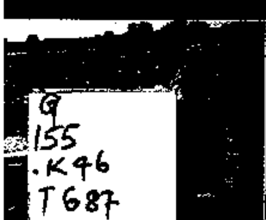
2001
Annual Report and Accounts



TPS

TOURISM PROMOTION SERVICES LIMITED

CONTENTS

Directors and Administration

BOARD OF DIRECTORS:

Timothy C J Ramtu
(Chairman)
Mahmud Jan Mohamed
(Managing Director)
Abdulmalek J Virani
(Finance Director)
Iain D Cheyne*
Kungu Gatabaki
(Appointed on 17 July 2001)
Janine D Gleeson*
(Resigned on 29 March 2001)
David M Icharia
(Alternate to JD Gleeson and resigned on 29 March 2001)
Graham S Leslie*
Mahmood P Manji
Francis Okomo-Okello
Abdul I Paroo***

BOARD AUDIT & FINANCE COMMITTEE:

Kungu Gatabaki
(Appointed on 17 July 2001)
Janine D Gleeson*
(Resigned on 29 March 2001)
Kabir Hyderally**
(Appointed on 29 March 2001)
Mahmood P Manji
Abdul I Paroo***
(Appointed on 29 March 2001)

*British **Pakistani ***Canadian

COMPANY SECRETARY:

Madren Nderu

PRINCIPAL OFFICERS:

Peter Mbogua
(Regional Sales and Mark eting Director)
Detlef Winter
(General Manager – Nairobi Serena)
Mark W Wamagata Gathuri
(General Manager – Mombasa Serena)
Gerald Macharia
(Manager – Amboseli Serena)
Herman Mwasaghua
(Manager – Samburu Serena)
Cyprian Waweru
(Manager – Mara Serena)
June Kyula
(Manager – Mountain Lodge)
Joseph Ole Mpaa
(Manager – Kilaguni Serena)

REGISTERED OFFICE:
4th Floor, Williamson House,
4th Ngong Avenue
P O Box 48690, 00100 Nairobi, Kenya
Telephone : 254 (2) 710511
Fax : 254 (2) 718100/1
E-mail : admin@serena.co.ke
Website : www.serenahotels.com

HOTELS AND LODGES:
Nairobi Serena Hotel
Mombasa Serena Beach Hotel
Amboseli Serena Safari Lodge
Samburu Serena Safari Lodge
Mara Serena Safari Lodge
Mountain Lodge (Managed by Serena)
Kilaguni Serena Safari Lodge

AUDITORS:
PricewaterhouseCoopers
Certified Public Accountants
The Rahimtulla Tower
P O Box 43963, 00100 Nairobi, Kenya

PRINCIPAL BANKERS:
Barclays Bank of Kenya Limited
P O Box 30120, 00100 Nairobi, Kenya

Notice of Annual General Meeting

tice is hereby given that the Thirty-Third Annual neral Meeting of the Company will be held at the ıphitheatre, Kenyatta International Conference Centre, irobi on Friday, 31st May, 2002 at 11:00 a.m. to nsact the following business:

DINARY BUSINESS

To receive, consider and if thought fit, adopt the Accounts for the year ended 31st December, 2001, together with the Directors' and Auditors' Reports thereon.

To approve payment of a final dividend for the year 2001 of Kshs. 1.10 per ordinary share of Kshs. 5.00 subject to withholding tax where applicable, to the Members on the Register at the close of business on 31st May, 2002.

To elect Directors:

Mr Kungu Gatabaki retires in accordance with Article 93 of the Company's Articles of Association and being eligible, offers himself for re-election.

Mr Mahmood P Manji retires by rotation in accordance with Articles No. 95 and 96 oft h e Company's Articles of Association and being eligible, offers himself for re-election.

To approve the Directors' remuneration for the year 2001.

To appoint the Company's Auditors, PricewaterhouseCoopers in accordance with section 159(2) of the Companies Act (Cap. 486).

To note the Auditors' remuneration for the year 2001 and to authorise the Directors to fix the Auditors' remuneration for the year 2002.

To transact any other Ordinary Business of an Annual General Meeting.

