintain their financial records in manual and excel workbooks. The excel workbooks are then physically transferred to Mombasa Beach Hotel on a flash-disk for uploading into the accounting system. In addition, to the risk of unauthorized changes, damage or loss of accounting data during the transfers, and information for decision-making may not be readily available to Management.

3.0 Weak Controls on Credit Sales

The statement of financial position reflects trade and other receivables balance totaling Kshs.186,378,000 as at 30 June, 2019. The balance included trade debtors totalling Kshs.149,026,265 out of which Kshs.117,471,125 or 79% had been outstanding for more than six months. The long outstanding debts suggested that the Company's debts management policy was not effective.

Further, records on debt management indicated that at the time of the audit in November 2019, the Credit Committee responsible for evaluating and recommending applications

for credit facilities had not been constituted. Therefore, it was not clear how the credit applications granted to the outstanding debtors were evaluated and approved.

Failure to observe the debt policy has exposed the Company to lack of sufficient affordable cash to finance its operations.

4.0 Lack of a Marketing Department

Audit of the staff establishment of the Hotel indicated that all positions in the Marketing Department were vacant in the year under review. It was not clear how the Company was promoting its services to potential customers in the absence of an marketing department.

Lack of a formal marketing function may have hindered the Company's quest to turn around its unsatisfactory performance.

5.0 Non-Provision of Fixed Asset Register for Voi Safari Lodge

Kenya Safari Lodges and Hotel Limited manages the Mombasa Beach Hotel, Voi Safari Lodges and Ngulia Safari Lodges. The hotel is therefore required to maintain among other financial records, a fixed assets register for each of the hotel units. However, the register for Voi Safari Lodges was not made available for audit review.

In the circumstance, Management may be in breach of the law on management of assets and internal control on the Company's assets may be inadequate.

6.0 Lack of Substantive General Manager

The Company was as at 30 June, 2019 headed by an Acting General Manager who had held the position since August, 2018 after his contract was renewed on two occasions upon expiry. In the absence of substantive powers, the Acting Director-General may not have provided effective managerial and leadership direction. It is not clear why the Board has delayed the recruitment of a General Manager or confirmed the acting appointment.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

- ii. in my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. the Company's financial statements are in agreement with the accounting records.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Management is aware of the intention to liquidate the Company or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 August, 2021

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	Notes	2018-2019	2017-2018
		Kshs'000	Kshs'000
Turnover	4	407,935	283,331
Cost Of Sales	7	(105,905)	(69,413)
Gross Profit		302,030	213,918
Other Income	5	7,142	4,976
Total Income		309,172	218,894
Operating Costs	8	(66,893)	(51,381)
Staff Costs	9	(172,667)	(159,766)
Administrative Costs	10	(19,493)	(21,218)
Repairs And Maintenance	11	(22,113)	(12,216)
Advertising And Promotion	12	(1,385)	(1,337)
General Expenses	13	(8,389)	(6,919)
Depreciation	16	(8,890)	(11,947)
Amortization	17		
Total Expenses		(299,830)	(264,784)
Operating Profit/(Loss)		9,342	(45,890)
Finance Income	6	20,872	12,644
Finance Costs	14	(2,526)	(2,535)
Earnings Before Extra Ordinary Items		27,688	(35,781)
Profit/(Loss) Before Tax		27,688	(35,781)
Income Tax Expense/(Credit)			
Profit After Tax		27,688	(35,781)

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019



STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

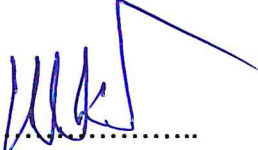
	Notes	2018-2019	2017-2018
		Kshs'000	Kshs'000
Assets			
Non-Current Assets			
Properties, Plant and Equipment	16	650,221	676,419
Intangible assets	17	0	0
Current Assets			
Inventories	18	9,783	6,043
Trade and other receivables	19	186,378	144,850
Cash and cash equivalent	25	54,217	24,588
Sub-total		250,378	175,481
Total Assets		900,599	851,900
Equity and Liabilities			
Capital And Reserves			
Share Capital	20	100,954	100,954
Revaluation Reserve	22	505,722	527,415
Retained Earnings	21	(425,805)	(453,493)
Shareholders' Funds		180,871	174,876
Liabilities			
Non-Current Liabilities			
Borrowings -long term	23	10,588	11,876
Contingent Liabilities	28	5,000	12,765
Sub-total		15,588	24,641
Current Liabilities			
Borrowings-short term	26	8,237	9,925
Trade and other payables	24	695,903	642,458
Total Liabilities		704,140	652,383
Total Equity And Liabilities		900,599	851,900

