TPS

TOURISM PROMOTION
SERVICES LIMITED

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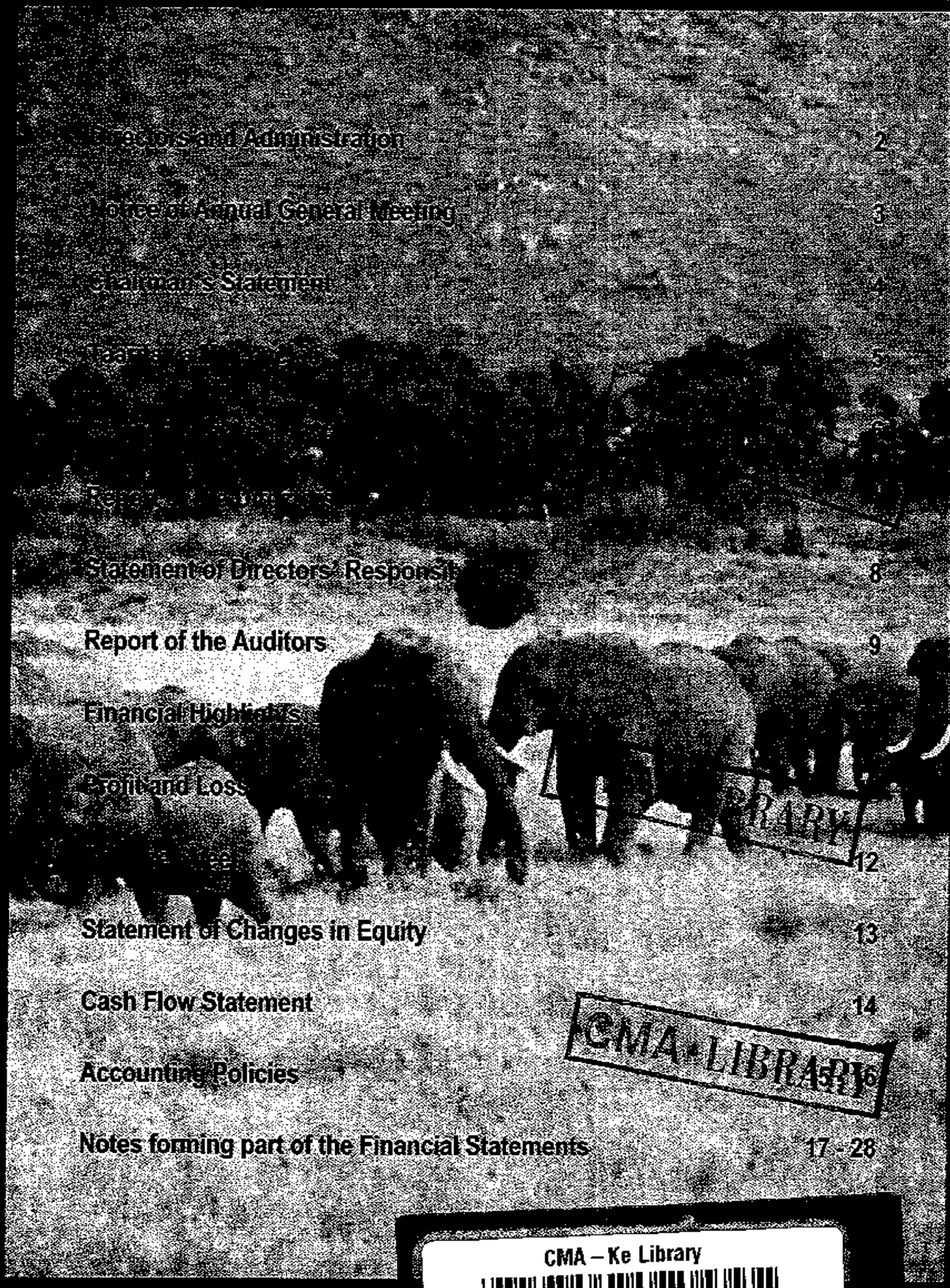


Directors and Administration

BOARD OF DIRECTORS:

Timothy C J Ramtu
(Chairman, Deceased on 23 April 2002)
Francis Okomo-Okello
(Appointed Chairman on 30 May 2002)
Mahmud Jan Mohamed
(Managing Director)
Abdulmalek J Virani
(Finance Director)
Iain Cheyne*
Frederic Lucien*
(Appointed as alternate to Iain Cheyne on 26 July 2002)
Kungu Gatabaki
Jack Kisa
(Appointed on 26 July 2002)
Graham Leslie*
(Resigned on 26 July 2002)
Mahmood P Manji
Abdul I Paroo***

