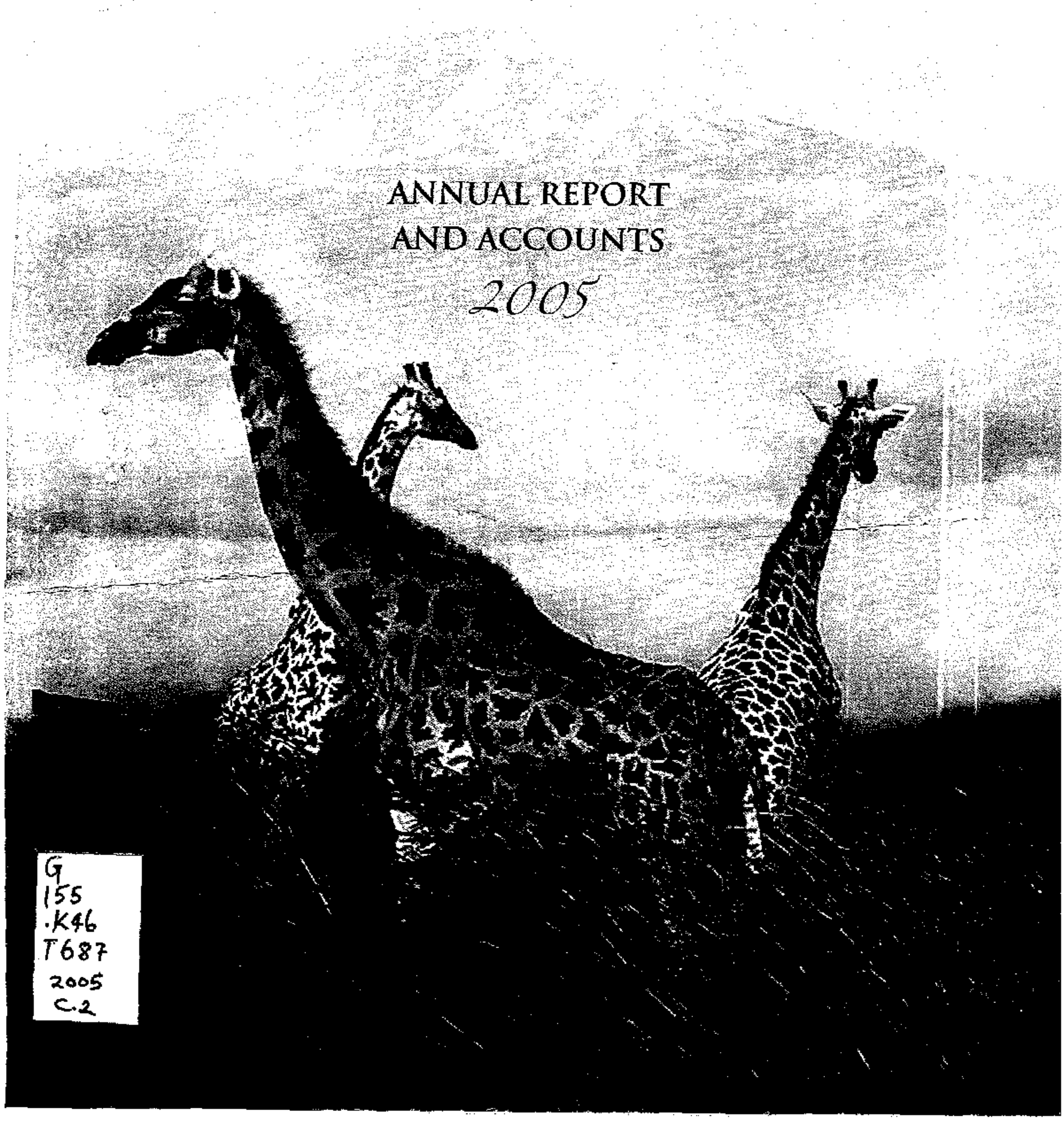
TOURISM PROMOTION SERVICES LIMITED



ANNUAL REPORT AND ACCOUNTS

2005

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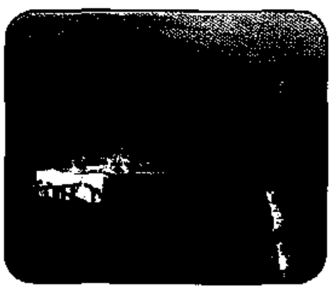
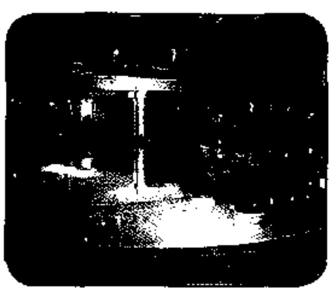



Directors and Administration

BOARD OF DIRECTORS:

Francis Okomo-Okello
(Chairman)

Mahmud Jan Mohamed
(Managing Director)

Abdulmalek J Virani
(Finance Director)

Iain Cheyne*

John Harris*
(Alternate to Iain Cheyne)

Kungu Gatabaki

Jack J Kisa

Mahmood P Manji

BOARD AUDIT & FINANCE COMMITTEE

Saleem Karimjee***
(Chairman)
(Resigned 20 June 2005)

Jean-Philippe Prosper**
(Chairman)
(Appointed on 30 June 2005)

Kungu Gatabaki

Kabir Hyderally***

Mahmood P Manji

BOARD NOMINATION AND REMUNERATION COMMITTEE

Jack J Kisa
(Chairman)

Francis Okomo–Okello

Mahmood P Manji

*British **Haitian*** Pakistani

COMPANY SECRETARY

Damaris A Angulu

PRINCIPAL OFFICERS:

Peter Mbogua
(Director of Sales and Marketing E A)

Alastair Addison
(Director of Operations E A)

Surinder Sandhu
(Chief Engineer E A)

Charles Ogada
(Financial Controller E A)

Mark Gathuri
(General Manager – Nairobi Serena)

Mugo Maringa
(General Manager – Mombasa Serena)

June Kyula
(Manager – Amboseli Serena)

Edwin Chemisto
(Manager - Samburu Serena)

Tuva Mwahunga
(Manager – Mara Serena)

Stanley Kongoley
(Manager – Kilaguni Serena)

Roselyne Ngure
(Manager – Mountain Lodge)

Dixon Ondieki
(Manager – Sweetwaters Tented Camp)

REGISTERED OFFICE:

4th Floor, Williamson House
4th Ngong Avenue
P O Box 48690-00100 Nairobi, Kenya
Telephone: 254(2) 2710511/2842000
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
Kilaguni Serena Safari Lodge
Mountain Lodge (Managed by Serena)
Sweetwaters Tented Camp (Managed by Serena)

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

2007/0240

Notice of Annual General Meeting

Notice is hereby given that the Thirty-Seventh Annual General Meeting of the Company will be held at All Saints Cathedral Hall, Nairobi on Wednesday 26th April 2006 at 11.00 a.m. to transact the following business:

1. To confirm the minutes of the Thirty-Sixth Annual General Meeting held on 29th April 2005.

2. To receive, consider and, if thought fit, adopt the accounts for the year ended 31st December 2005, together with the Directors' and Auditors' Reports thereon.