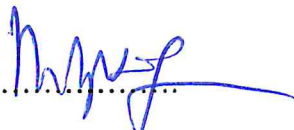
The financial statement were approved by the Board of directors on the 23 day November of 2019 and signed on its behalf by:

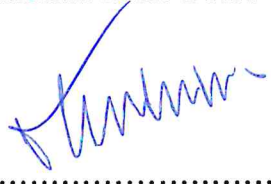
Acting General Manager
Victor Mwambui

Head of Finance
Benard Chepkwony
ICPAK M/NO. 7192

Chairman of the Board







KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2019

	Ordinary Shares Kshs'000	Revaluation Reserve Kshs'000	Profit & Loss Account Kshs'000	Total Kshs'000
At July 1 2017	100,954	546,958	(417,710)	230,202
Rights Issue				-
Prior year adjustment		(2)		(2)
Revaluation surplus				-
Net Profit for The year			(35,781)	(35,781)
Prior year adjustment on revaluation				-
Transfer To Depreciation Equivalent		(19,541)		(19,541)
At June 30, 2018	100,954	527,415	(453,493)	174,876
At July 1 2018	100,954	527,415	(453,493)	174,876
Rights Issue				
Prior year adjustment				
Revaluation surplus				
Net Profit for The year			27,688	27,688
Prior year adjustment on revaluation				
Transfer To Depreciation Equivalent		(21,693)		(21,693)
At June 30, 2019	100,954	505,722	(425,805)	180,871

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019



STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2019

	Notes	2018-2019 Kshs'000	2017-2018 Kshs'000
Cash flows from Operating activities			
Profit/(Loss) before tax		27,688	(35,781)
Adjustments for:-			
Depreciation	16	8,890	11,947
Prior year adjustment			148
Interest income (from KCB fixed deposit)	6	(1,118)	-
Finance cost	14	2,526	2,535
Cash flow from/(used in) operations before		37,986	(21,151)
Working capital changes:			
(Increase)/Decrease in inventories	18	(3,740)	(796)
(Increase)/Decrease in Trade and receivables	19	(41,529)	(20,056)
Increase/(Decrease) in Payables and accruals	24	53,445	56,366
Sub-Total		8,176	35,514
Net cash flow from operating activities		46,162	14,363
Cash flows from Investing activities			
Purchase of fixed assets	16	(4,384)	(4,029)
Interest received	6	1,118	-
Net cash flow from investing activities		(3,266)	(4,029)
Cash Flows From Financing Activities			
Loan repayment	26	(1,288)	786
Contingent Liability	28	(7,765)	(450)
Bank overdraft	26	(1,688)	(4,181)
Payment of Finance cost	14	(2,526)	(2,535)
Net cash flow from financing activities		(13,267)	6,380
Net Cash Flow from the year 2019		29,629	3,953
Cash and cash equivalents at the beginning of the year		24,588	20,635
Cash and Cash Equivalents at the End of the Year		54,217	24,588

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2019

	Original Budget	Adjustments	Final Budget	Actual On Comparable Basis	Performance Difference	% Variance
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019	
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	
Sales	380,000	0	380,000	435,948	55,948	15%
Cost of Sales	84,500	0	84,500	105,905	-21,405	
		0		0		
Gross Profit	295,500	0	295,500	330,043	-34,543	12%
		0				
Expenditure		0				
Salaries Wages	118,397	-2,218	116,179	116,179		
Staff Expenses	49,175	-2,869	46,306	46,306		
Staff Travel	11,343	-1,161	10,182	10,182		
Property Upkeep & Expenses	7,196	1,192	8,388	8,388		
Repairs & Renewals	12,462	8,467	20,929	20,929		
Operating Costs	53,369	6,124	59,493	68,078	-8,585	-14%
Office Expenses	6,748	203	6,951	6,951		
Administration Expenses	4,250	-4,000	250	-1,398	1,648	
Directors Fees/Expenses	4,000	-140	3,860	3,860		
Advertising & Promotion	4,165	-2,880	1,385	1,385		
General Charges	7,240	2,840	10,080	10,080		
Depreciation & Amortisation	13,225	-4,335	8,890	8,890		
Interest & Other Charges	3,747	-1,223	2,525	2,525		
Total Operating Expenses	295,317	0	295,317	302,355	-7,038	-2%
Operating Profit	183	0	183	27,688		15030%