CIAL BUSINESS

Mr. T C J Ramtu retires by rotation in accordance with Articles No. 95 and No. 96 of the Company's Articles of Association. Special Notice has been received by the Company pursuant to Section 142 of the Companies Act (Cap. 486) that the following resolution be proposed in accordance with Section 186(5) of the said Act for the consideration of the shareholders:

"THAT Mr T C J Ramtu (a Director retiring by rotation) who is over the age of 70 years, be and is hereby re-elected as a Director of the Company".

9. To consider and, if thought fit, to approve the following Special Resolution:

"It be and is hereby resolved that the Articles of Association of the Company be and are hereby amended by adding Article 155 headed Central Depositories Act 2000 as hereinafter appearing:

CENTRAL DEPOSITORIES ACT 2000

155(a) The provisions of the Central Depositories Act 2000 as amended or modified from time to time shall apply to the Company to the extent that any securities of the Company are in part or in whole immobilised or dematerialised or are required by the regulations or rules issued under the said Central Depositories Act to be immobilised or dematerialised in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the said Central Depositories Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles of Association, securities, immobilisation and dematerialisation shall be construed in the same way as they are construed in the said Central Depositories Act.

b) Where any securities of the Company are forfeited pursuant to these Articles of Association after being immobilised or dematerialised, the Company shall be entitled to transfer such securities to a securities account designated by the Directors for this purpose."

By Order of the Board.

Madren Nderu
Company Secretary

Nairobi 19 February 2002

Note:
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 office of the Company not later than 11:00 a.m. on Wednesday, 29th May, 2002.

Chairman's Statement

It gives me great pleasure to present to you the Annual Report of Tourism Promotion Services Limited for the year ended 31 December 2001.

Notwithstanding the difficult trading conditions faced by the tourism industry globally, your Company was able to record a 16.4% growth in earnings for the year. This growth is a reflection of operating efficiencies and cost reduction strategies implemented during 2001. The Company's performance is commendable when one considers the general increase in receiverships and closures in the tourism industry witnessed over the past two years. This could not have been achieved without the commitment of our staff, management and our stakeholders.

The Company has continued to invest in improving the physical product of its seven properties in Kenya, and in training and developing its human resources. The strategy of improving product and maintaining price is paying dividends as Serena Hotels continues to maintain its leadership position in the East African region. The Company will continue to pursue new opportunities in the region to strengthen the circuit during year 2002 onwards.

Destination Kenya despite its excellent climate, exciting tourist attractions and friendly people is not achieving its fair share of world tourism growth, and major efforts will be required of Government and stakeholders to create confidence in source markets, through improvement of products, infrastructure and security. A strategic consistent policy to improving tourism will assist our country reap maximum economic and employment benefits for the manufacturing, transport and other related industries.

It is imperative that the country's general elections to be held in year 2002 are managed in a sensitive manner to avoid negative international media reports, which inevitably will impact Kenya's Tourism industry.

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. My warm gratitude also goes to our shareholders and customers for their continued support and loyalty.

TCJ Ramtu
CHAIRMAN

Taarifa ya Mwenyekiti

Ni furaha kubwa kwangu kuwasilisha kwenu Ripoti ya Mwaka ya Tourism Promotion Services Limited ya mwaka uliomalizika Desemba 31, 2001.

Japo kulikuwa na hali ngumu ya biashara iliyokabili sekta ya utalii kote duniani, kampuni yenu iliweza kurekodi asilimia 16.4 ya ukuaji wa mapato ya mwaka. Ukuaji huu ni dhihirisho la kuimarika kwa shughuli za biashara na mikakati ya kupunguza gharama iliyotekelezwa mwaka wa 2001. Matokeo ya kampuni yanastahili heko hasa unapozingatia ongezeko la kampuni zinazofilisika na zinazofungwa katika sekta ya utalii, katika kipindi cha miaka miwili iliyopita. Haya hayangefanikiwa bila kujitolea kikamilifu kwa wafanya kazi wetu, wasimamizi na wenyehisa.

Kampuni imeendelea kutumia rasilmali katika uboreshaji wa mijengo katika hoteli zake saba humu nchini, na katika utoaji wa mafunzo na ustawishaji wa wafanya kazi wake. Mkakati wa kuimarisha hoteli na kudumisha bei unaleta faida katika mapato huku Hoteli za Serena zikiendelea kudumisha uongozi wake katika kanda ya Afrika Mashariki. Kampuni itaendelea kufuatilia fursa mpya zinazojitokeza katika kanda hii ili kujiimarisha mwaka huu wa 2002 na kuendelea.