BOARD AUDIT & FINANCE COMMITTEE:

Saleem Karimjee****
(Chairman, Appointed on 30 May 2002)
Kungu Gatabaki
Kabir Hyderally**
Mahmood P Manji
Abdul I Paroo***

*British **Tanzanian ***Canadian ****Pakistani

COMPANY SECRETARY:

Madren Nderu (Ms.)
(Resigned 17 March 2003)
Damary Ayuku Angulu (Mrs.)
(Appointed 17 March 2003)

PRINCIPAL OFFICERS:

Peter Mboqua
(Regional Sales and Marketing Director)
Alastair Addison
(Group Operations Director)
Charles Ogada
(Group Financial Controller)
Detlef Winter
(General Manager – Nairobi Serena)
Mark Gathuri
(General Manager – Mombasa Serena)
Herman Mwasaghua
(Manager – Amboseli Serena)
June Kyula (Ms.)
(Manager – Samburu Serena)
Tuva Mwahunga
(Manager - Mara Serena)
Anthony Chege
(Manager - Mountain Lodge)
Joseph Ole Mpaa
(Manager - Kilaguni Serena)

2007/0221

REGISTERED OFFICE:

4th Floor, Williamson House,
4th Ngong Avenue
P O Box 48690 - 00100 Nairobi, Kenya
Telephone : 254 (2) 2710511
Fax : 254 (2) 2718100/1
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
Rahimtulla Trust 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

Notice is hereby given that the Thirty-fourth Annual General Meeting of the Company will be held at the Amphitheatre, Kenyatta International Conference Centre, Nairobi on Friday, 6th June 2003 at 11.00 a.m. to transact the following business:

1. To receive, consider and, if thought fit, adopt the Accounts for the year ended 31st December 2002, together with the Directors' and Auditors' Reports thereon.

2. To approve payment of a final dividend for the year 2002 of Kshs. 1.10 per share of Kshs. 5.00 subject to withholding tax, where applicable, to the Members on the Register at the close of business on 6th June 2003.

3. To elect Directors:

   (a) Mr. Iain Cheyne, *retires by rotation in accordance with Articles No. 95 and 96 of the Company's Articles of Association* and being eligible, offers himself for re-election.

   (b) Mr. Jack Kisa, retires in accordance with Article 93 of the Company's Articles of Association and being eligible, offers himself for re-election.

4. To approve the Directors' remuneration for the year 2002.

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

6. To note the Auditors' remuneration for the year 2002 and to authorise the Directors to fix the Auditors' remuneration for the year 2003.

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

By Order of the Board

Damary Ayuku Angulu (Mrs.)
Company Secretary

Nairobi 24 March 2003

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 offices of the Company not later than 11.00 a.m. on Wednesday, 4th June 2003.

Chairman's Statement

It gives me great pleasure to present to you the Annual Report and Financial Statements of Tourism Promotion Services Limited for the year ended 31 December 2002.

Your Company recorded satisfactory results for the year 2002 against a backdrop of major challenges facing the tourism industry both globally and locally. The negative impact of the 11th September 2001 incident in the United States, the November 2002 terrorist attack in Mombasa together with the uncertainty leading up to the 2002 General Elections posed various business challenges. However, with the continued commitment of our Staff, Management and the support from our valued customers and other stakeholders, the Company rose to the challenge and maintained its market position, invested in physical product enhancement, introduced various system changes, rationalized operational processes, identified new markets and enhanced debt collection.

The Company remains committed to becoming a leader in the operation and management of high quality hotels and lodges in the eastern African region. In addition, it continues to adhere to the highest standards relating to environmental and ecological responsible practices. In line with its commitment to corporate social responsibility, the Company positively contributes to the economic activities of the local communities in which it operates. These efforts have been widely acknowledged and the Company received various local and international accolades and awards during the year 2002.

The Company remains a significant contributor to Government revenue and paid Kshs. 201.9 million in direct and indirect taxes and Kshs. 50.2 million to local authorities in royalty/rent payments for 2002. Looking ahead, it is our expectation that the Government will continue to focus on the creation of a buoyant tourism industry by providing the necessary infrastructure, security and product initiatives that are urgently needed to enable the sector offer competitive services, create employment opportunities and generate economic growth.

