REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA SAFARI LODGES
AND HOTELS LIMITED

FOR THE YEAR ENDED
30 JUNE, 2022
KENYA SAFARI LODGES & HOTELS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING:
JUNE 30, 2022

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)
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KENYA SAFARI LODGES AND HOTELS LIMITED
Annual Report and Financial Statements
For The Year Ended June 30, 2022

I. 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 Kenya Development Corporation (KDC), Mountain Lodges Ltd and Kenya Wildlife Services (KWS). Kenya Development 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 KDC. The company operates three units namely; Mombasa Beach hotel, 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:

<table>
<thead>
<tr>
<th>NAME OF DIRECTOR</th>
<th>POSITION</th>
<th>DATE OF APPOINTMENT</th>
<th>ALTERNATE DIRECTOR (NAME)</th>
<th>DATE OF APPOINTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antony Kingi</td>
<td>Chairman</td>
<td>24th Sept 2020-11th August 2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oromoi T. Jonah</td>
<td>Managing Director TFC</td>
<td>1st February 2016-11th August 2021</td>
<td>Ms. Norah Ratemo</td>
<td>13th Sept 2017</td>
</tr>
<tr>
<td>Fridah Njeru</td>
<td>Director</td>
<td>14th June 2019-11th August 2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brigadier (Retired)</td>
<td>Director General KWS Director</td>
<td>13th March 2009</td>
<td>Edwin Wanyonyi</td>
<td>9th October 2015</td>
</tr>
<tr>
<td>John Waweru</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hon. Safina Kweke</td>
<td>PS State department for Tourism Director</td>
<td>14th January 2020-11th August 2021</td>
<td>Dr. Peter Chimwele</td>
<td></td>
</tr>
<tr>
<td>Chimwele</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abraham Koech</td>
<td>Rep. National Treasury</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Christopher Huka</td>
<td>Chairman and Director General</td>
<td>12th August 2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norah Ratemo</td>
<td>Director</td>
<td>12th August 2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
<td>Date</td>
<td>Notes</td>
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<tr>
<td>Erustus Njoroge</td>
<td>Director</td>
<td>12th August 2021</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Kabuga Kariithi</td>
<td>Director</td>
<td>23rd June 2020</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Edwin Wanyonyi</td>
<td>KWS/Director</td>
<td>9th October 2015</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Stephen Mbatia</td>
<td>Director-Inspectorate of State Corporations</td>
<td>7th March 2022</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

d) Corporate Secretary  
John Saitoti Karia  
Corporation Secretary  
Kenya Development Corporation  
P.O. Box 42013-00100  
Nairobi.

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.go.ke  
Website: www.safari-kenya.com
h) Corporate Bankers
   1. Kenya Commercial Bank
      Treasury Square
      P.O. Box 90254-80100
      Mombasa.

   2. 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.

   Kishore Nanji Advocates,
   P.O Box 86878 – 80100,
   Mombasa.

   MMK Advocates,
   Nkurumah road,
   P.O Box 2419-80100,
   Mombasa
II. THE BOARD OF DIRECTORS