Licha ya kwamba Kenya ina mazingira ya kupendeza ajabu, sehemu zinazovutia watalii na watu wakarimu haijafanikiwa inavyostahili katika ustawi wa utalii duniani. Juhudi kubwa zitahitajika kutoka kwa Serikali na wahusika wengine ili kukuza imani katika masoko kupitia uimarishaji wa hoteli, muundo msingi na usalama.

Sera nzuri inayoweza kutegemewa ya kuimarisha utalii itasaidia nchi yetu kupata faida kubwa kiuchumi na ajira kwa sekta ya utengenezaji bidhaa, uchukuzi pamoja na sekta nyingine.

Ni muhimu kwamba uchaguzi mkuu wa nchi hii utakaofanyika mwaka huu wa 2002 usimamiwe kwa uangalifu mkubwa ili kuepuka ripoti mbaya kuchapishwa katika vyombo vya habari vya kimataifa ambazo, bila shaka, zitaathiri vibaya Sekta ya Utalii ya Kenya.

Hatimaye, kwa niaba ya Halmashauri ya Wakurugenzi na mimi binafsi, ningependa kuwashukuru sana wasimamizi na wafanya kazi wa Kampuni kwa kuendelea kujitolea na bidii yao kubwa katika kudumisha kiwango cha juu cha hoteli na huduma za Serena katika nyakati hizi ngumu. Pongezi zangu, kwa moyo mkunjufu, pia zinawaendea wenyehisa wetu na wateja kwa kutuunga mkono na uaminifu wao siku zote.

TCJ Ramtu
MWENYEKITI

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2001 which disclose the state of affairs of the company.

INCORPORATION AND REGISTERED OFFICE

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is:

George Williamson House
4th Ngong Avenue
PO Box 48690
00100-GPO
NAIROBI

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

Out of the net profit for the year of Shs 96,706,000 (2000: Shs 83,052,000), the directors recommend the approval of a 22% (2000: 22%) dividend amounting to Shs 42,546,900 (2000: Shs 42,546,900).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance within the options available in Kenya to hedge against such risks.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

DIRECTORS

The directors who held office during the year and to the date of this report were:

TCJ Ramtu	(Chairman)
M Jan Mohamed	(Managing)
AJ Virani	(Finance)
FO Okello	
MP Manji	
JD Gleeson	(Resigned on 29 March 2001)
DM Icharia	(Alternate to JD Gleeson and resigned on 29 March 2001)
G Leslie	
A Paroo	
I Cheyne	
K Gatabaki	(Appointed on 17 July 2001)

SECRETARY

M Nderu

In accordance with Article 93 of the Company's Articles of Association, Mr K Gatabaki retires at the annual general meeting and, being eligible, offers himself for re-election.

In accordance with Articles 95 and 96 of the Company's Articles of Association, Mr MP Manji retires by rotation and, being eligible, offers himself for re-election.

In accordance with Articles 95 and 96 of the Companies Articles of Association, Mr TCJ Ramtu (being a director who is over the age of 70 years) is due for retirement by rotation and a special notice having been received pursuant to section 142 of the Companies Act (Cap 486), it is proposed that he be re-elected as a director under section 186(5) of the said Act.

AUDITORS

The company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board

Madren Nderu
Secretary

19 February 2002

Statement of Directors' Responsibilities

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Accounting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director	Director
19 February 2002	19 February 2002

Report of the Auditors

TO THE MEMBERS OF TOURISM PROMOTION SERVICES LIMITED

We have audited the financial statements set out on pages 10 to 26. We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 7. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those 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.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2001 and of its profit and cash flows for the year then ended and comply with International Accounting Standards and the Kenyan Companies Act.