3. To approve payment of a final dividend for the year 2005 of K.Shs. 1.25 per share of K.Shs. 5.00 subject to withholding tax, where applicable, to the Members on the Register at the close of business on 31 December 2005. Payment of the dividend to be made on or about 2 May 2006.

4. To elect Directors:

   (a) Mr. Kungu Gatabaki, 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. Mahmood Manji, 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.

5. To approve the Directors' remuneration for the year 2005.

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

7. To approve the Auditors' remuneration for the year 2005 and to authorise the Directors to fix the Auditors' remuneration for the year 2006.

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

By Order of the Board

D.A. Angulu
Company Secretary
Nairobi 2 March 2006

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. Monday the 24th April 2006.

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 2005.

It has generally been observed that the tourism sector in Kenya witnessed a positive turnaround in the past year with traditional and new markets performing remarkably well. In the year under review, the Company witnessed a tremendous market capitalisation and improved share price at the Nairobi Stock Exchange.

The Company continued to pursue investments in new business initiatives including identification of new source markets as well as its strategy of controlling operating expenditure without sacrificing standards resulting in the Company achieving satisfactory results during year 2005.

Following generally improved business conditions, the Company achieved a turnover of KShs 1.970 billion as compared to KShs. 1.672 billion achieved in the previous year, an increase of 18%. The profit before tax of KShs. 282 million as compared to KShs. 198 million achieved in the previous year, yielded an increase of 43%. It is no doubt that the Serena's strategy to negotiate and conclude a management contract for Sweetwaters Tented Camp, situated in Nanyuki, has strengthened Serena Hotels' presence and enhanced the hotels' brand awareness in the Mt. Kenya region. The Company has also completed construction of a multi-purpose conference facility and upgrading of the executive suites at Nairobi Serena Hotel. I am pleased to report that expansion of conference business facilities, both at the Mombasa Serena Beach Hotel and Nairobi Serena Hotel, has generated considerable business for the Company.

The Company has continued to maintain world class standards and innovation remains the key to the Company's success. We continue to invest substantially in product and human resource development. Planned upgrades in the current year include major renovation of guest bedrooms and pool deck area at Mombasa Serena Beach Hotel, upgrade of the suites at Nairobi Serena Hotel and guest bedrooms at Amboseli Serena Safari Lodge. On the human capital front, there has been a continued focus and emphasis on staff training and development. As a commitment to professionalism, we have continued to attract and retain the best staff as well as nurture a working environment that enables them to optimize their performance.

In view of these favourable results, the Board of Directors will recommend for approval at the forthcoming Annual General Meeting, the payment of a final dividend, for 2005, of 25% or KShs. 1.25 per share of nominal value of KShs. 5.00 each subject to withholding tax, where applicable.

During the period under review, the Company was voted the Most Respected Company in East Africa in the Tourism Sector, for the third year running, in a survey carried out by PricewaterhouseCoopers and the Nation Media Group.

The Company remains a significant contributor to Government revenue and paid KShs.256 million in direct and indirect taxes and KShs. 81 million to local authorities in royalty/rent payments during 2005. In addition, as a responsible corporate citizen, the Company continues to adhere to the highest standards relating to environmentally and socially responsible practices, and at the same time positively contributes to the economic activities of local communities in which it operates. Serena is an equal opportunity employer and in this regard, the Board and Management ensure that the Company's employment policies and practices conform to international best practices and standards.

Looking ahead, the ongoing restructuring of your Company into a truly regional company, TPS Eastern Africa Limited, should result in the consolidation of the Company's presence in the region and diversifying the revenue streams while improving the risk profile of the business. It is also our expectation that the Government will continue to focus attention on efforts aimed at creating a buoyant tourism industry by providing the necessary infrastructure, security and product initiatives required to enable the sector to offer competitive services, employment opportunities and generate economic growth.

The exemplary dedication by Management and Staff warrants special recognition. On behalf of the Board, I would therefore like to thank the Management and Staff at all levels for their diligent industry and commitment that resulted in the realisation of such exceptional results.

I also wish to acknowledge, with appreciation, the vital support that we have continued to receive from our shareholders, customers and other stakeholders without which the Company would not have achieved the results recorded in year 2005.

Francis Okomo-Okello.
CHAIRMAN

Taarifa ya Mwenyekiti

Nina furaha kuwatangazia matokeo ya hesabu ya Tourism Promotion Services Limited kwa kipindi cha mwaka kilichomalizika Desemba 31, 2005.

Imedhihirika wazi kwamba, sekta ya Utalii nchini Kenya imeshuhudia matokeo ya kufana mwaka jana huku masoko ya zamani na yale mapya yakifanya vyema .Katika kipindi cha mwaka tunaoangazia, kampuni hii ilishuhudia ufanisi mkubwa katika uthibiti wa masoko na kuimarisha bei ya hisa zake katika soko la hisa la Nairobi.

Kampuni ilizidi kuweka raslimali zaidi kwa kuzindua njia mpya za kibiashara hasa kwa kuanzisha masoko mapya na kubuni mikakati ya kudhibiti gharama bila kuathiri ubora wake ambao ulipelekea kupatikana kwa matokeo ya kufana mwaka wa 2005.

Kutokana na kuimarika kwa hali za kibiashara, kampuni ilipata faida ya jumla ya bilioni 1.970 ikilinganishwa na bilioni 1.672 zilizopatikana mwaka uliotangulia; ongezeko hili liliwakilisha asilimia 18. Faida iliyopatikana kabla ya ushuru ni shilingi milioni 282 ikilinganishwa na milioni 198 zilizopatikana mwaka uliotangulia ni ongezeko la asilimia 43. Ni dhahiri kwamba, mkakati wa kampuni ya Serena wa kutwaa kandarasi ya usimamizi wa Sweetwaters Tented Camp iliyoko Nanyuki umeimarisha uwepo wa hoteli za Serena na kuvumisha sifa za hoteli hii eneo la mlima Kenya. Wakati huo, kampuni imemaliza ujenzi na kuhifadhi vifaa katika ukumbi mkubwa wa mikutano na kuimarisha vyumba vya kifahari kwenye hoteli ya Nairobi Serena. Nina furaha kujulisha kwamba, shughuli za upanuzi wa vyumba vya kufanyia mikutano ya kibiashara katika hoteli za Mombasa Serena Beach na Nairobi Serena zimepelekea kuongezeka kwa biashara za kampuni hii.