Notes to budget variances

The operating cost incurred surpassed the budget by 14%. The cost incurred here is directly proportional to the level of hotel occupancy. In the year we witnessed high guest patronage in all revenue centers such as food sales, beverage sales, room sales and conference sales. This is demonstrated by high sales Kshs.435M compared to the budget of Kshs 380M.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Safari Lodges and Hotel Ltd was incorporated under the Kenya Companies Act (Cap 486) KSLH is classified as a State Corporation by virtue of being a subsidiary of Tourism Finance Corporation (TFC,) which has a direct controlling stake of 82.45% of shares its domiciled in Kenya. The entity's principal activity is ownership and operation of hotel and lodge facilities in Kenya.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts.

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is equivalent to the statement of financial position and the profit and loss account is included in the statement of profit or loss and other comprehensive income

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Kenya Safari Lodges & Hotels Ltd. The amounts have been rounded off to the nearest thousand.

The financial statements have been prepared in compliance with the PFM Act, the state Corporation Act, and International Financial Reporting standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

Turnover represents billings to guests and casual customers for accommodation, food and other services provided net of Value Added Tax, returns and rebates. Interest income is recognized when it accrues, by reference to the principal outstanding and the interest rate applicable. All other revenues are recognized at the time goods are supplied or services are provided.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Property, Plant and Equipment

All Property, Plant and Equipment are stated at cost or revaluation less accumulated depreciation. The Mombasa Beach Lease is for a term of 99 years while Leases for Voi and Ngulia Safari Lodges are for a term of 50 years up to 2018 and 2019 respectively. Property, Plant and Equipment acquired under finance lease agreement are capitalized at the date of the agreement. Depreciation on assets other than land is calculated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. While the value of land for Voi Safari Lodge & Ngulia Safari Lodge is amortized over the lease period.

The annual rates used are as follows: -

Buildings	30 years or the unexpired lease
Plant, Machinery, Furniture & Fittings	8 years
Vehicles	4 years
Computers	3 years
Intangible assets (soft ware's)	3 years

c) Intangible Assets

Intangible assets represent computer software which is stated at cost less amortization. Amortization is calculated to write off the cost of the assets on a straight line basis over their estimated useful life of 3 years.

d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

e) Foreign Currency

Transactions during the year are converted into Kenya currency at the rate ruling at transaction dates. Assets and Liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya currency at rates ruling at that date.

The resulting differences from conversion and translations are dealt with in the profit and loss account in the year in which they arise.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

f) Trade Receivables

Trade receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the end of the year. Bad debts are written off when all reasonable steps to recover them have failed.

g) Loans/Bank Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise. Interest and other finance charges are recognized as an expense in the period which they are incurred.

h) Trade Payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether billed or not.

i) Taxation

Current taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unusual tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilized.

j) Employee Benefit Costs

The company operates a pension scheme which commenced 1st January 1975 (Certificate of Registration: Ref. No RBA/SC/01044) and is funded by payments from both the employee and the company. Benefits are paid to retiring staff in accordance with the Scheme's Trust Deed and Rules.

Being a Defined Contributions Scheme, liability is limited to the contribution and the Company has no obligation if the fund does not have sufficient funds to pay members retirement funds. Employer and Employee contribution rate is 10% and 5% respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The company also contributes to the National Social Security Fund (NSSF). Contributions are determined by the local statute and are currently at Kshs. 200 per employee per month.