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Director’s Photo</th>
<th>Key Professional/Academic Qualifications &amp; Work Experience</th>
</tr>
</thead>
</table>
| 1. Christopher Huka | ![Photo](image) | DOB 12/09/1967  
Mr. Huka holds a Master of Business Administration degree in Human Resources Management from the University of Nairobi, Bachelor of Education degree from Moi University, Diploma in Executive Coaching; Academy of Executive Coaching – UK, Higher National Diploma: HRM from Institute of Human Resource Management, Kenya and advanced Certificate in Strategic HR Management, Cornell University – USA  
Mr. Huka, is the Interim Director General of Kenya Development Corporation (KDC) and a Board Member. He was appointed on 17th May, 2021.  
With a long career in the private and public sectors, working at senior executive level Mr Huka has an extensive work experience of over 25 years in Banking, Oil & Gas sectors. Presently, he is the Interim Director General at KDC mandated to manage the merger and transition of TFC, IDB Capital and ICDC into a single development finance institution entity.  
Previously he has held senior executive positions both in the public and private sector. Prior to this appointment he served as the Senior Technical Advisor to the Cabinet Secretary, National Treasury and Planning of the Republic of Kenya. He has served at Dubai Islamic Bank UAE, as Human Resource & Administration Director and Senior Business Partner at Barclays Bank of Kenya. Before joining Barclays, he worked in three senior managerial positions as Country Human Resources at Chevron (K) Ltd, (formerly Caltex), Human Resources Officer at Shell (K)Ltd and Senior Human Resources Officer at Post Bank. |
<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Director's Photo</th>
<th>Key Professional/Academic Qualifications &amp; Work Experience</th>
</tr>
</thead>
</table>
| 2. Ms. Norah Ratemo | ![Photo of Ms. Norah Ratemo](image) | DOB: 10/03/1983  
Ms. Nora holds a Master’s degree in Business Administration Finance option from Jomo Kenyatta University of Agriculture and Technology and a Bachelor of commerce (Bcom) Accounting option. She is a Certified Public Accountant, CPA (K) and a member of the institute of certified public accountants (ICPAK) and Association of Women Accountants in Kenya.  
She has over 13 years’ experience in Credit Risk Management. She previously worked at Eco Bank Kenya as a Credit analyst, and before then, she was engaged as Assistant Manager, Securities and Documentation with Sidian bank. She currently serves on the board of Kenya Wines Agencies. |
| 3. Mr. Erastus Njoroge | ![Photo of Mr. Erastus Njoroge](image) | DOB: 3/05/1984  
Mr. Erastus is the Deputy director, Portfolio management.  
Mr. Erastus holds a Master’s degree in Financial Economics as well as a Bachelor’s Degree with specialization in Mathematics and Economics. He is a member of the Economist Association of Kenya.  
He is responsible for managing equities and loans portfolio with a view to maximizing returns and mitigating risks and achieves corporate objectives.  
Prior to this, he was the Chief of Credit at IDB Capital Ltd where he was in charge of Credit Management. Before joining IDB Capital Ltd, Erastus was a Senior Credit Manager at Equity Bank in Rwanda. He has previously held the roles of Senior Credit Analyst at Housing Finance, Credit Analyst at GT Bank Ltd (Formerly Fina Bank), Relations officer at Afrika Investment bank (AIB) as well as a part time lecturer at various institutions within Nairobi. |
<table>
<thead>
<tr>
<th>Name of Director</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>He is an experienced finance expert with a demonstrated history in the financial services sector. He has hands on experience on Credit Risk Management, Portfolio Management, Relationship Management, Business Development, Credit Analysis and Banking in general.</td>
</tr>
</tbody>
</table>
| 4. Mr. Kibuga Kariithi | ![Director's Photo](image) | DoB: 1963  
Mr. Kibuga Kariithi is a member of the Board of Director’s and the CEO of KARMA Management Services Ltd, a family office. He is the immediate former CEO of City Finance Bank Ltd and arranged the merger between City Finance Bank Ltd and Jamii Bora Kenya Ltd. Mr. Kariithi is a founder of Baraka Africa Fund.  
Up to April 2005 he was the Chief Executive Officer of the Nairobi Stock Exchange, which he left to start an Investment Bank as a conversion from an existing stockbroker. Prior to joining the Stock Exchange in 1999, he was Corporate Finance Director of Barclays Bank of Kenya (BBK). At Barclays, Mr. Kariithi headed the team responsible for Capital Market activities in East Africa and managed Barclays Merchant Finance Ltd (BMFL) the merchant banking subsidiary of BBK, with a balance sheet of Kshs. 4billion.  
Currently Mr Kariithi is the chairman of Heri Limited, Kolobot Gardens Ltd, Media Max Ltd, Kirinyaga Investmentand Development Authority (KIDA), Jumuia Hospitals Board and he is a director at: WAKIBA Investments and Olympia Capital. |
<table>
<thead>
<tr>
<th>Name of Director</th>
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<th>Key Professional/Academic Qualifications &amp; Work Experience</th>
</tr>
</thead>
</table>
| 5. Mr. Edwin Wanyonyi | ![Director's Photo](image) | DoB: 26\textsuperscript{th} June 1975  
Mr. Edwin, Chairman of the board audit committee, holds an MBA (UON), Bachelor of Business Administration, Dip in Resource Mobilization, Cert 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. 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. |
| 6. Mr John Karia Company Secretary | ![Director's Photo](image) | DoB: 25\textsuperscript{th} May, 1984  
Mr. John Saitoti Karia is an Advocate of the High Court of Kenya and a Certified Public 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 |
| 7. Mr. Stephen Mbatia | ![Director's Photo](image) |  |
| 8. Mr. Joseph Ndunda | ![Director's Photo](image) | DoB: 28\textsuperscript{th} December 1971  
Mr. Ndunda, is the General Manager of KSLH since 1\textsuperscript{st} February 2021, he holds a Bachelor of Science in Hospitality Management from Gretsa University, Higher Diploma In Travel, Tourism & Hospitality, Association Of Business Executives (ABE), UK 2014 – 2016, Diploma In Travel Tourism & Hospitality, Association of Business Executives Food & Beverage |
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<tbody>
<tr>
<td></td>
<td></td>
<td>Service and Sales (Credit), Kenya Utalii College Diploma In Hotel Operations and Management (Pass) from Cambridge Tutorial College and is currently pursuing Msc. Hospitality Management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Work Experience:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>General Manager Hill park Hotel, Nairobi, November 2019 - 31st January 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Merica Hotel, Nakuru, May 2018 – September 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General Manager Mbale Resort / Hotel, Uganda, April 2017 - April 2018</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acting General Manager / Operations Manager Severin Sea Lodge (Severin Hotels), Mombasa</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kenya Food &amp; Beverage Manager (On Management Exchange Program) Sunderland Hotel (Severin Hotels), Saurland (4 Star), August 2013 - November 2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Food &amp; Beverage Manager / Lodge Manager Reliever Severin Sea Lodge (Severin Hotels), Mombasa Kenya (4 Star), February 2010-March 2015</td>
</tr>
</tbody>
</table>
# MANAGEMENT TEAM