Kampuni imezidi kuthibiti viwango vya kimataifa huku uzinduzi wa njia mpya ukiwa ni lengo lake kuu kwa ufanisi. Tunazidi kuweka mtaji wetu kuimarisha biashara na usimamizi wa wafanyakazi wetu. Mipango iliyoko mwaka huu ni pamoja na kukarabati vyumba vya kulala wageni na eneo la dimbwi la kuogelea katika Hoteli ya Mombasa Serena, kuinua hali ya viwango katika vyumba vya kifahari vya Nairobi Serena na vile vya kulala katika Hoteli ya Amboseli Serena. Kwa matumizi ya pesa kwa wafanyakazi, kumekuwa na mtazamo na sisitizo la kutoa mafunzo ili kuinua hali ya maendeleo ya wafanyakazi wetu. Kama njia moja ya kujitolea kwake kitaaluma, tumekuwa tukivutia na kuweka wafanyakazi bora zaidi na wakati huo kuandaa mazingira mazuri ambayo yamewasaidia kudhibiti matokeo yao.

Kutokana na matokeo haya ya kufana, Halmashauri ya wakurugenzi itapendekeza wakati wa mkutano mkuu wa pamoja wa mwaka, kuidhinishwa kwa malipo ya mgao wa faida wa asilimia 25 ama shilingi 1.25 kwa kila hisa zenye thamani ya shilingi 5 kwa kila moja na kushikilia kodi pale inapohitajika.

Wakati wa kipindi tunachoangazia, kampuni ilichaguliwa kwa mwaka wa tatu mfulululizo kama inayoheshimiwa zaidi Afrika Mashariki katika sekta ya utalii kwenye utafiti uliofanywa na PricewaterhouseCoopers na Nation Media Group.

Daima, kampuni imekuwa kwenye msitari wa mbele kuchangia mfuko wa hazina ya serikali na imelipa jumla ya shilingi milioni 256 kama ushuru kwa njia ya moja kwa moja au nyingine na wakati huo kulipa milioni 81 kwa mabaraza ya serikali za wilaya kama malipo ya nia njema au kodi kwa mwaka wa 2005. Zaidi ya hayo, kwa kuonyesha uzalendo wake, kampuni imekuwa ikizingatia viwango vya juu vinavyohusiana na uhifadhi wa mazingira na kujihusisha na miradi ya kijamii na wakati huo kuinua hali ya uchumi kwa jamii inakohudumu. Serena ina hadhi yake kama mwajiri na kutokana na hali hii, Halmashauri ya wasimamizi inahakikisha kwamba, sera za uajiri zinaafikiana na zile za kimataifa.

Mabadiliko yanayoendelea katika kampuni yenu, yanaiandaa TPS kutambulika zaidi katika eneo la Afrika Mashariki. Ni matumaini yetu kwamba, serikali itazidi kuangazia juhudi zake zenye nia ya kuimarisha sekta ya utalii kwa kutoa vifaa vinavyohitajika kimawasiliano, ulinzi na mbinu mwafaka zitakazosaidia kupatikana kwa ushindani, kubuni nafasi za kazi na kuimarisha ukuaji wa uchumi.

Mchango unaotolewa na wasimamizi na wafanyakazi unatambuliwa. Kwa niaba ya Halmashauri, ningependa kuwashukuru wasimamizi na wafanyakazi katika viwango vyote kwa mchango wao ambao umepelekea kupatikana kwa matokeo haya ya kuridhisha.

Pia, ningependa kutambua msaada ambao tumeendelea kupata kutoka kwa wanahisa wetu, wateja na washika dau wengine ambao bila mchango wao, kampuni haingepata matokeo ya kuridhisha kwa kipindi cha mwaka wa 2005.

Francis Okomo-Okello
Mwenyekiti.

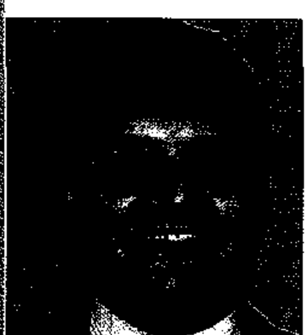
Board of Directors

FRANCIS OKOMO-OKELLO

Chairman (aged 56). He joined the Board on 28 April 1986. He was elected Chairman on 30 May 2002. Mr. Okello is a holder of a Bachelor of Laws Degree from the University of Dar-es-Salaam, an Advocate of the High Court of Kenya, an Albert Parvin Fellow of the Princeton University and a Fellow of The Kenya Institute of Bankers (FKIB). Mr. Okello is one of the Founding members of the Association of Banking Lawyers of Southern Africa (ABLASA), based at Rand Afrikaans University, Johannesburg. He is the Chairman of Barclays Bank of Kenya Limited, a Director of the Nation Media Group Limited, Nation Newspapers Limited among other companies. Currently, he is the Head of Legal and Corporate Affairs at the Industrial Promotion Services Group of Companies operating in East Africa.

MAHMUD JAN MOHAMED

Managing Director (aged 53). He has vast experience in the hotel industry in East Africa and has worked for the TPS Group of Companies in different capacities rising to the current position of Chief Executive. He was founder Chairman of the Kenya Tourism Federation, is a Trustee of the East African Wildlife Society, a Director of the Centre for Corporate Governance and Mountain Lodges Limited. He is an associate member of the Hotel Catering Institutional Management Association (UK), and a member of the Cornell Hotel Society (USA).

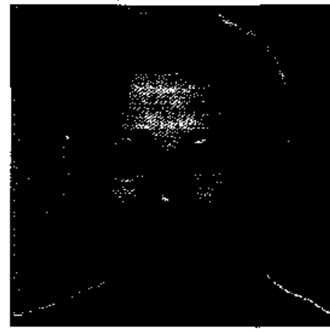


ABDULMALEK J VIRANI

Executive Director (aged 55). A holder of Bachelor of Commerce Degree. He is a Chartered Accountant and a CPA (K). He has worked for TPS Group of Companies for 29 years rising to his current position of Finance Director. He served on Tax and Law Committee of ICPA (K). Has extensive training in Leadership and Management Techniques. He is a Director of Mountain Lodges Limited.

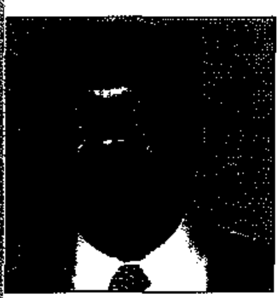
IAIN D CHEYNE

Non-executive Director (aged 64). Mr. Cheyne joined the Board on 20 December 2000. He qualified as English Solicitor in 1967 and was in legal practice until 1972 when he joined Lloyds Bank's Legal Department. He subsequently held positions as General Manager, Strategic planning and Corporate Banking in 1989 and 1991 respectively. He retired as Managing Director of International Banking in the year 2000. He is a Director of two Companies in Kenya.