PRICEWATERHOUSECOOPERS

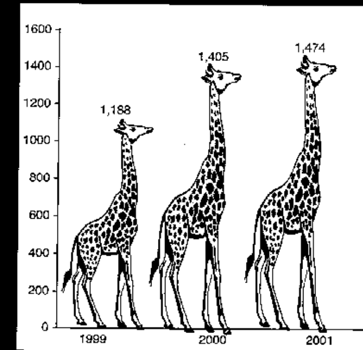
Certified Public Accountants

19 February 2002

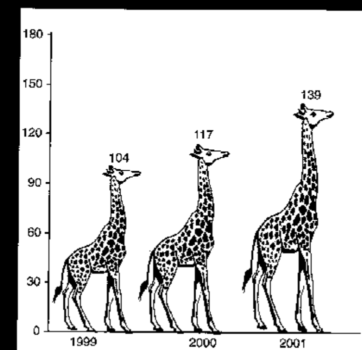
Nairobi

FINANCIAL HIGHLIGHTS

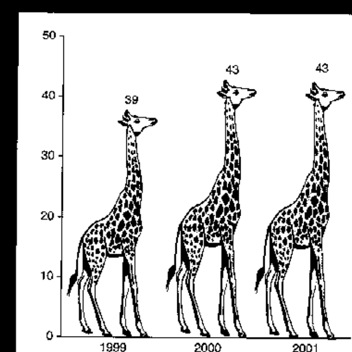
TURNOVER (Millions)



PROFIT BEFORE TAX (Millions)



PROPOSED FINAL DIVIDEND (Millions)



Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001 Shs'000	2000 Shs'000
Sales		1,473,952	1,404,798
Cost of sales		(323,377)	(309,700)
Gross profit		1,150,575	1,095,098
Other operating income		79,739	100,179
Dividend income		4,652	-
Staff costs		(297,105)	(269,328)
Administration expenses		(351,535)	(358,230)
Other operating expenses		(428,980)	(419,167)
Operating profit	1	157,352	148,552
Net finance costs	3	(21,551)	(30,840)
Share of results of associate	4	2,898	(599)
Profit before tax		138,699	117,113
Tax	5	(41,993)	(34,061)
Net profit		96,706	83,052
Dividends:			
Proposed final dividend for the year	6	42,547	42,547
Earnings per share (Shs)	7	2.50	2.15

Balance Sheet

for the year ended 31 December 2001

	Notes	2001 Shs'000	2000 Shs'000
CAPITAL EMPLOYED			
Share capital	8	193,395	193,395
Revaluation reserves	9	458,855	468,086
Retained earnings		306,981	243,591
Proposed dividends	6	42,547	42,547
Shareholders' funds		1,001,778	947,619
Non-current liabilities			
Borrowings	10	199,773	114,114
Deferred tax	11	184,595	174,149
Provisions for liabilities and charges	12	66,422	52,612
		450,790	340,875
		1,452,568	1,288,494
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13	1,396,674	1,324,170
Intangible assets	14	7,830	8,406
Investment in subsidiary	15	6,000	6,000
Investment in associate	4	12,639	4,280
		1,423,143	1,342,856
Current assets			
Inventories	16	107,969	88,353
Receivables and prepayments	17	390,253	435,848
Cash and cash equivalents	18	150,212	24,894
		648,434	549,095
Current liabilities			
Trade and other payables	19	232,517	255,841
Current tax		13,664	1,020
Borrowings	10	372,828	346,596
		619,009	603,457
Net current assets/(liabilities)		29,425	(54,362)
		1,452,568	1,288,494

The financial statements on pages 10 to 26 were approved for issue by the Board of directors on 19 February 2002 and signed on its behalf by:

Director

Director

Statement of Changes in Equity

for the year ended 31 December 2001

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2000						
At start of year		193,395	477,317	193,855	38,679	903,246
Transfer of excess depreciation		-	(13,170)	13,170	-	-
Deferred tax on transfer	11	-	3,939	(3,939)	-	-
Net (losses)/gains not recognised in the profit and loss account		-	(9,231)	9,231	-	-
Net profit for the year		-	-	83,052	-	83,052
Dividends:						
- Final for 1999 paid		-	-	-	(38,679)	(38,679)
- Proposed for 2000	6	-	-	(42,547)	42,547	-
At end of year		193,395	468,086	243,591	42,547	947,619
Year ended 31 December 2001						
At start of year		193,395	468,086	243,591	42,547	947,619
Transfer of excess depreciation		-	(13,170)	13,170	-	-
Deferred tax on transfer	11	-	3,939	(3,939)	-	-
Net (losses)/gains not recognised in the profit and loss account		-	(9,231)	9,231	-	-
Net profit for the year		-	-	96,706	-	96,706
Dividends:						
– Final for 2000 paid		-	-	-	(42,547)	(42,547)
– Proposed for 2001	6	-	-	(42,547)	42,547	-
At end of year		193,395	458,855	306,981	42,547	1,001,778