In conclusion, may I take this opportunity to convey my warm gratitude to the Board, Management and Staff, at all levels for their dedication; our Shareholders and esteemed customers for their continued support during the year 2002 as we look forward to realizing greater achievements during the year 2003.

Francis Okomo-Okello
Chairman

Taarifa ya Mwenyekiti

Ni furaha kubwa kwangu kuwasilisha kwenu Ripoti ya mwaka na Taarifa ya Mahesabu za Kampuni ya Tourism Promotion Services Limited kwa mwaka uliomalizika tarehe 31 Disemba, 2002.

Kampuni yenu imerekodi matokeo mazuri kwa mwaka 2002 licha ya changamoto kubwa zinazokabili sekta ya utalii ulimwenguni na humu nchini. Athari mbaya za mashambulizi ya tarehe 11 Septemba 2001 nchini Marekani,shambulizi la kigaidi la mwezi Novemba 2002 huko Mombasa pamoja na hali ya wasi wasi hadi kufikia uchaguzi mkuu wa mwaka 2002 ni matukio yaliyosababisha changamoto mbali mbali. Hata hivyo, kuendelea kujitolea kwa wafanyakazi wetu, wasimamizi na kuungwa mkono na wateja wetu na wahusika wengine, Kampuni hii ilikabili changamoto hizo na kudumisha sehemu yake ya soko,ikawekeza katika ustawishaji, ikaanzisha marekebisho kadha ya utaratibu, ikasawazisha taratibu kadha za utendaji, ikatambua masoko mapya na kuimarisha shughuli ya kukusanya madeni yake.

Kampuni hii inaendelea kujitolea kuhakikisha inachukua uongozi katika uendeshaji na usimamizi wa hoteli za hali ya juu katika eneo la mashariki mwa Afrika. Mbali na hayo, inaendelea kuzingatia viwango vya juu kuhusiana na utunzaji mazingira. Kuambatana na kujitolea kwake katika miradi ya usaidizi wa jamii, Kampuni hii inachangia shughuli za kiuchumi za jamii katika maeneo inakoendesha shughuli zake. Juhudi hizi zimetambuliwa katika sehemu mbali mbali na Kampuni hii imepokea pongezi za kitaifa na kimataifa na tuzo mbali mbali katika mwaka 2002.

Kampuni hii inaendelea kuchangia kwa kiasi kikubwa mapato ya ushuru wa serikali na ililipa shilingi milioni 201.9 kama ushuru wa moja kwa moja na usiokuwa wa moja kwa moja, na shilingi milioni 50.2 kwa mabaraza ya wilaya kama malipo ya kodi mbali mbali. Tukiangalia mbele, ni matumaini yetu kwamba Serikali itaendelea kuangazia kubuni sekta thabiti ya utalii kwa kuhakikisha kuwepo miundo msingi inayostahili,usalama na vivutio vipya vya utalii vinavyohitajika kwa dharura ili kuiwezesha sekta hiyo kutoa huduma zinazoweza kushindana, kubuni nafasi za kazi na kukuza uchumi.

Na hatimaye, ningependa kuchukua fursa hii kutoa shukurani zangu kwa Halmashauri ya Wakurugenzi, Wasimamizi na Wafanyakazi wa tabaka zote kwa kujitolea kwao; Wenye hisa wetu na wastahiki wateja wetu kwa kuendelea kutuunga mkono katika mwaka 2002, huku tukitarajia kuafikia mafanikio zaidi katika mwaka 2003.

Francis Okomo-Okello
Mwenyekiti

Corporate governance is the process by which companies are directed and controlled with the ultimate aim of achieving shareholders' long-term value while taking into account the interest of the other stakeholders. The Board recognizes the need to conduct the business of the Company in accordance with generally accepted corporate practices and principles of corporate governance and business ethics. The Company endeavors to meet and wherever possible, exceed the standards prescribed in the guidelines issued by the Capital Markets Authority on Corporate Governance Practices by Public Listed Companies (May 2002). The Board is pleased to report that the Company has substantially complied with these guidelines.

The Board has in place an Audit and Finance Committee and Remuneration and Nomination Committee. Areas of non compliance shall be complied with in due course of year 2003. Below are the key aspects of the Company's existing corporate governance practices.