Board of Directors

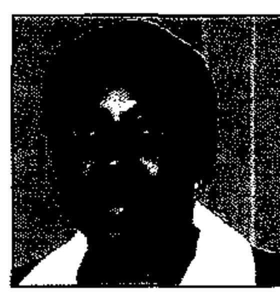
JOHN HARRIS (Alternate to Iain Cheyne)
Non -executive Director (aged 60). Appointed alternate to Mr. Cheyne on 10 September 2004. He is a Banker and Chartered Accountant, England and Wales. Mr. Harris held management positions in international banking in UK, Canada, Eastern Europe, the Middle East and the Far East. He is a Director of 3 companies in Kenya.



JACK J KISA
Non-executive Director (aged 68). Mr. Kisa joined the Board on 26 July 2002. He holds a Bachelor of Science Degree (Economics) (London), and M.P.A (Harvard). He served as Principal Economist in the Ministry of Finance and Planning in the 1970s. He was Director of UN's World Employment Programme for Africa in 1974 to 1977. He served as Senior Economist with World Bank in Washington DC from 1978 to 1995. He retired in 1995 and is currently engaged in business. He is a Director of Diamond Trust Bank.

KUNGU GATABAKI
Non-executive Director (aged 56). Mr. Gatabaki joined the Board on 17 July 2001. An Economist, holding a Bachelor of Science Degree from Legon University, Ghana and a Diploma in Project Planning and Management from Bradford University, UK. He started his working career in the Budget and Planning Department, Firestone East Africa (1969) Ltd in 1972. He moved to Nation media Group where he served as Marketing Assistant before moving to CDC Group Plc in 1974 where he worked till retirement in 2004. He is the Chairman of Housing Finance, Chairman of Micro Kenya and Director of Mumias Sugar Company Limited among other companies.

MAHMOOD MANJI
Non-executive Director (Aged 52). Mr. Manji joined the Board in March 1996. A Career Banker, Mr. Manji is the former Group Chief Executive of the Diamond Trust Banks in East Africa and CFC Bank Limited. He is currently Chairman of the Diamond Trust Banks in East Africa, Chairman of Property Development and Management Limited and a Director of the Kenya Civil Aviation Authority. Mr. Manji is a member of the Institute of Chartered Accountants in England and Wales.



DAMARIS A ANGULU
She was appointed Company Secretary on 17 March 2003. Mrs. Angulu holds a Bachelor of Laws Degree from the University of Nairobi and Diploma from the Kenya School of Law and is a CPS (K). Prior to joining Serena, she had served as a legal counsel in renown law firms in Mombasa and Nairobi. She is a Member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya (ICPSK). Mrs Angulu is finalising her Masters of Business Administration (MBA) Degree Programme at the University of Nairobi, majoring in Strategic Management.

Corporate Governance Statement

Corporate Governance is of utmost importance in enhancing prosperity and corporate accounting, the ultimate objective being the realization of long-term shareholder value while taking into account the interests of other stakeholders.

Tourism Promotion Services Limited recognizes the need to conduct its business in accordance with generally accepted best corporate practices and principles of corporate governance and business ethics as set out in the Capital Markets Authority Guidelines "the CMA Guidelines" on corporate governance by Public Listed Companies in Kenya (May 2002) as well as other internationally recognised codes. Thus, the Directors attach great importance to the need to conduct the operations of the Company with integrity and in particular, to exceed where possible, the standards prescribed by the CMA Guidelines.

The Board is pleased to report that the Company has substantially complied with these guidelines.

The Board of Tourism Promotion Services Limited consists of seven Directors, two of which are non-executive independent Directors, while two are executive Directors, i.e the Managing Director and the Finance Director. The Directors are of varied expertise and skills who bring a wealth of relevant experience to the Board deliberations. All the non-executive Directors are subject to periodic retirement and re-election in accordance with the Company's Articles of Association.

The Directors meet at least six times a year. 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. The Directors are given accurate and timely information so that they can discharge their functions effectively. Responsibility for implementing strategy and for day to day operations is delegated by the Board to the Managing Director and his top Management team.

COMMITTEES OF THE BOARD

The Board has constituted two Committees and has delegated a specific mandate to each of them. The Committees meet regularly under the terms of reference set by the Board.

Audit and Finance Committee

In 1997, the Board established an Audit and Finance Committee. Its membership comprises of two non-executive Directors of the Company and two non-executive Directors of the Management Company, namely Tourism Promotion Services (Management) Limited, as listed on page 2 of the Annual Report. The Board reviews membership of the Audit and Finance Committee annually in accordance with CMA Guidelines. The Committee meets at least 3 times a year or as may be required by business exigencies. The external Auditors, internal Auditors, and executive Directors attend the Committee meetings on as required basis. The Committee's main duties are to review financial information and ensure that the system of internal control is effectively administered. Significant findings identified by the Company's internal and external Auditors are also considered.

Nomination and Remuneration Committee

The Board established a Nomination and Remuneration Committee in year 2003. Its membership comprises of three non–executive Directors as listed on page 2 of the Annual Report. The Committee sits at least 3 times a year, or as may be required. The executive Directors normally attend Committee meetings.

The Committee is mandated to review the salaries, benefits packages, and service contracts of the executive Directors and senior management and to ensure that the same are competitively structured and linked to performance. The Committee is further mandated to propose new nominees to the Board as may be appropriate and to assess the effectiveness of the Board as a whole, the Committees of the Board, as well as each individual Director and make necessary recommendations to the Board on enhancing the overall level of effectiveness of the Board, its Committees and individual Directors. Executive

Directors do not attend those meetings of the Committee that consider their remuneration and benefits.

INTERNAL CONTROLS

The Company has a well-defined organisational structure with appropriate segregation of responsibilities. This is complimented with detailed policy and procedure manuals, 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 RESPONSIBILITIES

The Company continues to meet its corporate social responsibilities by promoting the economic activities of local communities in which it operates 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 Company's business, carried out both internally and by external experts.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to ensuring that Shareholders and the other stakeholders are provided with accurate and timely information about its performance. This is usually done through the distribution of the Company's annual report at least 21 days before the Annual General Meeting, release of half year and end year results through the press and regulatory bodies, and monthly disclosures of shareholding statistics to the Nairobi Stock Exchange and Capital Markets Authority.

Shareholders have direct access to the Company and all their enquires are responded to in a timely manner. In this regard, the Company complies with its obligations contained in the Nairobi Stock Exchange Listing Rules and The Capital Markets Authority Act applicable in Kenya.

By maintaining an open door policy in terms of communication, the Company ensures that enquiries from Shareholders and the other stakeholders are promptly and satisfactorily attended to.

DIRECTORS EMOLUMENTS AND LOANS

The aggregate amounts of emoluments paid to Directors during financial year 2005 are disclosed in the notes to the financial statements. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party whereby Directors might have acquired benefits by means of the acquisition of the Company's shares.