Contributions by the company in respect of retirement benefit costs are charged to the Income Statement in the year to which they relate.

k) Provision for staff leave and service pay

Employees' entitled to annual leave are charged to the Income Statement as they fall due.

Employees on contract are entitled to gratuity at the end of the contract or employment, whichever ever comes earlier. The estimated monetary liability for such entitlement at the end of the balance sheet date is recognized as an expense accrual.

l) Dividends

Dividends on Ordinary shares (when earned) are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

m) Cash & Cash Equivalents

The company's Cash and Cash equivalents consist of Cash in Hand, Demand Deposits and Short-term investments with original maturities of three months or less from date of acquisition.

Cash in Hand and in banks and short term deposits which are held to maturity are carried at cost plus interest earned but not yet received at the balance sheet date.

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019



NOTES TO THE FINANCIAL STATEMENTS

	2018-2019	2017-2018
	Kshs'000	Kshs'000
4.Turnover		
Accommodation	105,165	79,874
Food	203,219	155,434
Beverage	44,201	25,410
Tobacco	292	175
Telephone	5	0
Laundry	245	195
Business Center	1,210	487
Functions	51,576	19,737
Petrol and oil	6	7
Sporting Facilities	2,016	2,012
	407,935	283,331
5.Other Income		
Rent	1,351	1,286
Sales of Fixed Assets	0	0
Other income	5,791	3,690
	7,142	4,976
6.Finance Income		
Foreign Exchange Gain	19,754	12,644
Interest Income	1,118	0
	20,872	12,644
7.Cost Of Sales		
Food	87,599	58,793
Drinks	10,374	6,735
Tobacco	266	137
Telephone	0	0
Functions	7,187	3,412
Laundry	0	5
Business Center	295	133
Petrol and Oil	0	4
Sporting Facilities	184	194
	105,905	69,413

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018-2019	2017-2018
	Kshs'000	Kshs'000
8. Operating Costs		
Electricity	21,448	15,457
Fuel and gas	16,526	13,700
Water	6,886	4,307
Laundry & cleaning	8,277	6,303
Vehicle operating costs	4,524	3,464
Guest entertainment	4,675	3,357
Others	4,557	4,793
	66,893	51,381
9. Staff Costs		
Salaries and Wages	116,179	107,395
Staff Expenses	46,306	42,274
Staff Travel	10,182	10,097
	172,667	159,766
10. Administrative Costs		
Audit Fees	2,478	450
Professional Fees	323	0
Directors Expenses	3,860	2,225
Bad Debts provision	3,726	370
Service pay provision	0	2,726
Legal Fees	(4,199)	274
Office Expenses	6,951	6,203
General Expenses	6,354	8,971
	19,493	21,218
11. Repairs & Maintenance		
Building	7,146	3,635
Plant & Machinery	9,146	4,673
Motor Vehicles	1,184	1,914
Others	4,637	1,994
	22,113	12,216

KENYA SAFARI LODGES AND HOTELS LIMITED
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For The Year Ended June 30, 2019



	2018-2019	2017-2018
12. Advertising & Promotion	Kshs'000	Kshs'000
Advertising Expenses	410	322
Sales Promotion	975	1,015
	1,385	1,337
13. General Expenses		
Rent & rates	4,162	2,851
Insurance	2,811	3,201
Gardens & Grounds	46	78
Maintenance Contracts	1,369	789
	8,388	6,919
14. Finance Costs		
Long/Short -term interest	1,063	709
Bank charges including overdraft	1,463	1,826
	2,526	2,535

15. TAXATION

a) Current Tax

Tax charge for year

Deferred tax

There was no corporation tax charge for the year due to

Accumulated losses

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. PROPERTIES, PLANT AND EQUIPMENT