Board of Directors

The Board provides direction on general policy and is responsible for maintaining the Company's overall internal control of strategic, financial, operational and compliance issues. These controls are designed to safeguard the Company's assets, both human and physical, and to ensure the completeness and accuracy of financial information used within the business. The Board meets at least four times a year. The Board consists of two executive directors, being the Managing Director and the Finance Director, and six non-executive directors, who include the Chairman of the Board. All the non-executive directors are subject to periodic retirement and re-election in accordance with the Company's Articles of Association. The directors bring a wealth of experience and knowledge to the Board's deliberations, which is enhanced by the provision of relevant information on the Company's performance.

Audit and Finance Committee

In 1997, the Company established an Audit and Finance Committee. The Committee meets at least three times a year and additionally as may be required. It consists of at least three non-executive directors and members of the Management team attend as required. The Committee's main duties are to review financial information and ensure that the systems of internal control are effectively administered. Significant findings identified by the internal and external auditors are also considered. During the year, an Internal Audit Manual and Corporate Risk Assessment Document were produced and approved by the Board for adoption.

Internal Controls

The Company has a well-defined organizational structure with appropriate segregation of responsibilities. This is complemented by a variety of policy and procedure documents, which provide a guiding framework to the Management team. Monthly Credit Control, Sales and Marketing and Finance Review meetings are held to review these critical aspects of the Company's operations.

Corporate Social Responsibility

The Company continues to meet its corporate social responsibilities by promoting the economic activities of local communities and being sensitive to the preservation and protection of the environment. There is a continuous review of the health, safety and hygiene requirements of the business, which is carried out both internally and by external experts.

Awards

The Company maintained its leadership position by securing various awards during the course of the year 2002. These included:

- November 2002 Conde Nast Traveller Award to Mara Serena Safari Lodge (one of the Top 15 African Resorts)
- Eco-tourism Society of Kenya Bronze award to Mombasa Serena Beach Hotel
- Travel News "Quest for the Best 2002" to Mombasa Serena Beach Hotel
- 20th Company in the PricewaterhouseCoopers East Africa's Most Respected Company Survey 2002
- 10th Most Respected Chief Executive Officer in the PricewaterhouseCoopers East Africa's Most Respected Company Survey 2002.

The directors submit their report together with the audited financial statements for the year ended 31 December 2002 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
KENYA

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 105,889,000 (2001: Shs 96,706,000), the directors recommend the approval of a 22% (2001: 22%) dividend amounting to Shs 42,546,900 (2001: 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) Deceased 23 April 2002
FO Okello	(Appointed Chairman on 30 May 2002)
M Jan Mohamed	(Managing)
AJ Virani	(Finance)
MP Manji	
G Leslie	(Resigned on 26 July 2002)
A Paroo	
I Cheyne	
F Lucien	(Appointed as alternate to I Cheyne on 26 July 2002)
K Gatabaki	
J Kisa	(Appointed on 26 July 2002)

SECRETARY

M Nderu

In accordance with Article 93 of the Company's Articles of Association, Mr. J Kisa 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. I Cheyne retires by rotation and, being eligible, offers himself for re-election.

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

28 February 2003

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 Financial Reporting 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
28 February 2003

Director
28 February 2003

Report of the Auditors

TO THE MEMBERS OF TOURISM PROMOTION SERVICES LIMITED

We have audited the financial statements set out on pages 11 to 28 which are in agreement with the company's books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 8. 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.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary to provide a reasonable basis of our opinion.

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 2002 and of its profit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