There were no non-executive Directors' loans during the year. Executive Directors' loans are disclosed in note 26 to the financial statements.

DIRECTORS' INTEREST

Name of Director	No. of Shares	% Shareholding
1. Mr. Francis Okomo-Okello	643	0.002%
2. Mr. Abdulmalek Virani	16,612	0.043%

Corporate Governance Statement *(continued)*

SHAREHOLDING

TPSL SHAREHOLDING AS AT 31 DECEMBER 2005

The shareholders Profile as at 31 December 2005 was as follows:

	Number of Shareholders	Number of shares held	%age of issued share capital
Kenyan Individual Investor	8,220	6,740,453	17.43%
Kenyan Institutional Investors	341	31,618,034	81.75%
Other East African Individual Investors	9	13,242	0.03%
Foreign Investors	14	307,271	0.79%
TOTAL	**8,584**	**38,679,000**	**100.00%**

The Ten largest Shareholdings

	Number of shares	% Shareholding
TPS Holdings Ltd	29,653,900	76.66%
Mr Premchand K Shah	1,010,000	2.61%
Craysell Investments Limited	694,303	1.80%
Wildlife Safari Kenya Limited	227,492	0.59%
Barclays (Kenya) Nominees - 3 A/cs	188,832	0.49%
Mr Sadrudin Karim Jiwa	173,004	0.44%
Serengeti (Kenya) Limited	129,657	0.35%
Mr Hassanali Asaria	100,354	0.26%
Dr Emmanuel Nuwokpor Ayim	71,922	0.18%
British American Insurance Company (Kenya) Limited	62,490	0.16%
TOTAL	**32,311,954**	**83.54%**

Shares Distribution
Shares Range

1 - 500	4,212	1,962,861	5.07%
501 - 5000	4,274	3,300,456	8.53%
5001 - 10,000	43	307,465	0.80%
10,001 - 100,000	49	1,249,165	3.23%
100,001 - 1,000,000	4	1,195,153	3.09%
1,000,001 and over	2	30,663,900	79.28%
TOTAL	**8,584**	**38,679,000**	**100.00%**

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2005, which disclose the state of affairs of the company.

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

The net profit for the year of Shs 191,872,000 has been added to retained earnings. The directors recommend the approval of 25% (2004: 22%) dividend amounting to
Shs 48,348,750 (2004: Shs 42,546,900).

DIRECTORS

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

FO Okello	(Chairman)
M Jan Mohamed	(Managing director)
AJ Virani	(Finance director)
MP Manji	
I Cheyne	
K Gatabaki	
J Harris	(Alternate to I Cheyne)
J Kisa	

In accordance with Articles no. 95 and 96 of the Company's Articles of Association, Messrs. K Gatabaki and MP Manji retire by rotation and, being eligible, offer themselves for re-election.

RESTRUCTURING

On 16 December 2005, TPS Eastern Africa Limited (TPSEAL) made an offer to acquire 9,025,100 shares held by minority shareholders in the Company in exchange for 1.35 shares (of Kshs 1.00 each) in TPSEAL for every share (of Kshs 5.00 each) held in the Company. The offer closes on 14 April 2006. The intention of this offer is that the Company becomes a wholly owned subsidiary of TPSEAL.

AUDITORS

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

By order of the Board

D A Angulu
SECRETARY

2 March 2006

Statement of Directors' Responsibility

The Kenyan 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 Kenyan 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. 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.

M Jan Mohamed
Managing Director

J J Kisa
Director

2 March 2006

Report of the Independent Auditors

to the Members of Tourism Promotion Services Limited

We have audited the financial statements of Tourism Promotion Services Limited for the year ended 31 December 2005, set out on pages 14 to 34.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 12. 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 for the purposes of our audit and believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements, which are in agreement with the company's books of account, give a true and fair view of the state of the company's financial affairs at 31 December 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

2 March 2006

Profit and Loss Account

for the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Sales		1,969,769	1,672,490
Cost of sales		(379,734)	(342,693)
Gross profit		1,590,035	1,329,797
Other operating income		149,638	166,387
Employee benefits expense		(465,521)	(402,515)
Administration expenses		(346,563)	(320,349)
Other operating expenses		(632,259)	(565,391)
Operating profit	6	295,330	207,929
Net finance cost	8	(17,815)	(13,289)
Share of results of associate	9	4,884	2,900
Profit before income tax		282,399	197,540
Income tax expense	10	(90,527)	(67,014)
Profit for the year		191,872	130,526
Earnings per share (Shs)			
Basic and diluted	12	4.96	3.37
Dividends:			
Proposed final dividend for the year	11	48,349	42,547

Balance Sheet

for the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
CAPITAL EMPLOYED			
Share capital	13	193,395	193,395
Revaluation reserve	14	403,113	407,044
Retained earnings		596,107	448,653
Proposed dividends	11	48,349	42,547
Shareholders' funds		1,240,964	1,091,639
Non-current liabilities			
Borrowings	15	424,100	48,565
Deferred income tax	16	229,265	193,452
Provision for liabilities and charges	17	97,225	86,497
		750,590	328,514
		1,991,554	1,420,153
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	18	1,451,938	1,323,447
Prepaid operating lease rental	19	13,053	13,213
Investment in associate	9	21,518	18,618
		1,486,509	1,355,278
Current assets			
Inventories		106,831	105,990
Receivables and prepayments	20	686,207	565,847
Cash and cash equivalents	21	110,125	27,404
		903,163	699,241
Current liabilities			
Payables and accrued expenses	22	241,589	223,821
Current income tax		8,608	71,720
Borrowings	15	147,921	338,825
		398,118	634,366
Net Current Assets		505,045	64,875
		1,991,554	1,420,153

The financial statements on pages 14 to 34 were approved for issue by the Board of directors on 2 March 2006 and signed on its behalf by:

M Jan Mohamed
Managing director

J J Kisa
Director

Statement of changes in equity

for the year ended 31 December 2005

	Share Capital Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2004					
At start of year	193,395	411,627	356,091	42,547	1,003,660
Transfer of excess depreciation	-	(6,547)	6,547	-	-
Deferred income tax on transfer	-	1,964	(1,964)	-	-
Net gains/(losses) recognised directly in equity	-	(4,583)	4,583	-	-
Profit for the year	-	-	130,526	-	130,526
Total recognised income for 2004	-	(4,583)	135,109	-	130,526
Dividends:					
- Final for 2003 paid	-	-	-	(42,547)	(42,547)
- Proposed for 2004	-	-	(42,547)	42,547	-
At end of year	193,395	407,044	448,653	42,547	1,091,639
Year ended 31 December 2005					
At start of year	193,395	407,044	448,653	42,547	1,091,639
Transfer of excess depreciation	-	(5,615)	5,615	-	-
Deferred income tax on transfer	-	1,684	(1,684)	-	-
Net gains/(losses) recognised directly in equity	-	(3,931)	3,931	-	-
Profit for the year	-	-	191,872	-	191,872
Total recognised income for 2005	-	(3,931)	195,803	-	191,872
Dividends:					
– Final for 2004 paid	-	-	-	(42,547)	(42,547)
– Proposed for 2005	-	-	(48,349)	48,349	-
At end of year	193,395	403,113	596,107	48,349	1,240,964