Cash Flow Statement

for the year ended 31 December 2001

	Notes	2001 Shs'000	2000 Shs'000
Operating activities			
Cash generated from operations	22	268,102	172,422
Interest received		31,817	22,962
Interest paid		(53,284)	(39,399)
Tax paid		(17,997)	(40,835)
Net cash from operating activities		228,638	115,150
Investing activities			
Purchase of property, plant and equipment	13	(177,660)	(279,595)
Purchase of investment	4	(6,367)	-
Proceeds from disposals of property, plant and equipment		6,624	408
Dividends received		4,658	-
Net cash used by investing activities		(172,745)	(279,187)
Financing activities			
Proceeds from issue of commercial paper		(18,410)	32,980
Proceeds from bank borrowings		509,750	560,450
Payments of bank borrowings		(412,532)	(435,694)
Dividends paid		(42,547)	(38,679)
Net cash generated from financing activities		36,261	119,057
Increase/(decrease) in cash and cash equivalents		92,154	(44,980)
Movement in cash and cash equivalents			
At start of year		(25,229)	19,751
Increase/(decrease)		92,154	(44,980)
At end of year	18	66,925	(25,229)

Accounting Policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Accounting Standards (IAS).

The financial statements are presented in Kenya Shillings (Shs) and are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

(b) Revenue recognition

Sales are recognised upon performance of services, and are stated net of VAT and discounts. Interest income is recognised as it accrues, unless collectibility is in doubt. Dividend income is recognised in the period in which it has been declared by the subsidiary.

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(d) Investment in subsidiary

The investment in the subsidiary is stated in the balance sheet at cost. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

On disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(e) Investment in associate

The investment in the associated undertaking, Mountain Lodges Limited, is accounted for under the equity method of accounting. The company holds 30% (2000: 20%) of the ordinary shares of Mountain Lodges Limited and though it does not have control, it exercises significant influence.

Equity accounting involves recognising in the profit and loss account, the company's share of the associate's profit or loss. The company's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Land and buildings are subsequently shown at market value, based on triennial valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment is stated at historical cost less depreciation.

(f) *Property, plant and equipment (continued)*

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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

Land and buildings	Over the period of the lease
Computers	3 years
Motor vehicles	4 years
Furniture and fittings	8 years
Lift installations	10 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(g) Intangible assets

On acquisition, the excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as an intangible asset in the balance sheet. The intangible asset, goodwill, is amortised to the profit and loss account on the straight-line basis over its estimated useful life which does not exceed 20 years. The carrying amount of goodwill is reviewed when circumstances or events indicate that there may be uncertainty, over the carrying amount and written down for impairment, if required.

(h) Accounting for leases

Leases of assets under which significant risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(i) Inventories

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

(j) Trade receivables

Trade receivables are carried at amortised invoiced amounts less an estimate made for doubtful receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

(k) Employee entitlements

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

The estimated monetary liability for employee's accrued annual leave at the balance sheet date is recognised as an expense accrual.

(l) Borrowings

Bank loans and commercial paper are stated at amortised cost.

(m) Deferred tax

Deferred tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted at year-end are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the tax benefit can be utilised.

(n) Retirement benefit obligations

The company operates a defined contribution staff retirement benefits scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions from both the company and employees.

The company's contributions to the scheme are charged to the profit and loss account in the year to which they relate.