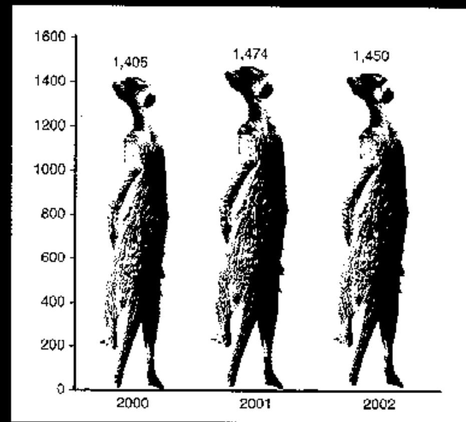
PRICEWATERHOUSECOOPERS

Certified Public Accountants
Nairobi

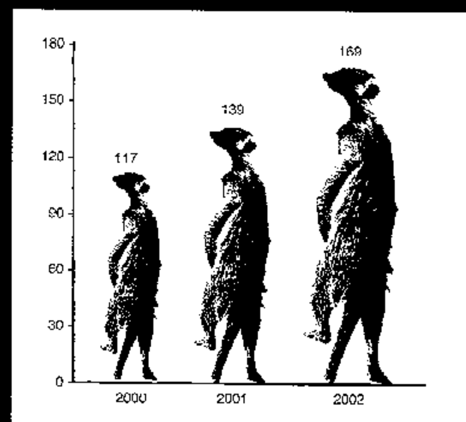
28 February 2003

Financial Highlights

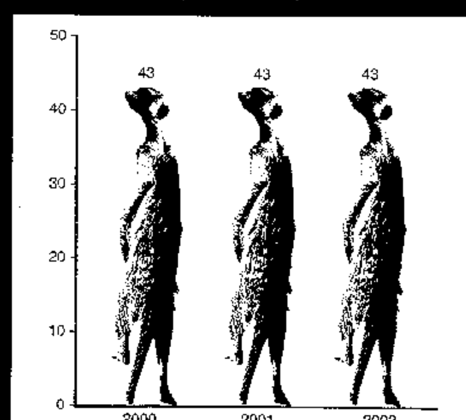
TURNOVER (Millions)



PROFIT BEFORE TAX (Millions)



PROPOSED FINAL DIVIDEND (Millions)



for the year ended 31 December 2002

	Notes	2002	2001
		Shs'000	Shs'000
Sales		1,450,158	1,473,952
Cost of sales		(309,978)	(323,377)
Gross profit		1,140,180	1,150,575
Other operating income		103,396	79,739
Dividend income		-	4,658
Staff costs		(347,018)	(297,105)
Administration expenses		(254,792)	(351,535)
Other operating expenses		(470,718)	(428,980)
Operating profit	1	171,048	157,352
Net finance costs	3	(5,657)	(21,551)
Share of results of associate	4	3,596	2,898
Profit before tax		168,987	138,699
Tax	5	(63,098)	(41,993)
Net profit		105,889	96,706
Earnings per share (Shs)			
- basic and diluted	7	2.74	2.50
Dividends:			
Proposed final dividend for the year	6	42,547	42,547

Balance sheet

as at 31 December 2002

	Notes	2002 Shs'000	2001 Shs'000
CAPITAL EMPLOYED			
Share capital	8	193,395	193,395
Revaluation reserve	9	416,210	395,075
Retained earnings		368,978	304,874
Proposed dividends	6	42,547	42,547
Shareholders' funds		1,021,130	935,891
Non-current liabilities			
Borrowings	10	136,589	199,773
Deferred tax	11	188,366	184,595
Provisions for liabilities and charges	12	65,713	66,422
		390,668	450,790
		1,411,798	1,386,681
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13	1,311,026	1,317,094
Prepaid operating lease rental	14	13,533	13,693
Intangible assets	15	7,255	7,830
Investment in subsidiary	16	6,000	6,000
Investment in associate	4	13,770	12,639
		1,351,584	1,357,256
Current assets			
Inventories	17	112,793	107,969
Receivables and prepayments	18	588,753	390,253
Cash and cash equivalents	19	69,662	150,212
		771,208	648,434
Current liabilities			
Trade and other payables	20	345,152	232,517
Current tax		41,685	13,664
Borrowings	10	324,156	372,828
		710,994	619,009
Net current assets		60,214	29,425
		1,411,798	1,386,681

The financial statements on pages 11 to 28 were approved for issue by the Board of directors on 28 February 2003 and signed on its behalf by:

Director **Director**

	Notes	Share capital Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2001						
As previously reported		193,395	468,086	243,591	42,547	947,619
Prior year adjustment						
- amortisation of leasehold land	14	-	-	(2,107)	-	(2,107)
- reversal of revaluation surplus	14	-	(63,780)	-	-	(63,780)
As restated		193,395	404,306	241,484	42,547	881,732
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	395,075	304,874	42,547	935,891
Year ended 31 December 2002						
As previously reported		193,395	458,855	306,981	42,547	1,001,778
Prior year adjustment						
- amortisation of leasehold land	14	-	-	(2,107)	-	(2,107)
- reversal of revaluation surplus	14	-	(63,780)	-	-	(63,780)
As restated		193,395	395,075	304,874	42,547	935,891
Revaluation surplus	13	-	31,281	-	-	31,281
Deferred tax on revaluation	11	-	(9,384)	-	-	(9,384)
Transfer of excess depreciation		-	(1,089)	1,089	-	-
Deferred tax on transfer	11	-	327	(327)	-	-
Net gains not recognised in the profit and loss account		-	21,135	762	-	21,897
Net profit for the year		-	-	105,889	-	105,889
Dividends:						
- Final for 2001 paid		-	-	-	(42,547)	(42,547)
- Proposed for 2002	6	-	-	(42,547)	42,547	-
At end of year		193,395	416,210	368,978	42,547	1,021,130