Cash Flow Statement

for the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Operating activities			
Cash generated from operations	25	415,044	331,646
Interest received		14,563	13,479
Interest paid		(33,100)	(22,442)
Income tax paid		(115,842)	(5,858)
Net cash from operating activities		280,665	316,825
Investing activities			
Purchase of property, plant and equipment	18	(240,109)	(143,907)
Proceeds from disposals of property, plant and equipment		2,130	1,861
Short term bank deposits		(14,330)	-
Net advances to related companies		(102,049)	(2,132)
Net cash used in investing activities		(354,358)	(144,178)
Financing activities			
Payments of commercial paper		(224,680)	(149,118)
Proceeds from commercial paper		319,203	-
Proceeds from bank borrowings		524,350	217,000
Payments of bank borrowings		(400,291)	(224,589)
Dividends paid		(42,547)	(42,547)
Net cash generated from/(used in) financing activities		176,035	(199,254)
Increase/(decrease) in cash and cash equivalents		102,342	(26,607)
Movement in cash and cash equivalents			
At start of year	21	(7,332)	19,275
Increase/decrease		102,342	(26,607)
At end of year	21	95,010	(7,332)

Notes

for the year ended 31 December 2005

1 General information

Tourism Promotion Services Limited is incorporated in Kenya under the Kenyan Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

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

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency; Kenya Shillings (Shs) rounded to the nearest thousands 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 IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity,or where assumptions and estimates are signifigant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards had no material effect on the company's accounting policies or disclosures, except as follows:

IAS 16 (revised 2003) has required the disclosure of comparative figures for movements in property, plant and equipment;

IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

(b) Consolidation

The company is controlled by TPS Eastern Africa Limited. The company results are therefore consolidated at the group level. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the group companies are eliminated. The accounting policies for the company are similar to those of TPS Eastern Africa Limited.

(c) Revenue recognition

Sales are recognised upon delivery of goods or 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.

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in 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 in which the company generally has between 20% and 50% of the voting rights, or over which the company has significant influence, but which it does not control.

The company's investment in associates includes goodwill (net of impairment charges) on acquisition.

(f) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; 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 surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, 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

The cost of leasehold land is classified as prepaid operating lease rentals and amortised over the lease term.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(f) Property, plant and equipment (continued)

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

(g) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are 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.

(h) 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.

(i) Receivables

Receivables are recognised initially at fair value and subsequently measured at a mortised cost using the effective interest method. A provision for impairment of 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. The amount of the provision is recognised in the profit and loss account. The amount of provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(j) Employee benefits

(i) Retirement benefit obligations

For unionised employees, the company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who resign after serving for periods of between five years and ten years, receive eighteen days salary and house allowance for each completed year of service at the rate of pay applicable at the date of resigning. Those who resign after serving for more than ten years receive twenty four days salary and house allowance for each completed year of service. The provision for liability recognised in the balance sheet is the estimated entitlement as a result of services rendered by employees up to the balance sheet date. Any increase or decrease in the provision is taken to the profit and loss account.

The company operates a defined contribution post-employment benefit scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and the employees. The company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. The company's contributions to both these defined contribution schemes are charged to the profit and loss account in the year in which they fall due. The company has no further obligation once the contributions have been paid.

(ii) Other entitlements

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

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

Notes *(continued)*

for the year ended 31 December 2005

(l) Income tax

Income tax is the amount of tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

(m) 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.

(n) Comparatives

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

3 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

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 2(d) above.

(ii) Critical judgements in applying the entity's accounting policies.

In the process of applying the company's accounting policies, management has made judgements in determining whether assets are impaired.

5 Segmental information

The company only has one business segment, which is the operation of hotels and lodges and operates in only one geographical segment – Kenya. As such, there is no additional segmental information to disclose.

6 Operating profit

The following items have been charged/(credited) in arriving at operating profit:	2005 Shs'000	2004 Shs'000
Depreciation on property, plant and equipment (Note 18)	111,388	101,680
Repairs and maintenance expenditure on property, plant and equipment	63,032	61,284
Foreign currency exchange gains on trading balances.	(36,339)	(76,909)
Prepaid operating lease rentals expensed (Note 19)	160	160
Profit on disposal of property, plant and equipment	(1,900)	(1,582)
Operating lease rentals	75,274	59,930
Receivables – provision for impairment losses	2,447	3,530
Write off of goodwill	-	3,199
Employee benefits expense (Note 7)	465,522	402,515
Auditors' remuneration	2,690	2,116

7 Employee benefits expense

The following items are included within staff costs:		
Retirement benefits costs:		
- Gratuity charge (Note 17)	14,831	17,452
- Defined contribution scheme	11,414	9,015
- National Social Security Fund	2,648	3,442

8 Net finance cost

Interest income:		
- Related party loans	12,830	12,371
- Staff loans	1,733	1,108
	14,563	13,479
Net foreign currency exchange gain/(loss)	722	(4,326)
Interest expense:		
- Bank borrowings	(27,050)	(21,482)
- Commercial paper	(6,050)	(960)
	(32,378)	(26,768)
Net finance cost	(17,815)	(13,289)

9 Investment in associate

	2005 Shs'000	2004 Shs'000
At start of year	18,618	16,946
Share of associate result before income tax	4,884	2,900
Share of income tax (Note 10)	(1,984)	(1,228)
Net share of result after income tax	2,900	1,672
	21,518	18,618

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

10 Income tax expense

	2005 Shs'000	2004 Shs'000
Current income tax	52,730	63,428
Deferred income tax charge for the year (Note 16)	35,813	2,358
Share of tax of associate (Note 9)	1,984	1,228
	90,527	67,014

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

	2005 Shs'000	2004 Shs'000
Profit before income tax	282,399	197,540
Income tax calculated at an income tax rate of 30 % (2004: 30 %)	84,720	59,262
Tax effect of:		
Income not subject to income tax	(1,466)	(945)
Expenses not deductible for tax purposes	3,646	7,469
Under provision of deferred income tax in prior years	1,643	-
Share of tax of associate	1,984	1,228
Income tax expense	90,527	67,014

11 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 2005 of Shs 1.25 per share (2004: Shs 1.10) amounting to Shs 48,348,750 (2004: 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 Kenya residents and 10% for non-residents. Dividends paid to the holding company are not subjected to withholding tax.

12 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.

