TPS

TOURISM PROMOTION SERVICES LIMITED

1997 ANNUAL REPORT AND ACCOUNTS

SERENA HOTELS

SAFARI LODGES • HOTELS • RESORTS

TPS

TOURISM PROMOTION SERVICES LIMITED

4th Floor, Williamson House, 4th Ngong Avenue, P.O. Box 48690, Nairobi, Kenya
Telephone: (254 - 2) 710511, Telefax (254 - 2) 718101
E-Mail: screnamg@africaonline.co.ke

Associated Companies: Tanzania • Zanzibar • Pakistan

CONTENTS

DIRECTORS AND ADMINISTRATION

BOARD OF DIRECTORS

Timothy C. J. Ramtu *(Chairman)*
Mahmud Jan Mohamed *(Managing Director)*
Abdulmalek Virani *(Finance Director)*
Zaherally K. Ahamed
Thomas I. G. Barrasford
Francis Okomo-Okello
William Robinson
Abdul M. Jaffer
Mahmood P. Manji
Robert Falkner *(resigned 27 January,1998)*
Martin Geake *(appointed 27 January, 1998)*

PRINCIPAL OFFICERS

Peter Mbogua *(Regional Sales and Marketing Manager)*
Mark F. Holden *(General Manager - Nairobi Serena)*
Mark W. Wamagata Gathuri *(General Manager - Mombasa Serena)*
Charles Muia Masilia *(Manager - Amboseli Serena)*
Rosemary Mugambi *(Manager - Samburu Serena)*
Cyprian Waweru *(Manager - Mara Serena)*

COMPANY SECRETARY

Jacqueline Ochong' *(resigned 16 March, 1998)*
Madren Nderu *(appointed 16 March, 1998)*

REGISTERED OFFICE

4th Floor, Williamson House, 4th Ngong Avenue
P. O. Box 48690, Nairobi

HOTELS AND LODGES

Nairobi Serena
Hotel
Mombasa Serena
Beach Hotel
Amboseli Serena
Safari Lodge
Samburu Serena
Safari Lodge
Mara Serena
Safari Lodge

AUDITORS

Coopers & Lybrand
Certified Public Accountants
Queenway House, Kaunda Street
P. O. Box 30158, Nairobi

PRINCIPAL BANKERS

Barclays Bank of Kenya Limited
P. O. Box 30120, Nairobi

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 29th Annual General Meeting of the Company will be held at the Amphitheatre, Kenyatta International Conference Centre, Nairobi at 3.00 p.m. on Monday 8 June, 1998 to transact the following business:

1. To receive the Audited Accounts for the financial year ended 31 December, 1997 and the Directors' and Auditors' reports thereon.

2. To approve payment of a final dividend of Shs. 0.50 per share of Shs 5.00 subject to withholding tax, where applicable, to the Members on the Register at the close of business on 8 June, 1998.

3. To elect directors:
   (a) Mr. Z. K. Ahamed, retires by rotation, and being eligible, offers himself for re-election.
   (b) Mr. W. B. Robinson, retires by rotation, and being eligible, offers himself for re-election.
   (c) Mr. A. M. Jaffer, retires in accordance with Article 93 of the Company's Articles of Association and being eligible, offers himself for re-election.
   (d) Mr. M. P. Manji, retires in accordance with Article 93 of the Company's Articles of Association and being eligible, offers himself for re-election.
   (e) Mr. A. J. Virani, retires in accordance with Article 93 of the Company's Articles of Association and being eligible, offers himself for re-election.
   (f) Mr. M. Geake, retires in accordance with Article 93 of the Company's Articles of Association and being eligible, offers himself for re-election.

4. To confirm the remuneration of Directors.

5. To note that the Company's Auditors, Coopers & Lybrand, being eligible, continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486) and to authorise the Directors to fix their remuneration.

6. To transact any other business of the Company notice of which has been given in accordance with the Company's Articles of Association.

By Order of the Board,
Madren Nderu
Company Secretary

Nairobi
21 April, 1998.

Notes:
A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, a Form of Proxy which is provided with this report, must be duly completed by the member and must be received at the registered offices of the Company not later than 3.00 p.m. on Saturday 6 June, 1998.

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the first Annual Report of Tourism Promotion Services Limited since it became a public company and commenced trading on the Nairobi Stock Exchange in May 1997.

