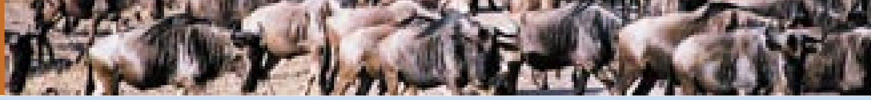

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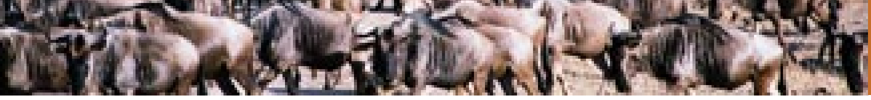


Directors and Administration

Francis Okomo-Okello
(Chairman)

Mahmud Jan Mohamed
(Managing Director)
(Appointed 13 March 2006)

Abdulmalek J Virani
(Finance Director)
(Appointed 13 March 2006)

Ali Mufuruki*
(Appointed 13 March 2006)

Ameer Kassim-Lakha

Dr. Ramadhani Dau*

Iain Cheyne*****
(Resigned 13 March 2006)

Jack J Kisa
(Appointed 13 March 2006)

Jean-Philippe Prosper***

Jean-Louis Vinciguerra**
(Appointed 13 March 2006)

John Harris*****
(Alternate to Iain Cheyne)
(Resigned 13 March 2006)

Kabir Hyderally ****
(Appointed 13 March 2006)

Kate Bandawe*
(Alternate to Dr. Ramadhani Dau)

Kungu Gatabaki

Mahmood P Manji

Nizar Shariff******
(Resigned 13 March 2006)

Zulfikar K. Mohamed******
(Appointed 13 March 2006 and resigned 1 November 2006)

BOARD AUDIT & FINANCE COMMITTEE

Jean-Philippe Prosper***
(Chairman)

Ameer Kassim-Lakha
(Appointed 13 March 2006)

Jean-Louis Vinciguerra**
(Appointed 13 March 2006)

Kabir Hyderally****
(Resigned 13 March 2006)

Kungu Gatabaki

Mahmood Manji
(Resigned 13 March 2006)

BOARD NOMINATION AND REMUNERATION COMMITTEE

Jack J Kisa
(Chairman)

Dr. Ramadhani Dau*
(Appointed 13 March 2006)

Kabir Hyderally****
(Appointed 13 March 2006)

Mahmood Manji

*Tanzanian ** French *** Haitian
****Pakistani *****British
****** Canadian

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
(Engineer E.A.)

Charles Ogada
(Financial Controller E.A)

Salim Jan Mohamed
(General Manager - Tanzania and Zanzibar)

HOTEL AND LODGE MANAGERS

Mark Gathuri
(General Manager – Nairobi Serena Hotel)

Charles Muia
(General Manager – Mombasa Serena Beach Hotel)

Stanley Kongley
(Manager – Amboseli Serena Safari Lodge)

Paul Chaulo
(Manager - Samburu Serena Safari Lodge)

Herman Mwasaghua
(Manager – Mara Serena Safari Lodge)

Felix Ogembo
(Manager – Kilaguni Serena Safari Lodge)

Alphaxard Chege
(Manager – Mountain Lodge)

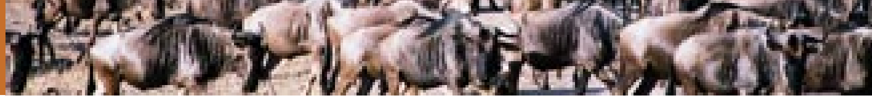
James Odenyo
(Manager – Sweetwaters Tented Camp)

Daniel Sambai
(Manager - Kirawira Luxury Tented Camp)

Charles Mbuya
(Manager - Lake Manyara Serena Safari Lodge)

Edwin Chemisto
(Manager - Serengeti Serena Safari Lodge)
Wilfred Shirima
(Manager - Ngorongoro Serena Safari Lodge)

Gerald Macharia
(Manager - Mountain Village Serena Hotel)



Wilson Mbahi
(Manager - Mbuzi Mawe Tented Camp)

Anthony Chege
(General Manager - Zanzibar Serena Inn)

OPERATING SUBSIDIARIES AND PROPERTIES:

Tourism Promotion Services (Kenya) Limited

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)

Tourism Promotion Services (Tanzania) Limited

Kirawira Luxury Tented Camp
Lake Manyara Serena Safari Lodge
Serengeti Serena Safari Lodge
Ngorongoro Serena Safari Lodge
Mountain Village Serena Hotel (Managed by Serena)
Mbuzi Mawe Tented Camp (Managed by Serena)

Tourism Promotion Services (Zanzibar) Limited

Zanzibar Serena Inn

Tourism Promotion Services (SA) (Pty) Limited

AUDITORS:

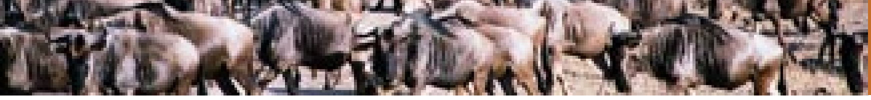
PricewaterhouseCoopers
Certified Public Accountants
The Rahimtulla Tower
P O Box 43963-00100
Nairobi, Kenya

PRINCIPAL BANKERS:

Barclays Bank of Kenya Limited
P O Box 30120-00100
Nairobi, Kenya

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



Notice of Annual General Meeting

Notice is hereby given that the thirty-fifth Annual General Meeting of the Company will be held at Kenyatta International Conference Centre, Nairobi on Friday the 8th June 2007 at 11.00 a.m. to transact the following business:

Ordinary Business:

1. To confirm the minutes of the thirty-fourth Annual General Meeting held on 14 March 2006.

2. To receive, consider and, if thought fit, adopt the accounts for the year ended 31st December 2006, together with the Directors' and Auditors Reports thereon.

3. To approve payment of a final dividend for the year 2006 of K.Shs. 1.25 per share of K.Shs. 1.00 subject to withholding tax, where applicable, to the Members on the Register at the close of business on 8th June 2007. Payment of the dividend to be made on or about 8 July 2007.

4. To elect Directors

(a) Mr. Francis Okomo Okello retires by rotation in accordance with Articles No. 110, 111, & 112 of the Company's Articles of Association and being eligible, offers himself for re-election.

(b) Dr. Ramadhani Dau retires by rotation in accordance with Articles No. 110, 111, & 112 of the Company's Articles of Association and being eligible, offers himself for re-election.

5. To approve the Directors' remuneration for the year 2006.

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

7. To approve the Auditors' remuneration for the year 2006 and to authorise the Directors to fix the Auditor's remuneration for the year 2007.

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

Special Business:

9. To consider and, if thought fit, to pass the following resolutions which shall be proposed as special resolutions:

(i) Mr. Ameer Kassim-Lakha retires by rotation in accordance with Articles No. 110, 111 and 112 of the Companys Articles of Association. Special Notice has been received by the Company pursuant to section 142 of the Companies Act (Cap. 486) that the following resolution be proposed in accordance with section 186(5) of the said Act for the consideration of the shareholders.

Resolution

"THAT Mr. Ameer Kassim-Lakha (a Director retiring by rotation) who is over the age of 70 years, be and is hereby re-elected as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association"

(ii) "THAT in pursuance to Article 158 of the Company's Articles of Association, and subject to the approval of the Capital Markets Authority, and to the Nairobi Stock Exchange approving the listing of new ordinary shares of the Company, and upon the recommendation of the Board, it is desirable to capitalize the sum of Kenya Shillings Seventeen million six hundred forty four thousand one hundred twenty four (Kshs. 17,644,124) being part of the sum standing to the credit of the Company's revenue reserve account and that accordingly such sum be set free for distribution amongst the holders of ordinary shares in the capital of the Company on the register of members as at 8 June 2007 on condition that the same shall not be paid in cash but be applied in paying up in full at par seventeen million six hundred forty four thousand one hundred twenty four (17,644,124) ordinary shares of one shilling (Kshs.1) each in the capital of the Company, and that such seventeen million six hundred forty four thousand one hundred twenty four shares be credited as fully paid, and accordingly be allotted to such persons respectively in the proportion of one (1) share for every five (5) ordinary shares in the Company then held by such persons (fractions of a share to be disregarded) and the shares so distributed shall rank pari passu with the existing issued ordinary shares and shall be treated for all purposes as an increase of the nominal amount of capital of the Company held by each such shareholder and not as income and the Directors be and are hereby authorized to attend to all matters required to give effect to this resolution."