(o) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(p) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

1 Operating profit

The following items have been charged in arriving at operating profit:

	2001 Shs'000	2000 Shs'000
Depreciation on property, plant and equipment (Note 13)	99,258	124,821
Operating lease rentals	50,315	44,959
Staff costs (Note 2)	297,106	269,328
Auditors' remuneration	1,830	1,665

2 Staff costs

The following items are included within staff costs:

	2001 Shs'000	2000 Shs'000
Retirement benefit costs - defined contribution scheme	10,057	8,238

	Number	Number
The number of persons employed by the company at the year end was:	1,173	1,157

3 Net finance costs

	2001 Shs'000	2000 Shs'000
Interest income:		
- bank deposits	25,795	20,672
- staff loans	6,022	2,290
	31,817	22,962
Foreign exchange losses	(84)	(14,403)
Interest payable and similar charges		
- bank loans	(27,383)	(30,428)
- bank overdraft	(14,174)	(5,749)
- commercial paper	(11,727)	(3,222)
	(21,551)	(30,840)

4 Investment in associate

	2001 Shs'000	2000 Shs'000
Opening net book amount	4,280	4,869
Acquisition	6,367	-
Share of profit/(loss) before tax	2,898	(599)
Share of tax (Note 5)	(906)	10
Net share of profit/(loss) for the year	1,992	(589)
Closing net book amount	12,639	4,280

The associate, Mountain Lodges Limited, whose principal business is to provide lodge facilities for tourists, is an unlisted company incorporated in Kenya. During the year, the company acquired a further 10% shareholding in Mountain Lodges Limited.

5 Tax

	2001 Shs'000	2000 Shs'000
Current tax	30,641	24,467
Deferred tax (Note 11)	10,446	9,604
Share of tax of associate	906	(10)
	41,993	34,061

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2001 Shs'000	2000 Shs'000
Profit before tax (company)	138,699	117,113
Tax calculated at a tax rate of 30% (2000: 30 %)	41,610	35,134
Tax effect of:		
Income not subject to tax	(2,376)	(3,688)
Expenses not deductible for tax purposes	1,855	2,237
Under-provision of deferred tax in prior year		388
Share of tax of associate	906	(10)
Tax charge	41,993	34,061

6 Dividends per share

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. A dividend in respect of the year ended 31 December 2001 of Shs 1.10 per share (2000: Shs 1.10) amounting to Shs 42,546,900 (2000: Shs 42,546,900) is to be proposed at the forthcoming annual general meeting.

Payment of dividends is subject to withholding tax at the rate of 5% for Kenyan residents and 10% for non-residents.

7 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2001	2000
Net profit attributable to shareholders (Shs'000)	96,706	83,052
Weighted average number of ordinary shares in issue (thousands)	38,679	38,679
Basic earnings per share (Shs)	2.50	2.15

There were no outstanding potentially dilutive shares at year-end (2000: Nil).

8 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000
Authorised, issued and fully paid at par value of Shs 5.00 per share		
At start and end of year	38,679	193,395

9 Revaluation reserves

Revaluation reserves relate to surpluses arising from the revaluation of land and buildings less attributable deferred tax. The revaluation reserves are non-distributable. The movement in these reserves is shown in the statement of changes in equity.

10 Borrowings

	2001 Shs'000	2000 Shs'000
The borrowings are made up as follows:		
Non-current		
Bank loans	199,773	114,114
Current		
Bank overdraft	83,287	50,123
Bank loans	214,971	203,493
Commercial paper	74,570	92,980
	372,828	346,596
Total borrowings	572,601	460,710

Bank loans movement schedule	2001 Shs'000	2000 Shs'000
At start of year	317,607	183,352
Additional loans	509,750	560,450
Repayments	(412,532)	(435,694)
Revaluation (gain)/loss	(81)	9,499
At end of year	414,744	317,607
Current portion	214,971	203,493

Bank loans and overdrafts are secured by a floating debenture over stocks, debtors and certain land and buildings, including immovable property.

The weighted average effective interest rates at the year-end were as follows:

	2001	2000
- bank overdrafts: US Dollars		
: Kenya Shillings	4.66%	8.50%
	11.48%	12.61%
- bank borrowings	11.48%	13.50%
- commercial paper	9.98%	12.09%

Maturity of non-current borrowings is as follows:

	2001 Shs'000	2000 Shs'000
Between 1 and 2 years	116,262	114,114
Between 2 and 5 years	83,511	-
	199,773	114,114

11 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2000:30%). The movement on the deferred tax account is as follows:

	2001 Shs'000	2000 Shs'000
At start of year	174,149	164,545
Income statement charge (Note 5)	10,446	9,604
At end of year	184,595	174,149