The Board was delighted that the public share offer was so successful, having been substantially over subscribed. We welcome our many new shareholders who have demonstrated their confidence in the future of the Company. This confidence, I believe, reflects in part the strengths which are brought to the Company by the leadership of its principal shareholder, the Aga Khan Fund for Economic Development (AKFED) and by the presence and contributions of two major international development agencies as significant shareholders, the Commonwealth Development Corporation (CDC) and the International Finance Corporation (IFC), a member of the World Bank Group.

In spite of trading conditions which have been generally recognised as difficult, with reductions in occupancies, turnover for the year was however only marginally below that of the previous year, with profit after taxation better than in 1996. Operating costs have been well controlled despite an environment of growing inflation. This has been no mean achievement as in the broader context of the tourism industry in general, 1997 has been recorded as the worst year for destination Kenya since the early 1970's with estimated "holiday" visitor arrivals (official figures not yet released) predicted to prove much lower than the already depressed level of 1996 arrivals. From mid-August 1997, civil disturbances at the Coast, pre-election activity and adverse weather conditions related to the El Nino phenomenon, seriously impairing infrastructure, all resulted in widespread negative publicity for the destination and the industry witnessed substantial cancellations from European and American suppliers of business.

Regardless of the foregoing difficulties, I am pleased to report that as projected in the Prospectus dated 24 March, 1997, the Company has declared a total dividend for 1997 of one Kenyan Shilling on each share of five Kenya Shillings par value.

It is to be expected that the difficulties for destination Kenya, experienced in 1997 are likely to endure during at least for part of 1998, with continued reduced foreign tourist arrivals from abroad. Likewise, the poor infrastructure remains a handicap to the industry in the region. The loss in tourism earnings to Kenya in 1997 and the inevitable loss of jobs in the tourism sector which ensue will, it is hoped by all of us in the industry, stimulate the authorities into taking some positive action in improving infrastructure and committing the necessary funds towards destination marketing.

Shareholders will be pleased to know that the Company's management has already taken a number of steps to achieve material cost-cutting savings in the short term in 1998 and further savings are planned during the year.

Finally, on behalf of the Board and myself, I would like to warmly thank the management and staff of the Company for their continued dedication and hard work towards maintaining Serena's high standards of product and service during these difficult times.

Timothy C. J. Ramtu
Chairman

REPORT OF THE DIRECTORS

The directors present the audited accounts for the year ended 31 December, 1997.

PRINCIPAL ACTIVITY

The company is an owner and operator of hotel and lodge facilities in Kenya, servicing the business and tourist markets.

RESULTS AND DIVIDENDS

The results for the year are set out on page 7. An interim dividend of Shs. 0.50 per share was declared by the directors and paid to the shareholders and amounted to Shs. 19,339,500. The directors recommend a final dividend of Shs. 0.50 per share amounting to Shs. 19,339,500 which brings the dividend for 1997 to Shs. 1 per share.

FOREIGN EXCHANGE BANKINGS

During the last five financial years 1993 to 1997 the company's total direct foreign exchange bankings amounted to Shs. 3.5 billion.

STATUTORY CONTRIBUTION TO NATIONAL ECONOMY

During the last five financial years 1993 to 1997, the company made statutory contributions totalling Shs. 894 million, comprising accommodation tax, value added tax, training levy, rent, rates, royalties and income tax.

DIRECTORATE

The names of the directors are set out on Page 2. H. H. Prince Amyn Aga Khan and Messrs T. C. J. Ramtu, M. T. A. Jan Mohamed, T. I. G. Barrasford and F. O. Okello were appointed directors on 25 February, 1997. Messrs S. Mbova and P. F. Kitololo resigned on 9 May, 1997. Messrs A. J. Virani, M. P. Manji and A. Jaffer were appointed on 9 May, 1997. H. H. Prince Amyn Aga Khan resigned on 28 August, 1997.

In accordance with the Articles of Association, Messrs Z. K. Ahamed, W. B. Robinson, A. M. Jaffer, M. P. Manji, A. J. Virani and M. Geake are due for retirement and being eligible, offer themselves for re-election.

AUDITORS

The auditors, Coopers & Lybrand, will continue in office in accordance with Section 159 (2) of the Companies Act (Cap. 486).

By Order of the Board,
Madren Nderu
Company Secretary

Nairobi
21 April, 1998.