for the year ended 31 December 2002

	Notes	2002 Shs'000	2001 Shs'000
Operating activities			
Cash generated from operations	23	188,438	268,102
Interest received		26,892	31,817
Interest paid		(40,728)	(53,284)
Tax paid		(38,224)	(17,997)
Net cash from operating activities		136,378	228,638
Investing activities			
Purchase of property, plant and equipment	13	(64,871)	(177,660)
Purchase of investment	4	-	(6,367)
Proceeds from disposals of property, plant and equipment		1,970	6,624
Dividends received		-	4,658
Net cash used in investing activities		(62,901)	(172,745)
Financing activities			
Proceeds from issue of commercial paper		52,923	(18,410)
Proceeds from bank borrowings		70,000	509,750
Payments of bank borrowings		(205,944)	(412,532)
Dividends paid		(42,547)	(42,547)
Net cash (used in)/ generated from financing activities		(125,568)	36,261
Increase/(decrease) in cash and cash equivalents		(52,091)	92,154
Movement in cash and cash equivalents			
At start of year		66,925	(25,229)
Increase/(decrease)		(52,091)	92,154
At end of year	19	14,834	66,925

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 Financial Reporting Standards (IFRS). 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.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) Revenue recognition

Sales are recognised upon performance of services, and are stated net of VAT and discounts.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established.

(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

Investment in associate is accounted for by the equity method of accounting. Under this method the company's share of the post acquisition profits or losses of associates is recognised in the income statement and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the cost of investment. An associate is an entity which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

(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. Freehold land is not depreciated.

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:

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.

(f) Property, plant and equipment (continued)
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. A provision for impairment of trade receivables is established where there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of 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
Borrowings are recognised initially at the proceeds received net of transaction costs incurred. Borrowings are subsequently 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:

	2002 Shs'000	2001 Shs'000
Depreciation on property, plant and equipment (Note 13)	101,683	99,258
Operating lease rentals	50,169	50,315
Amortasation of goodwill (Note 15)	575	576
Staff costs (Note 2)	347,018	334,930
Auditors' remuneration	1,934	1,830

2 Staff costs

The following items are included within staff costs:

	2002	2001
Salaries and wages	243,078	248,698
Social security benefits	2,811	1,266
Retirement benefit costs - defined contribution scheme	10,126	10,057
	Number	**Number**
The number of persons employed by the company at the year end was:	1,186	1,173

3 Net finance costs

	2002 Shs'000	2001 Shs'000
Interest income:		
- bank deposits	18,388	25,795
- staff loans	8,504	6,022
	26,892	31,817
Foreign exchange gain/(loss)	8,179	(84)
Interest payable and similar charges		
- bank borrowings	(33,773)	(27,383)
- bank overdraft	(31)	(14,174)
- commercial paper	(6,924)	(11,727)
	(5,657)	(21,551)

4 Investment in associate	2002 Shs'000	2001 Shs'000
Opening net book amount	12,639	4,280
Acquisition	-	6,367
Share of results before tax	3,596	2,898
Share of tax (Note 5)	(2,465)	(906)
Net share of results after tax	1,131	1,992
Closing net book amount	13,770	12,639

The associate, Mountain Lodges Limited, whose principal business is to provide lodge facilities for tourists, is an unlisted company incorporated in Kenya.

5 Tax	2002 Shs'000	2001 Shs'000
Current tax	53,593	30,641
Deferred tax (Note 11)	(1,358)	10,446
Share of tax of associate	2,465	906
Under-provision of current tax in prior year	12,653	-
Over-provision of deferred tax in prior year	(4,255)	-
	63,098	41,993

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

	2002 Shs'000	2001 Shs'000
Profit before tax	168,987	138,699
Tax calculated at a tax rate of 30 % (2001: 30 %)	50,696	41,610
Tax effect of:		
Income not subject to tax	(1,079)	(2,376)
Expenses not deductible for tax purposes	2,618	1,853
Over-provision of deferred tax in prior year	(4,255)	-
Share of tax of associate	2,465	906
Under-provision of current tax in prior year	12,653	-
Tax charge	63,098	41,993

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 2002 of Shs 1.10 per share (2001: Shs 1.10) amounting to Shs 42,546,900 (2001: 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.