	2005	2004
Net profit attributable to shareholders (Shs'000)	191,872	130,526
Weighted average number of ordinary shares in issues (thousands)	38,679	38,679
Basic earnings per share (Shs)	4.96	3.37

There were no outstanding potentially dilutive shares at 31 December 2005 or 2004. Diluted earnings per share is therefore the same as basic earnings per share.

13 Share capital

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

14 Revaluation reserve

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

15 Borrowings

	2005 Shs'000	2004 Shs'000
The borrowings are made up as follows:		
Non-current		
Bank loans	424,100	48,565
Current		
Bank overdrafts	785	34,736
Bank loans	52,613	304,089
Commercial paper	94,523	-
	147,921	338,825
Total borrowings	572,021	387,390

The borrowings include secured liabilities (bank loans) in a total amount of Shs 476,713,000 (2004: Shs 352,654,000). The bank loans are secured by a legal charge over certain land and buildings, a floating debenture over all company assets and a certificate of shares in the name of TPS Eastern Africa Limited.

Commercial paper is a negotiable promissory note which constitute legally binding and unsecured obligation of the issuer. The company has an undrawn loan facility of Shs 72,350,000 for use in the refinancing of the commercial paper to term loan.

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

		2005	2004
- bank overdrafts	: US Dollars	-	2.77%
	: Kenya Shillings	9.33%	3.60%
- bank borrowings	: US Dollars	5.19%	4.53%
	: Kenya Shillings	8.30%	4.09%
- commercial paper	: US Dollars	4.87%	-
	: Kenya Shillings	8.69%	-

Maturity of non-current borrowings is as follows:

	2005 Shs'000	2004 Shs'000
Between 1 and 2 years	128,363	48,565
Between 2 and 5 years	295,737	-
	424,100	48,565

In the opinion of the directors, the carrying amounts of short-term borrowings approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the balance sheet date.

In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate and foreign exchange rate changes.

16 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows:

	2005 Shs'000	2004 Shs'000
At start of year	193,452	191,094
Charge for the year (Note 10)	35,813	2,358
At end of year	229,265	193,452

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

	1.1.2005 Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2005 Shs'000
Deferred income tax liabilities			
Property, plant and equipment:			
- on historical cost	47,938	42,814	90,752
- on revaluation surpluses	168,491	(1,684)	166,807
Unrealised exchange gains	8,600	(477)	8,123
	225,029	40,653	265,682
Deferred income tax assets			
Provisions	(29,839)	(6,222)	(36,061)
Unrealised exchange losses	(1,738)	1,382	(356)
	(31,577)	(4,840)	(36,417)
Net deferred tax liability	193,452	35,813	229,265

Deferred tax of Shs 1,684,000 (2004: Shs 1,964,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on the land and buildings and the equivalent depreciation based on the historical cost of the property.

17 Provision 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:

	2005 Shs'000	2004 Shs'000
At start of year	86,497	73,266
Additional provisions	14,831	17,452
Utilised during year	(4,103)	(4,221)
At end of year	97,225	86,497

18 Property, plant and equipment

	Buildings & freehold land Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
At 1 January 2004					
Cost or valuation	1,058,952	728,975	51,242	6,875	1,846,044
Accumulated depreciation	(25,499)	(489,754)	(49,292)	-	(564,545)
Net book amount	1,033,453	239,221	1,950	6,875	1,281,499
Year ended 31 December 2004					
Opening net book amount	1,033,453	239,221	1,950	6,875	1,281,499
Additions	41,743	46,740	28,088	27,336	143,907
Disposals	-	(279)	-	-	(279)
Transfers	-	3,349	-	(3,349)	-
Depreciation charge	(29,890)	(62,855)	(8,935)	-	(101,680)
Closing net book amount	1,045,306	226,176	21,103	30,862	1,323,447
At 31 December 2004					
Cost or valuation	1,100,695	776,506	67,829	30,862	1,975,892
Accumulated depreciation	(55,389)	(550,330)	(46,726)	-	(652,445)
Net book amount	1,045,306	226,176	21,103	30,862	1,323,447
Year ended 31 December 2005					
Opening net book amount	1,045,306	226,176	21,103	30,862	1,323,447
Additions	131,768	82,375	14,187	11,779	240,109
Disposals	-	(230)	-	-	(230)
Transfers	27,314	-	-	(27,314)	-
Depreciation charge	(32,675)	(67,957)	(10,756)	-	(111,388)
Closing net book amount	1,171,713	240,364	24,534	15,327	1,451,938
At 31 December 2005					
Cost or valuation	1,259,777	854,790	82,016	15,327	2,211,910
Accumulated depreciation	(88,064)	(614,426)	(57,482)	-	(759,972)
Net book amount	1,171,713	240,364	24,534	15,327	1,451,938

Notes *(continued)*

for the year ended 31 December 2005

18 Property, plant and equipment (continued)

Included under land and buildings are lodges with a net book value of Shs 344,747,955 (2004: Shs 328,503,471) constructed on land which is leased from various local councils.

Land and buildings are subject to revaluation on a triennial basis and 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 next revaluation is due as at 1 January 2006.

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

	2005 Shs'000	2004 Shs'000
Cost	738,692	579,610
Accumulated depreciation	(129,326)	(102,266)
	609,366	477,344

19 Prepaid operating lease rentals

	2005 Shs'000	2004 Shs'000
Net book amount		
At start of year	13,213	13,373
Amortisation charge for year	(160)	(160)
At end of year	13,053	13,213
Cost of prepaid operating lease rentals	15,800	15,800
Accumulated amortisation	(2,747)	(2,587)
	13,053	13,213

20 Receivables and prepayments

	2005 Shs'000	2004 Shs'000
Trade receivables – third party	211,955	216,605
Less: provision for impairment	(18,006)	(15,559)
Trade receivables – related companies (Note 26 iii)	2,512	477
	196,461	201,523
Prepayments	12,002	6,492
Loans and advances receivable from related parties (Note 26 iv)	462,897	348,018
Other receivables	14,847	9,814
	686,207	565,847

21 Cash and cash equivalents

	2005 Shs'000	2004 Shs'000
Cash and bank balances	95,795	27,404
Short term bank deposits	14,330	-
	110,125	27,404

The weighted average effective interest rate on short-term bank deposits at the year-end was 4%.

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise cash in hand, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities. The year-end cash and cash equivalents comprise the following:

	2005 Shs'000	2004 Shs'000
Cash and bank balances	95,795	27,404
Bank overdrafts (Note 15)	(785)	(34,736)
	95,010	(7,332)

Included in cash and bank balances is Shs 160,000 (2004: Shs 237,000) relating to amounts banked with related parties.

22 Payables and accrued expenses

	2005 Shs'000	2004 Shs'000
Trade payables – third party	139,313	126,333
Trade payables – related companies (Note 26 iii)	3,991	3,230
VAT payable	10,658	4,631
Accrued expenses and other payables	87,627	89,627
	241,589	223,821

23 Contingent liabilities

At 31 December 2005, the company had given guarantees amounting to Shs 4,460,000 (2004: Shs 4,360,000) to banks on behalf of third parties for utilities. The company also had letters of credit amounting to Shs 4,449,000 (2004:4,449,000).