Report of the Auditors to the Members of Tourism Promotion Services Limited

1. We have audited the accounts set out on pages 7 to 14 which are in agreement with the books of account. We obtained the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

2. ***Respective Responsibilities of the Directors and Auditors***
   Under the provisions of Companies Act, the directors are responsible for the preparation of accounts which give a true and fair view of the company's state of affairs and its profit or loss. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

3. ***Basis of Opinion***
   We conducted our audit in accordance with Kenyan Auditing Standards. These standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

4. ***Opinion***
   In our opinion proper books of account have been kept and the accounts give a true and fair view of the state of affairs of the company as at 31 December, 1997 and of the profit and cashflows for the year then ended and comply with the Companies Act (Cap 486).

Coopers & Lybrand
Certified Public Accountants of Kenya

Nairobi
21 April, 1998.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	**1997 Shs '000**	1996 Shs '000
TURNOVER		**1,131,189**	1,158,673
PROFIT BEFORE EXCEPTIONAL ITEM		**88,490**	110,686
EXCEPTIONAL ITEM	2	**-**	(11,897)
PROFIT BEFORE TAXATION	3	**88,490**	98,789
TAXATION - ON THE PROFITS FOR THE YEAR	5	**(43,176)**	(46,116)
PROFIT FOR THE YEAR AFTER TAXATION		**45,314**	52,673
DIVIDENDS	6	**(38,680)**	(104,898)
RETAINED PROFIT/(LOSS) FOR THE YEAR		**6,634**	(52,225)

STATEMENT OF RETAINED PROFITS

	Note	1997	1996
1ST JANUARY		**66,922**	284,565
TRANSFER FROM CAPITAL RESERVE OF EXCESS DEPRECIATION ON REVALUED ASSETS		**8,637**	8,637
BONUS SHARE ISSUE		**-**	(174,055)
RETAINED PROFIT (LOSS) FOR THE YEAR		**6,634**	(52,225)
31ST DECEMBER	12	**82,193**	66,922

BALANCE SHEET
AS AT 31 DECEMBER 1997

	Note	1997 Shs '000	1996 Shs '000
FIXED ASSETS	7	**652,151**	696,717
CURRENT ASSETS			
Stocks	8	**83,736**	81,890
Debtors		**181,715**	179,686
Due from group companies		**6,941**	15,320
Bank balances and cash		**5,189**	25,593
		277,581	302,489
CURRENT LIABILITIES			
Creditors		**148,693**	185,859
Banks overdraft	9	**53,829**	26,070
Due to group companies		**-**	23,610
Loans repayable within one year	10	**64,375**	24,500
Taxation		**7,696**	14,844
Dividends		**19,340**	99,096
		293,933	373,979
NET CURRENT LIABILITIES		**(16,352)**	(71,490)
LONG TERM LOANS	10	**(101,938)**	(98,000)
		533,861	527,227
Financed by:			
SHARE CAPITAL	11	**193,395**	193,395
RESERVES	12	**340,466**	333,832
		533,861	527,227

The accounts on pages 7 to 14 were approved by the Board of Directors on 21 April, 1998 and signed on its behalf by:

T. C. J. Ramtu, Director

M. T. A. Jan Mohamed, Director

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 Shs '000	1996 Shs '000
Cashflows from operating activities (note A)	**110,986**	151,594
Returns on investments and servicing of finance		
Net interest paid	**(30,369)**	(29,436)
Dividends paid	**(118,435)**	(9,670)
Net cash outflows from returns on investments and servicing of finance	**(148,804)**	(39,106)
Cashflows from investing activities		
Purchase of fixed assets	**(44,686)**	(76,270)
Proceeds on sale of fixed assets	**6,528**	6,077
Net cash outflows from investing activities	**(38,158)**	(70,193)
Cashflows from financing activities		
Loans repaid	**(16,812)**	-
Loans raised	**44,625**	24,500
Net cash inflows from financing activities	**27,813**	24,500
Net (decrease)/increase in cash and cash equivalents	**(48,163)**	66,795
Cash and cash equivalents brought forward (note B)	**(477)**	(67,272)
Cash and cash equivalents carried forward (note B)	**(48,640)**	(477)

NOTES TO THE CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1997

	1997	1996
	Shs '000	Shs '000

A. CASHFLOWS FROM OPERATING ACTIVITIES

Profit before taxation	**88,490**	98,789
Adjustments for:		
Depreciation	**85,108**	111,680
Interest expense	**30,369**	29,436
Profit on sale of fixed assets	**(2,383)**	(3,881)
Unrealised exchange loss	**15,999**	-
Operating profit before working capital changes	**217,583**	236,024
Increase in stocks	**(1,845)**	(14,469)
Increase in debtors	**(2,029)**	(8,876)
Decrease / (increase) in amounts due from group companies	**8,379**	(12,551)
(Decrease) / increase in creditors	**(37,671)**	46,611
Decrease in amounts due to group companies	**(23,610)**	(5,287)
Cash generated from operations	**160,807**	241,452
Tax paid	**(49,821)**	(89,858)
Net cash from operating activities	**110,986**	151,594

B. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

Bank balances and cash	**5,189**	25,593
Bank overdrafts	**(53,829)**	(26,070)
	(48,640)	(477)

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1997

1. PRINCIPAL ACCOUNTING POLICIES

The accounts are prepared in accordance with the historical cost convention, including the revaluation of fixed assets. The following is a summary of the more important accounting policies used.

(a) Fixed assets and depreciation

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated to write off the cost, or valuation, of fixed assets less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned.

The principal annual rates used for this purpose are:

Leasehold land and buildings	Over the period of the lease
Lift installations	10%
Plant equipment, furniture, and air-conditioners	20%
Computers and Photocopiers	30%
Motor vehicles	25%

Operating equipment consisting of linen, cutlery and glassware is stated at cost. Replacements are charged as an operating expense.

Fixed assets are revalued periodically by independent professionally qualified valuers and the surplus/deficit over net book value is included as a movement on capital reserve. To the extent that any deficit is not covered by a surplus brought forward it is charged to the profit and loss account. In subsequent years transfers are made to retained profits in order to amortise the surplus over the remaining useful lives of the assets.

(b) Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a 'first in first out' basis. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of the realisation. Where necessary provision is made for obsolete, slow moving and defective stocks.

(c) Foreign currencies

Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the end of the financial year. All foreign exchange gains and losses are taken to the profit and loss account in the year in which they arise.

(d) Deferred taxation

Provision is made for deferred taxation using the liability method on all material timing differences between the treatment of certain items for taxation purposes and their treatment for accounts purposes to the extent that it is probable that a liability or asset will crystallise.

(e) Turnover

Turnover of the group, which excludes government taxation and service charges, is the aggregate value charged for all goods and services rendered by the company.

	1997 Shs '000	1996 Shs '000
2. EXCEPTIONAL ITEMS		
Exceptional charge for past service gratuity provisions	-	11,897
3. PROFIT BEFORE TAXATION		
This is stated after charging:		
Depreciation	**85,108**	111,680
Interest payable	**32,651**	31,208
Auditors' remuneration	**1,401**	1,183
Flotation costs	**12,249**	-
Exchange losses on forex loans	**22,257**	-
and after crediting:		
Interest receivable	**2,282**	1,772
Profit on sale of fixed assets	**2,323**	3,881
4. DIRECTORS' EMOLUMENTS		
As directors	-	-
As management	**10,524**	-
5. TAXATION		
On the taxable profit for the year at 35%	**43,176**	57,567
Overprovision in previous years	-	(11,451)
	43,176	46,116

The effective taxation rate exceeds the standard rate of taxation mainly as a result of the excess of depreciation charges over tax allowances on fixed assets. This arises in part from the revaluation of fixed assets for accounting purposes.

6. DIVIDENDS

	1997 Shs '000	1996 Shs '000
Interim paid:		
Shs. 0.50 per share, based on 38,679,000 shares of Shs. 5/= each (1996: Shs. 6/= per share, based on 966,975 shares of Shs. 20/= each)	**19,340**	5,802
Final proposed:		
Shs. 0.50 per share (1996: Shs. 2.56 per share)	**19,340**	99,096
	38,680	104,898

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1997

(continued)

7. FIXED ASSETS

	Leasehold land and Buildings and Lift installation Shs'000	Plant Equipment, Furniture and Computers Shs'000	Motor Vehicles Shs'000	Capital Work in Progress Shs'000	TOTAL Shs'000
COST OR VALUATION					
1st January	517,359	222,626	14,196	4,343	758,524
Cost	740	55,429	3,697	4,343	64,209
Valuation	516,619	167,197	10,499	-	694,315
Additions	989	33,368	8,709	1,620	44,686
Disposals	-	(1,122)	(4,226)	(1,825)	(7,173)
31st December	**518,348**	**254,872**	**18,679**	**4,138**	**796,037**
Cost	1,729	87,675	8,180	4,138	101,722
Valuation	516,619	167,197	10,499	-	694,315
	518,348	254,872	18,679	4,138	796,037
DEPRECIATION					
1st January	8,719	50,409	2,679	-	61,807
Charge for the year	19,112	58,660	7,336	-	85,108
Disposals	-	(368)	(2,661)	-	(3,029)
31st December	**27,831**	**108,701**	**7,354**	**-**	**143,886**
NET BOOK VALUE					
31st December 1997	**490,517**	**146,171**	**11,325**	**4,138**	**652,151**
31st December 1996	508,640	172,217	11,517	4,343	696,717

The company's fixed assets were revalued by Ryden Meghraj International Limited, independent registered valuers, at 30 June, 1996 on an open market value basis. Subsequent additions are stated at cost.