	2002	2001
Net profit attributable to shareholders (Shs'000)	105,889	96,706
Weighted average number of ordinary shares in issues (thousands)	38,679	38,679
Basic earnings per share (Shs)	2.74	2.50

There were no outstanding potentially dilutive shares at 31 December 2002 or 2001. Diluted earnings per share is therefore the same as basic earnings per share.

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 reserve

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

10 Borrowings

	2002 Shs'000	2001 Shs'000
The borrowings are made up as follows:		
Non-current		
Bank borrowings	136,589	199,773
Current		
Bank overdrafts	54,828	83,287
Bank borrowings	141,835	214,971
Commercial paper	127,493	74,570
	324,156	372,828
Total borrowings	460,745	572,601

Bank borrowings movement schedule	2002 Shs'000	2001 Shs'000
At start of year	414,744	317,607
Additional loans	70,000	509,750
Repayments	(205,944)	(412,532)
Revaluation gain	(376)	(81)
At end of year	278,424	414,744
Current portion	141,835	214,971

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:

	2002	2001
- bank overdrafts : US Dollars	3.65%	4.66%
: Kenya Shillings	8.87%	11.48%
- bank borrowings	9.96%	11.48%
- commercial paper	8.75%	9.98%

Maturity of non-current borrowings is as follows:

	2002 Shs'000	2001 Shs'000
Between 1 and 2 years	83,989	116,262
Between 2 and 5 years	52,600	83,511
	136,589	199,773

11 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2001:30%). The movement on the deferred tax account is as follows:

	2002 Shs'000	2001 Shs'000
At start of year	184,595	174,149
Income statement (credit)/charge (Note 5)	(5,613)	10,446
Tax charged to equity	9,384	-
At end of year	188,366	184,595

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:

	1.1.2002 Shs'000	Charged/ (credited) to P/L Shs'000	Charged/ (credited) to equity Shs'000	31.12.2002 Shs'000
Deferred tax liabilities				
Accelerated tax depreciation	38,995	(5,396)	-	33,599
Revaluation surpluses	164,534	(1,499)	9,384	172,419
Unrealised exchange gains	5,295	221	-	5,516
	208,824	(6,674)	9,384	211,534
Deferred tax assets				
Provisions	(22,807)	(314)	-	(23,121)
Unrealised exchange losses	(1,422)	1,375	-	(47)
	(24,229)	1,061	-	(23,168)
Net deferred tax liability	184,595	(5,613)	9,384	188,366

Deferred tax of Shs 327,000 (2001: 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

Provision for employees' entitlement to gratuity is based on the number of years worked by individual employees up to the balance sheet date. The movement during the year is as follows:

	2002 Shs'000	2001 Shs'000
At start of year	66,422	52,612
Additional provisions	660	14,862
	67,082	67,474
Utilised during year	(1,369)	(1,052)
At end of year	65,713	66,422

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	*1,150,121*	*667,686*	*47,578*	*18,565*	*1,883,950*
- reclassification of leasehold land (Note 14)	(79,580)	-	-	-	(79,580)
As restated	1,070,541	667,686	47,578	18,565	1,804,370
Additions	24,322	36,290	3,499	760	64,871
Disposals	-	(1,396)	(1,139)	-	(2,535)
Transfer	12,972	1,208	-	(14,180)	-
Revaluation adjustment	31,281	-	-	-	31,281
At end of year	1,139,116	703,788	49,938	5,145	1,897,987
Depreciation					
At start of year	88,150	360,942	38,184	-	487,276
Charge for the year	23,499	69,863	8,321	-	101,683
Disposals	-	(1,144)	(854)	-	(1,998)
At end of year	111,649	429,661	45,651	-	586,961
Net book amount					
At 31 December 2002	1,027,467	274,127	4,287	5,145	1,311,026
At 31 December 2001 (as restated)	982,391	306,744	9,394	18,565	1,317,094

In the opinion of the directors, there is no impairment of property, plant and equipment.

13 Property, plant and equipment (continued)

Land and buildings were last revalued on 31 December 2002 by Hass Consult, independent professional valuers. Valuations were made on the basis of earnings 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:

	2002 Shs'000	2001 Shs'000
Cost	506,382	484,888
Accumulated depreciation	(59,971)	(41,858)
	446,411	443,030

14 Prepaid operating lease rentals

Following the clarification by the International Accounting Standards Board (IASB) in January 2002 and further guidance by the Institute of Certified Accountants of Kenya (ICPAK) the company has reclassified leasehold land from property, plant and equipment to prepaid operating lease rentals to be carried at historical cost less amortisation over the lease period. As part of the reclassification, the revaluation surplus on leasehold land has been reversed against the revaluation reserve in the shareholders' equity.