The company is a defendant in various legal actions. In the opinion of the directors and after taking appropriate legal advice, the outcome of pending actions will not give rise to significant liability.

24 Commitments

Capital commitments

The company had no capital expenditure contracted for at the balance sheet date. (2004: Shs 123,567,000).

Operating lease commitments

	2005 Shs'000	2004 Shs'000
Not later than one year	998	998
Later than one and not later than five years	3,993	3,993
Later than five years	55,103	56,103
	60,094	61,094

In respect of its lodges, the company is committed to paying a percentage of the room and food revenue as royalties to the local authorities who own the land on which the properties are situated.

In the opinion of the directors, it is impracticable to assign values to the royalty commitments due to inability to forecast revenue with certainty.

25 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2005 Shs'000	2004 Shs'000
Profit before tax	282,399	197,540
Adjustments for:		
Depreciation on property, plant and equipment (Note 18)	111,388	101,680
Amortisation of prepaid lease rentals (Note 19)	160	160
Profit on sale of property, plant and equipment	(1,900)	(1,582)
Amortisation of goodwill	-	250
Impairment of investment in subsidiary	-	6,000
Impairment of goodwill	-	3,524
Interest income	(14,563)	(13,479)
Interest expense	33,100	22,442
Share of results of associate (Note 9)	(4,884)	(3,150)
Changes in working capital		
- receivables and prepayments	(18,311)	(31,282)
- inventories	(841)	(6,944)
- payables and accrued expenses	17,768	43,256
- provisions for liabilities and charges	10,728	13,231
Cash generated from operations	415,044	331,646

26 Related party transactions

The company is controlled by TPS Eastern Africa Limited, incorporated in Kenya, which owns 76.6% of the company's shares. The remaining 23.4% of the shares are widely held. The ultimate parent of the group is Aga Khan Fund for Economic Development S.A., a company incorporated in Switzerland. There are various other companies which are related to Tourism Promotion Services Limited through common shareholdings or common directorships and with the ability to exercise significant influence.

The following transactions were carried out with related parties:

i) **Sale of goods and services to:**	**2005 Shs'000**	**2004 Shs'000**
Mountain Lodges Limited	7,595	5,395
Diamond Trust Bank Kenya Limited	1,374	2,470
Alltex EPZ Limited	-	664
Farmer's Choice Limited	-	2
Frigoken Limited	-	166
The Jubilee Insurance Company Limited	3,131	1,988
Directors and key management	1,176	611
	13,276	11,296

ii) **Purchase of goods and services from:**		
Tourism Promotion Services (Management) Limited	249,148	235,326
Farmer's Choice Limited	36,984	31,124
Premier Food industries Limited	884	607
The Jubilee Insurance Company Limited	17,477	43,875
Serena Tourism Promotion Services S.A.	50,767	27,940
	355,260	338,872

iii) Year-end balance arising from sales/purchases of goods/services

Receivables from:	**2005 Shs'000**	**2004 Shs'000**
Diamond Trust Bank Kenya Limited	419	274
Frigoken Limited	-	108
The Jubilee Insurance Company Limited	2,093	95
	2,512	477

Notes *(continued)*

for the year ended 31 December 2005

		2005	2004
26	**Related party transactions (continued)**	**Shs'000**	**Shs'000**
	Payables to:		
	Farmer's Choice Limited	3,740	3,175
	Premier Food industries Limited	213	19
	The Jubilee Insurance Company Limited	38	36
		3,991	3,230
iv)	**Loans to/(from) related parties**		
(a)	**Loans to TPS Eastern Africa Limited:**		
	At start of year	22,659	25,754
	Loans advanced during the year	58,901	38,150
	Loan repayments received	(33,308)	(42,082)
	Interest charged	868	837
	At end of year	49,120	22,659
(b)	**Loans to Tourism Promotion Services (Management) Limited**		
	At start of year	279,764	295,181
	Loans advanced during the year	764,213	578,882
	Loan repayments received	(689,361)	(605,833)
	Interest charged	11,962	11,534
	At end of year	366,578	279,764
(c)	**Advances to Tourism Promotion Services (Tanzania) Limited**		
	At start of year	30,421	16,744
	Advances during the year	138,336	154,331
	Repayments received	(129,969)	(140,654)
	At end of year	38,788	30,421
(d)	**Advances to/(from) Mountain Lodges Limited**		
	At start of year	8,287	(9,340)
	Advances during the year	96,340	124,155
	Repayments received	(100,497)	(106,528)
	At end of year	4,130	8,287

26 Related party transactions (continued)

(e) **Advances to/(from) Tourism Promotion Services (Zanzibar) Limited and others**	**2005 Shs'000**	**2004 Shs'000**
At start of year	6,887	5,176
Advances during the year	113,939	32,233
Repayments received	(116,545)	(30,522)
At end of year	**4,281**	6,887
Total loans and advances receivable from related parties	**462,897**	348,018

Loans to TPS Eastern Africa Limited and Tourism Promotion Services (Management) Limited are unsecured, repayable on demand.

The loans attract interest as follows:

	2005	**2004**
TPS Eastern Africa	4.5%	4.5%
Tourism Promotion Services (Management) Limited	4%	4%

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

No provision for impairment losses has been recorded in 2005 (2004: Nil) for the loans made to related parties.

Advances to Tourism Promotion Services (Management) Limited include car loans to directors and key management of the company as follows;

v) **Loans to directors and key management**	**2005 Shs'000**	**2004 Shs'000**
At start of year	1,651	3,325
Loan repayments received	(950)	(2,000)
Interest charged	219	326
At end of year	920	1,651

26 Related party transactions (continued)

The loans advanced to directors and key management have the following terms and conditions:

2005	Amount Shs'000	Term Years	Security Shs'000	Interest rate
Loan balance	920	5	4,392	5%
2004				
Loan balance	1,651	5	4,392	5%

vi) Directors' remuneration

	2005 Shs'000	2004 Shs'000
Fees for services as a director	360	360
Other emoluments (included in key management remuneration below)	21,874	19,762
	22,234	20,122

vii) Key management remuneration

Salaries and other short-term employment benefits	35,679	31,973

Tourism Promotion Services Limited

Form of Proxy

(PLEASE COMPLETE IN BLOCK LETTERS)

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 Wednesday 26th April 2006 at 11.00 a.m. and at any adjournment thereof.

As witnessed by my/our hand this.............................. .day of 2006

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 Monday 24th April, 2006.
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 Liability Company/Corporation, this Form of Proxy must be completed under its 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.

CUT HERE

FOLD 1

TPS

Tourism Promotion
Services Limited

Please afix
Stamp here

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

FOLD 2

CUT HERE