<table>
<thead>
<tr>
<th>Name</th>
<th>Key Professional/Academic Qualifications &amp; Work Experience</th>
</tr>
</thead>
</table>
| Mr. John Karia              | DoB: 25th May, 1984  
Mr. John Saitoti Karia is an Advocate of the High Court of Kenya and a Certified Public 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 |
| Secretary                   |                                                                                                                          |
| Mr. Joseph Ndunda           | DoB: 28th December 1971  
Mr. Ndunda, is the General Manager of KSLH since 1st February 2021, he holds a Bachelor of Science in Hospitality Management Gretsa University, Higher Diploma In Travel, Tourism & Hospitality, Association of Business Executives (ABE), UK 2014 – 2016, Diploma In Travel Tourism & Hospitality, Association of Business Executives Food & Beverage Service and Sales (Credit), Kenya Utalii College Diploma In Hotel Operations and Management (Pass) from Cambridge Tutorial College and is currently pursuing Msc Hospitality Management  
Work Experience:  
General Manager Hill park Hotel, Nairobi, November 2019 -31st January 2021  
Merica Hotel, Nakuru, May 2018 – September 2019  
General Manager Mbale Resort /Hotel, Uganda, April 2017 - April 2018  
Acting General Manager / Operations Manager Severin Sea Lodge (Severin Hotels), Mombasa Kenya Food & Beverage Manager (On |
<table>
<thead>
<tr>
<th>Name</th>
<th>Photo</th>
<th>Key Professional/Academic Qualifications &amp; Work Experience</th>
</tr>
</thead>
</table>
| 3. Lillian Obura     | ![Photo](image.png) | DoB: 29th December 1977  
Ms. Obura the Ag. Finance Manager (KSLH) holds a Bachelor of Commerce degree (Accounting Option) from Africa Nazarene University and Diploma in Banking. Ongoing student of Masters in Business Administration (ANU). Member of Institute of Internal Auditors & ISACA.  
**Work Experience:**  
2007- 2008- Accountant, Tamarind Mombasa  
2008-2013: Asst. Internal Auditor – KSLH  
2020- to 1st March 2022: Ag. Finance Manager  
1st March 2022 to date – Internal Auditor |
| 4. Eunice Nzilani    | ![Photo](image.png) | DoB: 28th December 1982  
Ms. Nzilani the Human Resource Manager (KSLH) 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)  
Member of Institute of Human Resource Management  
**Work Experience:**  
2006-2010 –HRM Sai Rock Hotel  
2011-HRO-A.Appreals  
Jan 2012-Apr 2014 HRO –AWL  
2014 – to date: Human Resource Manager-KSLH  
2014 – to date: Human Resource Manager-KSLH |
## Key Professional/Academic Qualifications & Work Experience

### 5. Douglas Nyokwoyo

**DOB:** 13th January 1987

Mr. Nyokwoyo is the Finance Manager of Kenya Safari Lodges and Hotels Ltd. He holds a Bachelor of Commerce (Finance Option) from KCA University. He is certified public Accountant and currently undertaking Masters of Finance at Kenya University.

A member of ICPAK-Kenya - 19242

**Work Experience**
- February 2022 to date: Finance Manager - KSLH
- June 2014-June 2019: Histoto Limited - Head of Finance and Administration
- April-December 2013: Hamdi Restaurant - Manager/Accountant
- 2012 Sep-April 2013: Kaplan & Stratton Advocates
- 2011-2012: Tumaini Community Development - Accountant

### 6. Leonard Kusule

**DOB:** 8th October 1988

Mr. Kusule is the Ag. Assistant Internal Auditor. He holds Bachelor of Commerce (Accounting)-University of Nairobi, CPA (K), Certificate in Retail Operations and Management from Artemis Business School, Member of the Institute of Internal Auditors.

**Work Experience**
- Nov 2013 to Oct 2015: Accountant - Busia County Cooperative Enterprise Development Fund
- Nov 2015 to Oct 2017: Branch Administrator/Internal Auditor - Tusker Mattresses Limited
- May 2018 to May 2020: Internal Audit Assistant - Kenya Safari Lodges & Hotels Limited
- June 2020 to date: Ag. Assistant Internal Auditor - Kenya Safari Lodges & Hotels Limited.
IV. CHAIRMAN’S STATEMENT

Year 2021 witnessed devastating impact on the world economy by the COVID-19 pandemic post effect. In 2021 this pandemic continued to create a challenging operating environment for the travel and hospitality industry. Many businesses across a wide spectrum of industries including the hotel and tourism sector have experienced a significant downturn in their trading activities owing to the continued uncertainty associated with the pandemic. The high expectations that 2022 will see a significant recovery in business as we anticipate most of our source markets will lift their restrictions. The initial measures imposed in early 2020 including restrictions in movements within the country and closure of the Kenyan airspace to international passenger flights resulted in shrinking numbers which on the same being lifted we have experienced increased international clients. The COVID 19 pandemic have been contained as the world, through massive vaccinations most of the countries have opened up their space and we look forward to continued support by government to fully get out of the previous year effects.