The movement during the year is as follows:

	2002 Shs'000	2001 Shs'000
Leasehold land reclassified from property, plant and equipment (Note 13)	79,580	79,580
Reversal of revaluation surplus	(63,780)	(63,780)
Historical cost	15,800	15,800
Accumulated amortisation for prior year	(2,107)	(2,107)
- as restated	13,693	13,693
Amortisation charge for year	(160)	-
At end of year	13,533	13,693

15 Intangible assets

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

	2002 Shs'000	2001 Shs'000
At start of year	7,830	8,406
Amortisation charge	(575)	(576)
At end of year	7,255	7,830

16 Investment in subsidiary

	2002 Shs'000	2001 Shs'000
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.

17 Inventories

	2002 Shs'000	2001 Shs'000
Operating inventories	112,793	107,969

18 Receivables and prepayments

	2002 Shs'000	2001 Shs'000
Trade receivables	298,027	186,065
Less: impairment charge `for bad and doubtful debts	(19,690)	(16,554)
	278,337	169,511
Prepayments	6,850	-
Receivables from related companies (Note 24)	257,024	170,774
Other receivables	46,542	49,968
	588,753	390,253

19 Cash and cash equivalents

	2002 Shs'000	2001 Shs'000
Cash at bank and in hand	69,662	150,212

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

	2002 Shs'000	2001 Shs'000
Cash and bank balances as above	69,662	150,212
Bank overdrafts (Note 10)	(54,828)	(83,287)
	14,834	66,925

20 Trade and other payables

	2002 Shs'000	2001 Shs'000
Trade payables	209,364	106,820
Amounts due to related companies (Note 24)	29,044	8,453
VAT payable	6,066	5,227
Accrued expenses	97,692	69,946
Other payables	2,986	42,071
	345,152	232,517

21 Contingent liabilities

At 31 December 2002, the company had given guarantees amounting to Shs 4,360,000 (2001: Shs 4,810,000) to banks on behalf of third parties for supply of goods and services.

22 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.

23 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2002 Shs'000	2001 Shs'000
Profit before tax	168,987	138,699
Adjustments for:		
Depreciation (Note 13)	101,683	99,258
Amortisation of prepaid lease rentals (Note 14)	160	-
Dividend income	-	(4,658)
Profit on sale of property, plant and equipment	(1,433)	(726)
Amortisation of goodwill (Note 15)	575	576
Interest income	(26,892)	(31,817)
Interest expense	40,728	53,284
Unrealised foreign exchange gains	(376)	(81)
Share of results of associate (Note 4)	(3,596)	(2,898)
Changes in working capital		
- receivables and prepayments	(198,500)	45,595
- inventories	(4,824)	(19,616)
- trade and other payables	112,635	(23,324)
- provisions for liabilities and charges	(709)	13,810
Cash generated from operations	188,438	268,102

24 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	2002 Shs'000	2001 Shs'000
Mountain Lodges Limited	3,087	36,994

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

ii) Purchase of management services	2002 Shs'000	2001 Shs'000
Tourism Promotion Services (Management) Limited	202,374	205,395

iii) Outstanding balances with related parties	2002 Shs'000	2001 Shs'000
Receivables from related parties:		
Goods sold to Mountain Lodges Limited	-	949
Receivable from TPS Holdings Limited:		
At start of year	35,037	19,856
Advances during the year	34,252	48,089
Repayments	(32,619)	(32,908)
At end of year	36,670	35,037
Receivable from Tourism Promotion Services (Management) Limited:		
At start of year	134,788	105,913
Advances during the year	624,674	503,924
Repayments	(539,108)	(475,049)
At end of year	220,354	134,788
Total	257,024	170,774

24 Related party transactions (continued)

iv) Payable to related parties:

	2002 Shs'000	2001 Shs'000
At start of year	8,453	17,869
Advances during the year	20,591	-
Repayments	-	(9,416)
At end of year	29,044	8,453

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

Advances to Tourism Promotion Services (Management) Limited include car loans amounting to Shs 4,163,000 (2001: 5,514,000) 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

	2002 Shs'000	2001 Shs'000
Fees	300	420
Management	16,362	18,043