Deferred tax assets and liabilities, deferred tax charge/(credit) in the profit and loss account, and deferred tax charge/(credit) in equity are attributable to the following items:

	1.1.2001 Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2001 Shs'000
Deferred tax liabilities			
Accelerated tax depreciation	62,410	(23,415)	38,995
Revaluation surpluses	127,791	36,743	164,534
Unrealised exchange gains	5,142	153	5,295
	195,343	13,481	208,824
Deferred tax assets			
Provisions	(17,227)	(5,580)	(22,807)
Unrealised exchange losses	(3,967)	2,545	(1,422)
	(21,194)	(3,035)	(24,229)
Net deferred tax liability	174,149	10,446	184,595

Deferred tax of Shs 3,939,000 (2000: Shs 3,939,000) has been transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

12 Provisions for liabilities and charges

	Gratuity Shs'000
At start of year	52,612
Charge to profit and loss account	14,862
	67,474
Utilised during year	(1,052)
At end of year	66,422

Provision for employees' entitlement to gratuity is based on the number of years worked by individual employees up to the balance sheet date.

13 Property, plant and equipment

	Land & buildings Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost or valuation					
At start of year	1,185,727	559,217	46,647	5,074	1,796,665
Additions	44,478	116,691	3,000	13,491	177,660
Disposals	-	(8,222)	(2,069)	-	(10,291)
Revaluation adjustment	(80,084)	-	-	-	(80,084)
At end of year	1,150,121	667,686	47,578	18,565	1,883,950
Depreciation					
At start of year	141,479	300,293	30,723	-	472,495
Charge for the year	26,755	64,517	7,986	-	99,258
Disposals	-	(3,868)	(525)	-	(4,393)
Revaluation adjustment	(80,084)	-	-	-	(80,084)
At end of year	88,150	360,942	38,184	-	487,276
Net book amount					
At 31 December 2001	1,061,971	306,744	9,394	18,565	1,396,674
At 31 December 2000	1,044,248	258,924	15,924	5,074	1,324,170

13 Property, plant and equipment

Land and buildings were last revalued on 31 December 1999 by Mohamed A. Samji, an independent professional valuer. Valuations were made on the basis of earnings and market value for existing use.

The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax has been credited to revaluation reserves in shareholders' equity.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2001 Shs'000	2000 Shs'000
Cost	484,888	520,494
Accumulated depreciation	(41,858)	(95,187)
	443,030	425,307

14 Intangible assets

Intangible assets relate to goodwill arising from acquisitions.
The movement during the year is as follows:

	2001 Shs'000	2000 Shs'000
At start of year	8,406	8,982
Amortisation charge	(576)	(576)
At end of year	7,830	8,406

15 Investment in subsidiary

	2001	2000
Uaso Nyiro Safari Lodge Limited	*6,000*	*6,000*

Uaso Nyiro Safari Lodge Limited, which is dormant, is incorporated in Kenya and is a wholly owned subsidiary of Tourism Promotion Services Limited. The subsidiary has not been consolidated with the company as it will be consolidated with the ultimate parent company, TPS Holdings Limited, incorporated in Kenya.

16 Inventories

	2001 Shs'000	2000 Shs'000
Operating inventories	107,969	88,353

Notes forming part of the Financial Statements

continued

17 Receivables and prepayments

	2001 Shs'000	2000 Shs'000
Trade receivables	186,065	262,221
Less: provision for bad and doubtful debts	(16,554)	(19,181)
	169,511	243,040
Prepayments		11,805
Receivables from related companies (Note 23)	170,774	136,860
Other receivables	49,968	44,143
	390,253	435,848

18 Cash and cash equivalents

Cash at bank and in hand	66,925	24,894

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise cash in hand, net of bank overdrafts:

	2001 Shs'000	2000 Shs'000
Cash and bank balances as above	150,212	24,894
Bank overdrafts (Note 10)	(83,287)	(50,123)
	66,925	(25,229)

19 Trade and other payables

Trade payables	106,820	119,129
Amounts due to related companies (Note 23)	8,453	17,869
VAT payable	5,227	5,004
Accrued expenses	69,946	37,013
Other payables	42,071	76,826
	232,517	255,841

20 Contingent liabilities

At 31 December 2001, the company had given guarantees amounting to Shs 4,810,000 (2000:Shs 4,360,000) to banks on behalf of third parties for supply of goods and services.