BUSINESS REVIEW

The beginning of the financial year 2021/2022 (FY 2021/22) under review coincided with the easing of restrictions and thus business prospects were better than the previous year. Scheduled international flights resumed foreign tourist business for the KSLH Tsavo lodges begun showing signs of recovery. The Board and management of KSLH rolled out robust plans to implement business recovery strategies that were focused on addressing emerging COVID-19 pandemic related risks. The units worked hard to implement the strategies thus improved performance. Mombasa Beach Hotel had high expectations of capturing local holiday makers during the festive season in the second half of December 2021 which was achieved. Local guests continue to be the main supporters of the hotel and lodge bookings and for Mombasa Beach Hotel bookings by Government Ministries, Department and Agencies (MDAs) for accommodation, conferencing, food and beverage services were the main generators of sales revenue during the first half of FY 2021/2022. As players in the tourism and hospitality sector ushered the New Year 2022, a large number of hotels and lodges were determined to recover from the effects of the previous year low business This posed greater competition for KSLH properties particularly for Mombasa Beach Hotel conferencing business from MDA’S. The Hotel experienced stiff competition due to the status of the facility thus not being able to compete with other Hotels within the North Coast for the few clients visiting the region. The second half of the year also saw most of the government conferences shelved due to the campaigns leading to the August 2022 general election. The last quarter of the year was also characterized by low season in our Tsavo lodges and we expect the season to pick from August 2022.

FINANCIAL PERFORMANCE

KSLH recorded annual sales revenue of Ksh. 273,652,176 as at 30 June 2022 against a revenue budget of Ksh.385,000,000 representing a variance of 29% below budget. Compared to FY2020/2021 sales turnover this represents a difference of Ksh.104,796,049 or a 39% increase in revenues. Gross margin achieved for 2021/2022 FY was Ksh.193,232,000 against an estimate of Kshs 304,150,000 representing a reduction of 37% compared to budget. A comparison with the gross profit of Ksh.115,668,000 for 2020/2021 FY, translates to an increase in GP of 41% above the previous year.
KSLH realized an operating loss of Ksh. (65,007,000) compared to budget estimated profit of Ksh. 230,711. and last year, Ksh.(109,715,000).

CHALLENGES FACING THE COMPANY
1. **Facilities**: all three KSLH units require renovations and upgrading of its facilities.
2. **Plant, equipment, furniture and fittings**: Most of the key equipments are not operational or fully depreciated requiring regular repairs.
3. **Motor vehicles**: The set of seven vehicles are fully depreciated, unserviceable and obsolete. There is need for total replacement with new ones.
4. **Business challenges**: the company faces stiff competition from hotels & lodges with modern facilities and has challenges attracting and retaining high value clients owing to the aged status and tired look of the facilities.
5. **Trade creditors, statutory liabilities and unremitted payroll deductions**: the Company is struggling to clear outstanding VAT, PAYE and Tourism Fund levy because of constrained cash flows associated with poor business and negative working capital. Payment plans in place relate to historical debts and KSLH is struggling to meet current tax liabilities and other obligations (pension scheme contributions, SACCO and staff terminal benefits arrears etc)
6. **Debt Collection**: Debt recovery is slow and negatively impacts on cash flows due to long processes in payments by government institutions.
7. **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.

LOOKING AHEAD
Despite all the challenges the Board is committed to improve the company facilities for efficiency and to make our Hotels and Lodges competitive. With improved profitability the company will be able to meet its financial obligations. The likelihood of the impact of Covid 19 continuing to affect our business being live, we are focused to conducting our business operations in a professional and transparent manner mitigating the risks and seeking more partners to support us which will increase our market share.

We are committed to being innovative in our business processes to attract and retain clients outside our traditional market, be more efficient and become economically sustainable

Chairman- Board of Directors

22nd September 2022
V. REPORT OF THE CHIEF EXECUTIVE OFFICER

During the Financial year 2021/2022 the company experienced business challenges due to Corona virus (Covid-19) pandemic. Despite the low business volumes at the beginning of the year as a result of ease in travel restrictions from the second quarter of the year witnessed reassuring improvement with improved local tourism support especially during the holidays. The support from the local and regional market segments for leisure and corporate travels have been the key reason our revenues improved compared to the last financial year 2020/2021. Our aim is to continue tapping into the domestic market to diversify our source market as our traditional source markets continue to ease the Covid 19 restrictions.

Within the year Mombasa Beach Hotel continued to receive holiday makers and government conferences from Ministries, Departments and Agencies (MDA’S) while our Tsavo based Lodges had our traditional international clients and domestic clients leading to good performance in the second and third quarter. The lodges were hit by the low season in the fourth quarter being the reason we are working to diversify our market share to include corporate conferences for our Lodges to improve revenues during the low seasons.

TURNAROUND STRATEGIES FOR POST-COVID 19 BUSINESS RECOVERY

The successive waves of the pandemic were associated with emerging risks that required to be quickly addressed to mitigate against the sustained downturn in business levels in the second half of the financial year. The poor financial performance and the related constrained cash flows led to difficulties in meeting obligations to pay suppliers invoices on time, disrupted existing payment plans for settling pending bills including statutory obligations. Strategies implemented in the face of these challenges include stringent cost management involving suspension of all major capital improvement projects, stoppage of staff recruitment in progress and re-negotiation of arrangements to clear pending bills suppliers and other creditors.

Other business challenges arising from the worsening pandemic situation affected the marketing and sales strategies put in place for business recovery. The sales team faced challenges attracting foreign tour operators in the source markets in the EU countries, North America and Asia due to the COVID 19 related travel advisories issued by a number of these countries in the previous year. However the year under review most of our source markets lifted the advisories leading to better performance.

At the beginning of 2021 there were high expectations about the roll out of the COVID 19 vaccinations which were one of the facilitation to improved movements leading to clients starting streaming into our facilities. The requirement of PCR test certificates at points of entry also necessitated travel.