8. STOCKS

	1997 Shs '000	1996 Shs '000
Stocks comprise:		
Food Stock	**5,645**	4,987
Bar Stock	**7,915**	9,079
Shop Stock	**9,753**	9,884
Other Operating Stock	**60,423**	57,940
	83,736	81,890

9. BANK OVERDRAFT

The Bank overdraft and long term loans with Barclays Bank of Kenya Limited are secured by a floating debenture over stocks and debtors, a debenture over immovable property and all other assets, except stocks and debtors, and a legal charge over Nairobi Serena Hotel stamped supplemental to the debenture.

10. LONG TERM LOAN

	1997 Shs '000	1996 Shs '000
Barclays Bank of Kenya Limited	**166,313**	122,500
Less: Repayable within one year	**(64,375)**	(24,500)
	101,938	98,000

Refer to note 9 for details of security held.

11. SHARE CAPITAL

	1997 Shs '000	1996 Shs '000
Ordinary shares:		
Authorised, issued and fully paid:		
38,679,000 shares of Shs. 5 each	**193,395**	193,395

12. RESERVES

	Capital reserve Shs '000	Retained profits Shs '000	TOTAL Shs '000
1st January 1997	266,910	66,922	333,832
Excess depreciation on revaluation	(8,637)	8,637	-
Retained profit for the year	-	6,634	6,634
31 December 1997	**258,273**	**82,193**	**340,466**

13. CAPITAL COMMITMENTS

	1997 Shs '000	1996 Shs '000
Contracted for	**-**	20,455
Approved 1998 expenditure not contracted for	**129, 767**	139,800

14. DORMANT SUBSIDIARY

The company has a fully owned subsidiary, Uaso Nyiro Safari Lodge Limited, which is dormant.

15. ULTIMATE HOLDING COMPANY

The ultimate holding company is TPS Holdings Limited, a company incorporated in Kenya.

TPS

FORM OF PROXY

I/we ....

of ....

(BLOCK CAPITALS PLEASE)

being a member(s) of Tourism Promotion Services Limited, hereby appoint

....

of ....

(BLOCK CAPITALS PLEASE)

as my/our proxy to attend and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 3.00 p.m. on Monday, 8 June, 1998 and at any adjournment thereof.

SIGNED this ....day of .... 1998.

NAME: .... SIGNATURE: ....

SHARE ACCOUNT NUMBER: ....

NOTES

1. To be valid this Form of Proxy MUST be returned to the Company Secretary, Tourism Promotion Services Limited, 4th Floor, Williamson House, 4th Ngong Avenue, P.O. Box 48690, Nairobi, Kenya so as to be received not later than 3.00 p.m. on Saturday, 6 June, 1998.
2. In the case of a corporation, this Form of Proxy must be either executed under its common seal or signed on its behalf by a duly authorised signatory of the corporation.
3. In the case of joint holders, the signature of any one of them will suffice. However, the vote of the first-named holder on the Register of Members (whether voting in person or by proxy) will be accepted to the exclusion of the other joint holders.
4. The address shown should be that appearing on the Register of Members.
5. If you wish, you may appoint the Chairman of the meeting as your proxy.

SHAREHOLDER ADMISSION LETTER

Please fill in your name and note that this admission letter must be produced at the Annual General Meeting by you or your proxy to record attendance.

NAME: .... SIGNATURE: ....

SHARE ACCOUNT NUMBER: ....

Annual General Meeting of Tourism Promotion Services Limited to be held at the Amphitheatre, Kenyatta International Conference Centre, Nairobi at 3.00 p.m. on Monday, 8 June, 1998.

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Please
affix
Stamp

The Company Secretary
Tourism Promotion Services Limited
4th Floor, Williamson House
4th Ngong Avenue
P. O. Box 48690
Nairobi, Kenya

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