21 Commitments

Capital commitments

There are no capital expenditures that have been contracted for at the balance sheet date but not recognised in the financial statements.

22 *Cash generated from operations*

Reconciliation of profit before tax to cash generated from operations:

	2001 Shs'000	2000 Shs'000
Profit before tax	138,699	117,113
Adjustments for:		
Depreciation (Note 13)	99,258	124,821
Dividend income	(4,658)	-
Profit on sale of property, plant and equipment	(726)	(324)
Amortisation of goodwill (Note 14)	576	576
Interest income	(31,817)	(22,962)
Interest expense	53,284	39,399
Unrealised foreign exchange (gains)/losses	(81)	9,499
Share of results of associate (Note 4)	(2,898)	599
Changes in working capital		
- receivables and prepayments	45,595	(175,796)
- inventories	(19,616)	(3,688)
- trade and other payables	(23,324)	66,289
- provisions for liabilities and charges	13,810	16,896
Cash generated from operations	268,102	172,422

23 Related party transactions

The company is controlled by TPS Holdings Limited, incorporated in Kenya. There are other companies that are related to Tourism Promotion Services Limited through common shareholding and directorships.

The following transactions were carried out with related parties:

i) **Sale of goods**	2001 Shs'000	2000 Shs'000
Mountain Lodges Limited	36,994	26,407

The company transfers goods to Mountain Lodges Limited, an associated company, at cost.

ii) **Purchase of management services**	2001 Shs'000	2000 Shs'000
Tourism Promotion Services (Management) Limited	205,395	189,165

Notes forming part of the Financial Statements

continued

23 Related party transactions (continued)

iii) Outstanding balances with related parties

	2001 Shs'000	2000 Shs'000
Receivables from related parties:-		
Goods sold to Mountain Lodge	949	11,091
Receivable from TPS Holdings:		
At start of year	19,856	9,677
Advances during the year	48,089	37,018
Repayments	(32,908)	(26,839)
At end of year	35,037	19,856
Receivable from Tourism Promotion Services		
(Management) Limited:		
At start of year	105,913	44,389
Advances during the year	503,924	359,097
Repayments	(475,049)	(297,573)
At end of year	134,788	105,913
Total	170,774	136,860
Payable to other related parties:-		
At start of year	17,869	17,869
Advances during the year	-	-
Repayments	(9,416)	-
At end of year	8,453	17,869

Advances to TPS Holdings Limited and Tourism Promotion Services (Management) Limited are repayable on demand and attract interest at a rate of 1% above the company's costs of borrowing.

Advances to Tourism Promotion Services (Management) Limited include car loans amounting to Shs 5,514,000 (2000: 4,907,000) to directors of the company. Interest is charged at the rate of 15% per annum.

Advances from other related parties are repayable on demand and are interest free.

iv) Directors emoluments

	2001 Shs'000	2000 Shs'000
Fees	420	420
Management	18,043	15,264

TOURISM
PROMOTION
SERVICES
LIMITED

FORM OF PROXY

(COMPLETE IN BLOCK LETTERS PLEASE)

I/We ....

of ....

being a member/members of Tourism Promotion Services Limited, hereby appoint

....

of ....

and failing him, ...

of ....

and failing him, the Chairman of the meeting, as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 31st May, 2002 at 11.00 a.m. and at any adjournment thereof.

As witnessed my/our hand this .... day of ....2002.

SIGNATURE : ....

SHARE ACCOUNT NUMBER : ....NUMBER OF SHARES HELD : ....

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, 00100 Nairobi, Kenya so as to be received not later than 11.00 a.m. on Wednesday, 29th May, 2002.
2. A person appointed to act as a proxy need not be a member of the Company.
3. *In the case of a member being a limited company/corporation, this Form of Proxy must be* completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
4. In the case of joint holders, the signature of any one of them will suffice but the names of all joint holders should be stated.

FOLD 1

TOURISM PROMOTION SERVICES LIMITED

Please
affix
Stamp
here

The Company Secretary
Tourism Promotion Services Limited
4th Floor, Williamson House
4th Ngong Avenue
P O Box 48690
00100
Nairobi
Kenya

FOLD 2