FINANCIAL PERFORMANCE

KSLH recorded annual sales revenue of Ksh. 273,652,176 as at 30 June 2022 against a revenue budget of Ksh.385,000,000 representing a variance of 29 % below budget. Compared to FY2020/2021 sales turnover this represents a difference of Ksh.104,796,049 or a 39 % increase in revenues. Gross margin achieved for 2021/2022 FY was Ksh.193,232,000 against an estimate of Kshs 304,150,000
representing a reduction of 37% compared to budget. A comparison with the gross profit of Ksh.115,668,000 for 2020/2021 FY, translates to an increase in GP of 41% above the previous year. KSLH realized an operating loss of Ksh. (65,007,000) compared to budget estimated profit of Ksh. 230,711 and last year, Ksh. (109,715,000).

This was due to an increase in occupancy levels across all the units and increased utilization of Mombasa Beach Hotel conference facilities and food & beverage services.

**KSLH OPERATIONS AND FACILITIES ASSESSMENT**

KSLH has experienced financial difficulty and erosion of shareholders capital due to a combination of the following factors;

1) **Aged facilities and old equipment, furniture and fittings:**

   Most of the buildings and facilities are old and aged requiring complete facelift; most of the equipment, furniture and fittings are fully depreciated and unserviceable posing challenges to operations and efficient service delivery to clients. Areas that call for complete overhaul of operating equipments include:

   a) Mombasa Beach Hotel
      - Kitchen cooking ranges and bakery oven; cold rooms and freezers, laundry equipment, food and beverage equipment for bars and restaurants.
      - Guest rooms refurbishment including balcony sliding doors, bathrooms and main bedroom doors and new linen for the rooms.

   b) Voi & Ngulia Safari Lodges
      - Kitchen cooking ranges and bakery oven; cold rooms and freezers, laundry equipment, food and beverage equipment for bars and restaurants.
      - The room’s interior decor need to be improved and linen renewed.

2) **High operation costs** - high cost of repairs and maintenance due to aged and worn out facilities, high electricity, water and staff costs. Need to use renewable energy(Solar) in the units.

3) **Business challenges** – the units are facing great challenges in attracting and retaining good businesses due to the status of the facilities.

4) **Revenue decline** - decline in rooms sales due to the status of the rooms. Influx of new hotels, Airbnb and global brands that have increased competition.

5) **Statutory deductions** – the units are not remitting statutory deductions including staff deductions as they should: SACCO, loans to Commercial Banks, Staff Welfare, union’s dues, PAYE and Tourism Fund levy due to constrained cash flows.

6) **Pending bills (suppliers and other creditors)** – huge levels of unpaid bills; persistent problem of non-payment of suppliers of goods and services on time as per credit terms.

7) **Poor debt collection** – KSLH lacks a dedicated debt recovery department and required staff to undertake credit control debt collection functions and responsibilities.
8) **Funding needs** – unable to attract private and or commercial funding

9) **Financial downturn experienced in the tourism sector due to external factors** e.g. COVID-19 pandemic, insecurity, political disruption and seasonal fluctuations.

10) **Human resources** - gaps in training and professional development.

**WAY FORWARD**

As the situation of the tourism industry remains unpredictable the Russia-Ukraine conflict has impacted the global economies leading to increased prices of energy and commodities due to disruptions in supply chains. This has added to inflationary pressure thus reduction in disposable income for holiday makers.

The company endeavors’ to leverage on securing our competitive advantage, the resilience of our business while cost efficiency and cash management remains critical.

We are creative Sales and Marketing strategies to be able to compete in the changing customer preferences and market dynamics. We hope to gain new source markets and follow up to retain our current traditional markets for improved performance.

---

Joseph Ndunda
General Manager

22/09/2022
VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022

KSLH has four strategic objectives within the current strategic plan for the FY 2021 - FY 2025. These strategic objectives are as follows:

<table>
<thead>
<tr>
<th>Priority Area</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability of KSLH</td>
<td>1. Develop new sources of revenue streams</td>
</tr>
<tr>
<td></td>
<td>2. Strengthen cost reduction measures</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>1. Increase market share</td>
</tr>
<tr>
<td></td>
<td>2. Increase customer retention</td>
</tr>
<tr>
<td></td>
<td>3. Strengthen brand awareness</td>
</tr>
<tr>
<td></td>
<td>4. Strengthen partnership with stakeholders</td>
</tr>
<tr>
<td>Internal Business process</td>
<td>1. To renovate and refurbish KSLH facilities</td>
</tr>
<tr>
<td></td>
<td>2. Improve ICT for increased business</td>
</tr>
<tr>
<td></td>
<td>3. Enhance creativity and innovation</td>
</tr>
<tr>
<td>Learning and growth</td>
<td>1. Recruit professionals who create success for customers</td>
</tr>
<tr>
<td></td>
<td>2. Train and develop staff</td>
</tr>
<tr>
<td></td>
<td>3. Develop and implement performance culture</td>
</tr>
<tr>
<td></td>
<td>4. Build capacity of Board members</td>
</tr>
</tbody>
</table>

KSLH develops its annual work plans based on the above four pillars/objectives. Assessment of the Board’s performance against its annual work plan is done on quarterly basis. KSLH achieved its performance targets set for the FY 2021/2022 for the period for its three strategic pillars/objectives as indicated in the diagram below:

<table>
<thead>
<tr>
<th>Strategic Pillar</th>
<th>Objective</th>
<th>Key Performance</th>
<th>Activities</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>Increase market share</td>
<td>Customer satisfaction</td>
<td>Sales and Marketing activities</td>
<td>Familiarization trips for Local Tour Operators.</td>
</tr>
<tr>
<td></td>
<td>Increase customer retention</td>
<td></td>
<td></td>
<td>Influencer engagements</td>
</tr>
<tr>
<td></td>
<td>Strengthen brand awareness</td>
<td></td>
<td></td>
<td>Mainstream Media visibility and social media awareness.</td>
</tr>
<tr>
<td></td>
<td>Strengthen partnership with stakeholders</td>
<td></td>
<td></td>
<td>Recognition of repeat clients.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>KSLH increased domestic client database.</td>
</tr>
<tr>
<td>Internal Business process</td>
<td>To renovate and refurbish KSLH facilities</td>
<td>Improved revenue streams.</td>
<td>Request for funding from National treasury and shareholders injection.</td>
<td>Approved budget for Repairs and maintenance of facilities</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------------------------------------------</td>
<td>---------------------------</td>
<td>---------------------------------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Improve ICT for increased business</td>
<td></td>
<td>Refresher training on use of existing ICT systems to maximize value for money</td>
<td>Enhanced internal control systems.</td>
</tr>
<tr>
<td>Learning and growth</td>
<td>Recruit professionals who create success for customers</td>
<td>Training, professional recruitment and appraisals.</td>
<td>Conducted various training programs to staff vide internal and external training.</td>
<td>Continuous performance management review.</td>
</tr>
<tr>
<td></td>
<td>Train and develop staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop and implement performance culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Build capacity of Board members</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
VII. 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:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of Shares</th>
<th>% Shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Development Corporation</td>
<td>4,110,855</td>
<td>82.45%</td>
</tr>
<tr>
<td>Mountain Lodges Ltd</td>
<td>884,853</td>
<td>17.53%</td>
</tr>
<tr>
<td>Kenya Wildlife Service</td>
<td>1,016</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

**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 prorate basis.

The Board is guided by the Board Charter, Government circulars and relevant laws and regulations.

During the period under review the Board consisted of 4 substantive directors and 2 alternate directors as follows:

**KDC**
Three (3) directors including the Chairman of the Board.

**Mountains Lodges Ltd**
One (1) director

**KWS**
One (1) alternate director to the Director-General (KWS)

**Inspectorate of state corporations**
One (1) alternate director representing Inspectorate of State corporations

**Directorships**

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 KDC. 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 one main committee as outlined below with delegated mandate as stipulated. The committee is:

**Board Audit Committee**: the membership comprised of Mr. Edwin Wanyonyi (Chair), Mr. Erastus Njoroge and Ms. Nora Ratemo (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.
VIII. MANAGEMENT DISCUSSION AND ANALYSIS

The company sales revenue increased by 39% to Kshs.252M from Kshs.154M attained in FY2020/2021. All the 3 Units of KSLH, recorded increased sales revenues compared to the previous year. The sales were below the targeted sales in the annual budget 2020/2021. This was as a result of the continued effect of COVID 19 global Pandemic and the associated business downturn due to our source markets still under travel restrictions hence negative impact on the occupancy levels.

The company performance trend for the last five years is as tabulated below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>300,951</td>
<td>435,949</td>
<td>369,773</td>
<td>154,003</td>
<td>251,612</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>(35,781)</td>
<td>27,688</td>
<td>21,517</td>
<td>(109,715)</td>
<td>(65,007)</td>
</tr>
</tbody>
</table>

Although the renovation project was scheduled to begin at the beginning of the period under review this was set-aside due to lack of funding. Therefore the company was only able to undertake minimal capital improvement to replace the worn machines and equipments for all the units 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 as shown below. This state of affairs is attributed mainly by historical liabilities accrued over the years, decreasing revenues and profitability experienced in the last five years.

<table>
<thead>
<tr>
<th></th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>257,742,870</td>
</tr>
<tr>
<td>WITHHOLDING TAX</td>
<td>9,943,448</td>
</tr>
<tr>
<td>PAYE</td>
<td>179,729,889</td>
</tr>
<tr>
<td>TOURISM FUND</td>
<td>61,266,067</td>
</tr>
<tr>
<td>PENSION</td>
<td>35,207,385</td>
</tr>
<tr>
<td>SACCO</td>
<td>4,044,205</td>
</tr>
<tr>
<td>TRADE CREDITORS</td>
<td>115,947,232</td>
</tr>
</tbody>
</table>

Consequently the company is 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.
Management is hopeful that the company is going to maintain profitability as indicated as our source international markets continue lifting travel restrictions, facility improvements and widening our market source to domestic markets. Meanwhile Management has reviewed its Strategic plan, putting more emphasis on all its trading units to ensure revenues 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, other creditors and KSLH, the company having been issued with demand letters and we endeavor to honor the commitments entered.
IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

KSLH exists to transform lives. This is our purpose; the driving force behind everything we do. It’s what guides us to deliver our strategy, putting the customer/Citizen first, delivering relevant goods and services and improving operational excellence.