	LAND & BUILDING GS Kshs'000	PLANT & MACHINERY Kshs '000	FURNITURE & FITTINGS Kshs '000	MOTOR VEHICLE Kshs '000	COMPUTER S Kshs '000	WIP Kshs '000	TOTAL Kshs '000
2019							
COST/VALUATION							
At July 1, 2018	1,057,813	73,780	46,032	14,621	18,534	-	1,210,780
Additions	-	3,274	254	-	857	-	4,384
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At June 30, 2019	1,057,813	77,054	46,286	14,621	19,390	-	1,215,164
DEPRECIATION	-	-	-	-	-	-	-
At July 1, 2018	396,246	60,009	45,681	14,621	17,804	-	534,361
Charge for the year (cost)	3,293	4,568	203	-	826	-	8,890
Charge for the year (valuation)	21,692	-	-	-	-	-	21,692
Impairment Loss eliminated on disposal	-	-	-	-	-	-	-
At June 30, 2019	421,231	64,577	45,884	14,621	18,630	-	564,943
NET BOOK VALUE At June 30, 2019	636,582	12,477	402	-	761	-	650,221

NB	Fully depreciated	depreciating	rate	charge
Leasehold	5,000	35,000	2%	700
Building	-	345,425	3.30%	11,399
Building	73,755	238,633	5.40%	12,886
Plant & Mach	40,507	36,547	12.50%	4,568
Furniture & Fit	44,663	1,623	12.50%	203
Computers	16,912	2,478	33.30%	826
MV	14,621	-	25%	-
S-Total	195,418	659,706		30,582
Freehold		360,000		
G-Total		1,215,164		

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. PROPERTIES, PLANT AND EQUIPMENT

	LAND & BUILDING GS Kshs'000	PLANT & MACHINERY Kshs '000	FURNITURE & FITTINGS Kshs '000	MOTOR VEHICLE Kshs '000	COMPUTER S Kshs '000	WIP Kshs '000	TOTAL Kshs '000
2018							
COST/VALUATION							
At July 1,2017	1,057,493	70,894	46,032	14,621	17,711	150	1,206,901
Additions	320	2,886	-	-	823		4,029
Transfers		-	-	-			-
Disposals	-	-	-	-		(150)	(150)
At June 30,2018	1,057,813	73,780	46,032	14,621	18,534	-	1,210,780
DEPRECIATION	-	-	-	-	-		-
At July 1,2017	370,288	55,347	45,450	14,621	17,167	-	502,873
Charge for the year(cost)	6,417	4,662	231		637		11,947
Charge for the year (valuation)	19,541						19,541
Impairment Loss							
Eliminated on disposal							
At June 30,2018	396,246	60,009	45,681	14,621	17,804	-	534,361
NET BOOK VALUE At June 30,2018	661,567	13,771	351	-	730	-	676,419

NB	Fully depreciated	depreciating	rate	charge
Leasehold	-	40,000	2%	800
Building	-	345,425	3.30%	11,399
Building	-57,598	254,790	5.4%	13,759
Plant & Mach	36,511	37,269	12.50%	4,662
Furniture & Fit	44,182	1,850	12.50%	231
Computers	16,797	1,737	33.30%	637
MV	14,621	-	25%	-
S-Total	169,709	681,071		31,488
Freehold		360,000		
G-Total		1,210,780		

The intended drilling of borehole brought forward as work in progress of Ksh 150,000 was expensed off since capitalization of the same will not materialize.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. INTANGIBLE ASSETS

	2018-2019	2017-2018
	Kshs'000	Kshs'000
COST/VALUATION		
At July 1	3,845	3,845
Additions	-	-
Disposal		
At June 30	3,845	3,845
AMORTISATION		
At July 1	3,845	3,845
Charge for the year		
Disposal		
Impairment loss	-	-
At June 30	3,845	3,845
NET BOOK VALUE AT JUNE 30	-	-

NB

	Fully depreciated	depreciating	rate	charge
Software	3,845	0	33.30%	0

The figure relates to computer software and licenses for our front office Fidelio, Sun system and materials controls system that are currently in use.

KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2019



NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2018-2019	2017-2018
		Kshs'000	Kshs'000
18. Inventories			
Food		1,499	1,021
Beverage		1,438	879
Tobacco		21	4
Stationary		808	722
Others		6,017	3,417
Total		9,783	6,043
19. Trade And Other Receivables			
Trade debtors,		149,026	129,474
Bad debts provisions		(8,985)	(5,259)
Other debtors and prepayments		46,337	20,635
		186,378	144,850
20. Share Capital			
Authorized, issued and fully paid 5,047,724 Ordinary shares of Kshs. 20/= each.		100,954	100,954
Shareholders			
Tourism Finance Corporation,		82.45%	
Mountain Lodge	17.53%		
Kenya Wildlife Service Trustees	0.02%		
21. Retained Earnings		(425,805)	(453,493)
22. Revaluation Reserve			
Balance b/f		527,415	546,956
Depreciation transferred to retained earnings		(21,692)	(19,541)
relates to revaluation gain on assets (crystal valuers 2010)			
Balance C/F		505,723	527,415
23. Borrowing Long Term			
Loan TFC		10,588	11,876
Total		10,588	11,876
24. Trade And Other Payables			
Trade creditors		123,569	128,153
Unearned income		21,774	10,520
Accruals		4,603	12,761
Other Payables including VAT & CLT		491,208	435,911
Audit Fee		4,566	2,088
Service Gratuity		50,182	53,025
		695,902	642,458

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018-2019	2017-2018
	Shs'000	Shs'000
25. Cash And Cash Equivalent		
Cash investments(FD at KCB TRY SQ Acc No)	19,904	18,786
Cash in hand (float)	547	647
Dollar equivalent KCB \$ A/C	28,089	3,707
Cash in Bank BBKA/C	2,198	1,448
Cash in KCB KSH A/C	3,479	0
Total	54,217	24,588
Cash Equivalent include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when Acquired.		
26. Borrowing Short Term		
Bank Overdraft	4,112	5,800
BBK A/C	-	
TFC Loan	-	
12 months @ 343,778	4,125	4,125
The Bank overdraft is secured by cash investments in form of Fixed deposit	8,237	9,925
TFC Loan relates to amount payable within the next one Year		
27. Dividends		
28. Contingent Liabilities		
Provision for Legal Fee	5,000	12,765
	5,000	12,765

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. CASH AND CASH EQUIVALENT

The Cash investments (Fixed Deposit at KCB TRY SQ Acc No) held in Kenya Commercial Bank of Kshs 19,904,000 are funds held as Sinking Fund. This was formed after the Board granted its approval

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

		2018-2019	2017-2018
Financial institution	Account Number	Ksh'000	Ksh'000
a)Current Account			
Kenya Commercial Bank(Ksh)	1106515188	3,479	-
Kenya Commercial Bank(USD)	1107647819	28,089	3,707
Barclays Bank Account(Ksh)	8207166	2,198	1,448
Subtotal		33,766	5,155
b)On-call deposits		-	-
c)Fixed deposits Account			
Kenya Commercial Bank(Ksh)	MM1721487681	19,904	18,786
Subtotal		19,904	18,786
d)Staff car loan/Mortgage		-	-
e)Others			
Cash in hand(Float)		547	647
Subtotal		547	647
Grand total		54,217	24,588

26. DISCLOSURE ON LONG TERM BORROWING

We have disclosed the following information in relation to the long term loan indicated on note 23.

Lender: Tourism Finance Corporation

Repayment Terms: 36Months

Collateral: None (Shareholders loan)

Interest Rate: 0%

Purpose of Loan: - To settle staff liabilities, purchase of generator and Air conditioners

Currency:-Kenya Shillings

27. DIVIDENDS

No dividends were declared during the year.

28. CONTINGENT LIABILITIES

The legal case H.C petition No. 64 of 2015-Mombasa, Kenya Safari Lodges & Hotels Limited-Vs. Kenya Revenue Authority has been referred Nairobi Centre for International Arbitration (N.C.I.A). The arbitration process is yet to commence. This was done to comply with the directive of the office of the Attorney General to having all disputes involving inter-governmental agencies court be referred to the (N.C.I.A). Due to this risk exposure of Kshs 5,000,000 provision on all legal matters pending in courts as been provided.

The company is likely to also incur liability relating to penalty for non submission of staff Saccos amounting to Kshs 8.4M, VAT, CLT and PAYE and pension arrears amounting to Kshs 460M and long outstanding trade creditors' balances amounting to ksh.123M

No loans were guaranteed by the company to its staff directors or any other entity in the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. SUBSEQUENT EVENTS

We note that leasehold land for Voi and Ngulia Safari Lodges will expired in November 2018 and March 2019 respectively. The company has applied to Kenya Wildlife Service for the renewal of the leases.