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 focused its commitment and contributions along the lines of the following core themes:

(i) **Sustainability strategy and profile**- during the year, KSLH undertook drastic measures on cost management to keep the company afloat. Ongoing negotiations with Trade creditors and others on fair prices and payment modalities, engagement with our main banker and shareholders on financing. KSLH also undertook rigorous Sales and marketing activities with an aim of boosting revenue.

(ii) **Environmental performance**- During the year KSLH undertook several beach cleaning exercises geared towards protection and rehabilitation of the environment more specifically the beach environment. The lodges participated in tree planting activities within the year. We have been abiding to the NEMA guidelines on effluent discharge and waste disposal.

(iii) **Employee welfare**- during the year HR instruments was reviewed by SCAC in line with the best practice. The instruments were presented to the Board of directors and implementation is ongoing. The instruments are holistic in nature taking into account professional hiring modalities, gender ratios and regional balance. KSLH is prescribed to the implementation of Occupational safety and health Act of 2007, (OSHA).

(iv) **Market place practices** – KSLH ensures responsible competition practices by addressing issues of corruption, fair competition and respect for competitors. KSLH is not affiliated to any political party but respects all as possible clients.

**Corporate social responsibility/Community engagements**

a. **Education**- During the year KSLH endeavored to support educational activities which include HIV/AIDS awareness, Career development among the vulnerable groups and Special projects geared towards empowerment of the youth through internship.

b. **Sports promotion** -KSLH has sports teams for men and women which participate in local tournaments.

c. **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.

d. **Local community programs**-During the year KSLH partnered with local community in CSR activities like provision of food and basic donations.
X.REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 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, 2022 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 ii-iii In accordance with Regulations of the Kenya Safari Lodges and Hotels Ltd Memorandum and Articles of Association; Mr. Christopher Huka was appointed as the new Chairman of the board of directors with effect from 12th August 2021 replacing Mr. Antony Kingi.

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: 22.09.2022
XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(5) of the Public Finance Management Act, 2012 and section 14(3) of the State Corporations Act, require the Directors to prepare financial statements in respect of that Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the KSLH’s financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2022. 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 the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company’s financial 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 and the State Corporations Act. The Directors are of the opinion that the Company’s financial statements give a true and fair view of the state of Company’s transactions during the financial year ended June 30, 2022, and of the Company’s financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company’s financial statements as well as the adequacy of the systems of internal financial control.

The directors noted the liquidity risk facing the company and the shareholders commit to support 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

KSLH financial statements were approved by the Board on the Day of 2022 and signed on its behalf.

Signature.................................................. Signature..................................................

Mr. Christopher Huka
Chairman of the Board

Mr. Joseph Ndunda
Accounting Officer
REPORT OF THE AUDITOR-GENERAL ON KENYA SAFARI LODGES AND HOTELS LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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 29, which comprise of the statement of financial position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income,
statement of changes in equity, statement of cash flows and 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 as at
30 June, 2022, 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

Basis for Qualified Opinion

1. Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.160,672,000 in respect to
trade and other receivables and as disclosed in Note 19 to the financial statements.
However, the following observations were made:

1.1 Long Outstanding Trade Debtors

Note 19 to the financial statements reflects trade debtors' balance of Kshs.143,139,000,
out of which debtors amounting to Kshs.126,755,185 representing 89% of total trade
debtors had been outstanding for more than six (6) months. However, the Management
had not provided evidence of efforts made to recover the long outstanding debtors.
Further, the trade debtors balance includes Kshs.167,643 owed by the defunct Transition
Authority and Kshs.224,680 owed by Paradise Hotel which was closed.

1.2 Failure to Recover Staff Debtors

Note 19 to the financial statements reflects trade debtors' balance of Kshs.143,139,000
which includes Kshs.889,309 and Kshs.3,181,906 owed by ex-staff and current staff
respectfully. However, the Management did not explain why recoveries had not been
made from the ex-staff retirement benefits and the current staff salaries.

1.3 Stolen Cash

Note 19 to the financial statements reflects other debtors and prepayments balance of
Kshs.24,271 000 out of which, Kshs.191,080 represents cash stolen at Voi Safari Lodge
in November, 2018. Available records indicated that the Management reported the
incidence to the Police in November, 2018 and the suspect was later taken to
Court. Although it was explained that the Court vindicated the staff in November, 2022,
the details of this case were not provided for audit review and the stolen cash amounting
to Kshs.191,080 appears to be a loss to the Company.
In the circumstances, the validity and recoverability of trade and other receivables amounting to Kshs.160,672,000 could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.576,390,000 in respect to property, plant and equipment and as disclosed in Note 16 to the financial statements. The following inadequacies were noted:

2.1 Fixed Assets Register and Management of Fixed Assets

Review of the assets register and other assets management records revealed that:

i. There was no fixed assets maintenance plan and budget.

ii. No fixed assets reports and registers were prepared and sent to the National Treasury, contrary to Paragraph 182(1) of the National Treasury Guidelines on Asset and Liability Management in the Public of March, 2020 which requires the Accounting Officer of a public sector entity to ensure that quarterly and annual assets reports, including assets registers are submitted to The National Treasury in the prescribed formats.

iii. Mombasa Beach Hotel assets were not tagged with unique identification numbers.

iv. Assets transfer form/ register between units/departments was not maintained.

2.2 Unconfirmed Ownership of Freehold Land

The statement of financial position reflects a balance of Kshs.576,390,000 in respect to property, plant and equipment and as disclosed in Note 16 to the financial statements. As previously reported, this balance includes freehold land in Mombasa valued at Kshs.360,000,000 whose title deed was not provided for audit verification.

2.3 Unsupported Demolition and Disposal of Indoor Games Arena Building

Included in the balance of Kshs.576,390,000 in respect to property, plant and equipment are buildings with a net book value of Kshs.180,338,000. This amount in turn includes a demolished building of an unknown value which served as an indoor games arena. Although the Management explained that the building had been cordoned off for more than seven (7) years before demolition, no evidence was provided on how the building was identified. Further, the book value of the demolished building had not been determined and removed from the financial statements.

In the circumstances, the accuracy, completeness, valuation, security, ownership and custody of property, plant and equipment balance of Kshs.576,390,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Safari Hotel and Lodges

Report of the Auditor-General on Kenya Safari Lodges and Hotels Limited for the year ended 30 June, 2022
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

1. Material Uncertainty Related to Going Concern

As previously reported, I draw attention to the disclosure in Note 32 to the financial statements which indicates that the Company is facing a liquidity risk due to its negative working capital amounting to Kshs.598,622,000 resulting from its total current liabilities of Kshs.795,623,000 exceeding its total current assets of Kshs.197,001,000 as at 30 June, 2022. In addition, the Company had accumulated losses totalling to Kshs.578,774,000 as at 30 June, 2022 (2021 - Kshs.513,767,000). The Management and the Directors have disclosed that this unsatisfactory situation is being addressed through review of marketing strategies with focus on lodges and negotiations and out of court settlement with the creditors.

Further, as previously reported, the Company in 2013/2014 financial year successfully negotiated for conversion into equity of a loan totalling to Kshs.75,554,000 received from the Tourism Finance Corporation whose interest accrued thereon was waived. However, despite these actions, the working capital position of the Company and its overall financial performance have continued to decline.

These conditions indicate the existence of a material uncertainty that casts doubt 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.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects that the Company had a final revenue budget and actual on a comparable of Kshs.304,250,000 and Kshs.215,272,000 respectively resulting to a shortfall of Kshs.88,978,000 or 29% of the budget. Similarly, the Company expended Kshs.280,279,000 against an approved budget of Kshs.304,019,000 resulting to an under-expenditure of Kshs.23,740,000 or 8% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

3. Forfeiture of Cash Receipts on Sale of Shares

As previously reported, the share capital of the Company was increased from Kshs.9,319,000 to Kshs.100,954,000 by a rights issue of 5,047,724 ordinary shares of Kshs.20 each in October, 2013. The shares were offered to existing shareholders at Kshs.20 per share based on par value. However, the net assets of the Company as at
30 June, 2013 amounted to Kshs.667,399,000, and therefore the net assets value of each share was Kshs.145.65. As a result, the rights issue price of Kshs.20 per share was undervalued by Kshs.125.65 and resulted in loss to the Company of significant cash receipts that may otherwise have helped in reversing the Company's unfavorable cash position.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates.

Other Information

The Directors and Management are responsible for the other information, which comprises (The Chairman’s Report, Directors’ Report, the Statement of Corporate Governance, Management Discussions and Responsibilities, Statement of Corporate Social Responsibility and the Statement of Directors’ Responsibilities.) The other information does not include the financial statements and my auditor’s report thereon.

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

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. Unremitted Statutory Deductions

The statement of financial position reflects a balance of Kshs.783,217,000 in respect to trade and other payables and as disclosed in Note 24 to the financial statements. The balance includes payables for Value Added Tax, Catering Levy, National Social Security
Fund, Pay As You Earn, National Hospital Insurance Fund and other payables amounting to Kshs.574,796,000 which had not been remitted as at 30 June, 2022 to the relevant Government Entities.

In the circumstances, the Company risks losing funds due to interest and penalties which may arise from non-remittance of statutory dues and the Management was in breach of the law.

2. Unconfirmed Certificates

Review of documents presented for audit review revealed that the Company conducted a staff certificate verification exercise during the year under review and the end report indicated that the authenticity of certificates for three (3) members of staff could not be confirmed. Further, the payroll information review revealed that the staff in question were still in employment and drawing full salaries from the Company despite having issues with their certificates.

In the circumstances, the disciplinary action taken by the Management against those staff could not be confirmed.

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 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 matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and 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

Lack of Strategic and Operational Plans

Review of the Company’s general information and operational environment revealed that the Company had developed a draft strategic and operational plan for the period 2022 - 2025 which had not been approved by the Board as at 30 June, 2022. Through the strategic and operational plan, the Company’s key performance indicators could have been determined at the organizational level and extended to business units, departments, teams, and individuals.
In the circumstances, the Company’s business strategy, performance objectives, measurements and indicators could not be confirmed.

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 Companies Act, 2015, I report based on the 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 my audit;

ii. In my opinion, adequate accounting records have been kept by Company, so far as appears from the examination of those records; and,

iii. The Company's financial statements agree with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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, risk management and overall governance.

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 going concern basis of accounting unless 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 resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company’s financial reporting process, reviewing the effectiveness of how Management 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 audit is planned and performed to express a conclusion about 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 and that public resources are applied in an effective way, 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 May, 2023