No other events have become known or occurred that may lead to significant changes to these financial statements. These would be like court judgments or regulatory decisions that may affect reported assets/liabilities or adversely reflect upon the integrity of the decision-maker.

30. MANAGEMENT FRAUD

In the year no fraud or suspected abuse of office, misuse of assets or falsifying of statements by those with decision-making authorities or not, was noted in the company.

31. RELATED PARTY TRANSACTIONS

During the year the following transactions were executed with related parties: -

1. Kenya National Parks (KNP) which owns 0.002% of KSLH had leased Voi and Ngulia lodges to KSLH. The company has been paying monthly lease rents for both Ngulia and Voi Safari Lodge.
2. Tourism Funds Corporation (TFC) which owns 82.45% of KSLH had allocated office space to KSLH at Utalii House, Nairobi.

Also through TFC, KCB continued holding a bank guarantee to Judiciary of Kenya , Mombasa law courts in respect to KRA TAX CASE (H.C PETITION No. 64 of 2015 Kshs 38m)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. During the year KSLH was able to attract and transact business with a number of county governments and central government ministries in terms of seminars and conferences, these included among others;

ORGANISATION	AMOUNT(Ksh)
National Treasury	19,101,930.00
Kenya Medical Training College (Kmtc)	18,373,105.00
Kenya National Bureau Of Statistics (KNBS)	17,857,999.00
Taita Taveta County Government	6,325,926.00
Cabinet Office	6,263,000.00
National Government - Cdf	5,588,244.00
Makueni County Government	4,332,137.00
Agriculture Sector Development Special Project	3,818,839.00
State Department Of Livestock	3,474,146.00
Kenya Maritime Authority	3,564,000.00
State Department Of Heritage & Culture	2,946,500.00
Kilifi County Government	2,715,460.00
Kenya Revenue Authority	1,950,000.00
Ministry Of Interior and Internal Security	1,362,500.00
Kwale County Government	1,263,335.00
	98,937,121.00

All the above transactions were done at arm's-length and no other transactions were done with related parties or their agents.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. RISK MANAGEMENT

Going Concern

The company is facing a liquidity risk due to the negative working capital of Ksh (466,977,000) with current assets of Kshs 250,378,000 as compared to current liabilities of Kshs 704,140,000. This state of affair is attributed mainly by the depressed revenues and trading losses experienced in the last five years.

Performance analysis

Kshs '000	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Revenue	248,378	259,822	235,689	300,951	435,949
Profit/Loss	(137,243.00)	(87,097.00)	(73,937.00)	(35,781)	27,688

The company is currently depending on the trade creditors whose payment has remained a challenge as well as other payable.

The Management is hopeful that the company will continue with profitability trend the next following years, given that the insecurity problem in the coastal region has been minimized and also the travel advisory have been lifted. Meanwhile the Management has reviewed its marketing strategies, putting more focus building proper marketing structures in the marketing department and also ensuring adequate staffing ensure revenues from all the units start rising to enable the company reduce its trade creditors and other liabilities. Out of court settlement and negotiations on payment modalities have also been undertaken between trade creditors and KSLH, the company having been issued with demand letters.

	Principle	Interest	Total	Remarks
VAT	211,451,855			Negotiation on going
WITHOLDING TAX	9,943,449			Negotiation on going
PAYE	148,512,967			Negotiation on going
CLT	46,457,339			Negotiation on going
PENSION	44,063,612			Negotiation on going
SACCO	8,410,171			Negotiation on going
TRADE CREDITORS	123,568,900			Negotiation on going

Appendixn1. Progress on follow up of Auditors Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
1.0	Going Concern; The management has not provided satisfactory reasons as to why the revenue targets could not be met.	Revenue for the current year met and surpassed by 15% as compared to the budget	Accounting Officer	Resolved	Continuous
2.1	Fully Depreciated assets: Although some of the assets are in use, the economic value of these assets has not been accounted for in these financial statements as they are carried at nil balance,	Revaluation and adoption of revaluation report conducted by TFC and privatization commission to be adopted.	FM	Resolved	Ongoing
2.2	Non- Compliance with Terms of Leasehold Agreement: lease agreements availed for audit review indicated that the two leases will expire in November 2018 and March 2019 and may not be renewed by one of the shareholders.	The process of renewal of leases is on going.	Accounting Officer	Not Resolved	June 2020
2.3	Freehold Land: Consequently, the ownership of freehold land balance of Kshs.360,000,000 reflected financial statements for the year ended 30 June 2018 could not be ascertained.	The process of discharging caveats held on Mombasa Beach Hotel title has commenced.	Accounting Officer	Not Resolved	June 2020
3.0	Inventories: included in the balance is Kshs. 261,777, relating to obsolete stocks	The obsolete inventory were expensed and hence no longer forming part of inventory	FM	Resolved	June 2019
4.1	Long Outstanding Trade Debtors; the legality of bad debts written off and the recoverability of trade and other receivables balance at 30 June 2018 could not be confirmed	The Board resolution on bad debts approved for write offs shall be availed.	FM	Resolved	December 2019
4.2	Other Debtors and Prepayments; the accuracy, validity and completeness of other debtors and prepayments balance as at 30 June 2018 could not be confirmed	We looked at the booked keenly and we noted that there was no offset which was done. The schedules supporting debtors and	FM	Resolved	June 2019

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
		other prepayments was attached to the draft report again for review and confirmation.			
5.0	Trade and Other Payables; it was not possible to ascertain the accuracy, completeness and validity of the trade and other payables balance as at 30 June 2018.	We have entered into payment modalities and consequently the imposition of interests and penalties have not arisen.	FM	Not Resolved	Continuous
6.0	Share Capital; the Company's Articles of Association do not allow issuance of the Company's shares to private investors which in this case is Mountain Lodges Limited.	Consultations on this matter are ongoing between TFC and Mountain Lodges	GM	Not resolved	June 2020
7.0	Staff Costs; General Manager whose entry basic salary is Kshs.180,000, house allowance of Kshs.60,000 and other remunerative allowances of Kshs.30,000 all totalling Kshs.270,000 per month. The officer was thus overpaid by Kshs. 5,370,000.	Consultations on this matter are ongoing between TFC and SCAC	Accounting Officer	Not Resolved	June 2020

Other Matter

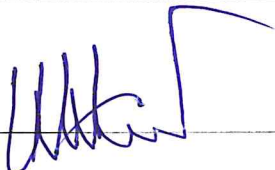
1.0	Budgetary Control and Performance; The management did not avail the Board's approval of the over expenditure of Kshs.947,000. Further, the under absorption may be as a result of poor revenue collection and unrealistic budget hence, the need for the management to review the budget preparation process with a view to making it more effective.	Budget reallocations to be availed whenever there is over expenditure above the budgetary allocation.	FM	Not Resolved	June 2019
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Basis for Conclusion

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
1.0	Failure to Establish a Sinking fund	Sinking fund has been established	Accounting Officer	Resolved	
2.0	Operations of the Trust Deed and Staff Retirement Benefits Scheme ; the Company is in breach of its own trust deed and the intended family beneficiaries may not benefit in case of death of an employee.	Insurance premiums are now being remitted.	FM	Resolved	
3.0	Uncollected Service Charge; the Company is in breach of the Law and and may be paying service charge expense from uncollectable credits sales thereby exposing the company to liquidity problems.	Credit policy allows sales on credit to both arms of government.	FM	Resolved	
4.0	Strategic Plan; The Company's strategic plan for the period 2012-2018 was to expire in November 2018	The process of formulation of the new strategic plan is ongoing.	Accounting Officer	Not Resolved	June 2020
5.0	Legal Fees; Consequently, the propriety and completeness of legal fees for the year ended 30 June 2018 could not be confirmed.	Approvals from the office of attorney general to use private lawyers shall be availed.	Accounting Officer	Not resolved	June 2020
6.0	Audit Fees; the Company is in breach of the Law and the total expenses for the year are understated	The finance statements has been adjusted to show correct audit fees	FM	Not Resolved	June 2019



 Acting General Manager

Date... 22/11/2019



 Finance Manager

Date... 22/11/2019