"THAT should any of the said 17,644,124 bonus shares not be issued by reason of fractions of a share being disregarded, the Directors may allot and issue the same to such persons and upon such terms and conditions they may think fit."

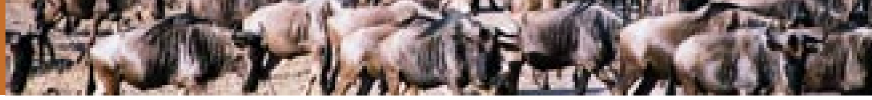
(iii) "THAT the establishment by the Company of a new wholly-owned subsidiary in South Africa named Tourism Promotion Services (SA) (Pty) Limited be and is hereby ratified"

By Order of the Board

D.A. Angulu
Company Secretary
Nairobi 23 March, 2007

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's Registrars (details on the proxy form) not later than 11.00 a.m. Wednesday the 6th June 2007.



Notisi kuhusu Mkutano wa Pamoja wa Mwaka

Notisi inatolewa hapa kwamba, mkutano mkuu wa thelathini na tano wa pamoja wa mwaka wa kampuni utafanyika katika jumba la mikutano ya Kimataifa la Kenyatta (Kenyatta International Conference Center) saa tano asubuhi, Ijumaa, Juni 8, 2007 ili kushughulikia mambo yafuatayo-:

Shughuli za Kawaida

1. Kuthibitisha kumbukumbu za mkutano wa thelathini na nne wa mwaka uliofanyika Machi 14, 2006

2. Kupokea, kuangazia na endapo itaonekana kuwa sawa, kukubali hesabu kwa kipindi cha mwaka uliomalizika Desemba 31, 2006 pamoja na ripoti ya wakurugenzi na ile wa wakaguzi wa hesabu

3. Kupitisha malipo ya mwisho ya mgawo wa faida wa mwaka 2006 wa shilingi 1.25 kwa kila hisa za thamani ya shilingi 1.00 kwa kutegemea ushuru ulioshikiliwa pale inapohitajika kwa wanachama ambao majina yao yatakuwa kwenye rejista kufikia kipindi cha biashara Juni 8, 2007. Malipo ya mgawo wa faida yatatolewa kabla au karibu na Julai 8, 2007.

4. Kuwachagua wakurugenzi

(a) Bw. Francis Okomo Okello atastaafu kwa zamu kwa mujibu wa vifungu nambari 110, 111 na 112 vya sheria za kampuni na kwa kuwa anastahili, amejitokeza tena kuchaguliwa.

(b) Dkt. Ramadhani Dau anastaafu kwa zamu kwa mujibu wa vifungu nambari 110, 111 na 112 vya sheria za kampuni na kwa kuwa anastahili, anajitokeza tena kuchaguliwa

5. Kupitisha malipo ya wakurugenzi mwaka 2006

6. Kuteua wakaguzi wa hesabu PricewaterhouseCoopers kwa mujibu wa kifungu 159(2) cha sheria za Kenya za makampuni (Cap. 486)

7. Kupitisha malipo ya wakaguzi wa hesabu mwaka 2006 na wakati huo kuwaidhinisha wakurugenzi kuamua malipo yao mwaka 2007

8. Kuangazia maswala mengine ya kawaida wakati wa mkutano wa pamoja wa mwaka.

Shughuli Maalum:

9. Kuangazia na endapo itaonekana kuwa sawa kupitisha maazimio yafuatayo yatakayochukuliwa kama maswala maalumu:

(i) Bw. Ameer Kassim-Lakha anastaafu kwa zamu kwa mujibu wa vifungu nambari 110, 111 na 112 vya sheria za kampuni. Notisi maalum imepokelewa kutoka kwa kampuni kwa mujibu wa kifungu 142 cha sheria za Makampuni za Kenya kwamba azimio lifuatalo lipendekezwe kufungamana na kifungu 186 (5) cha sheria hizi ili kuzingatiwa na wanahisa.

Azimio

"Kwamba Bw. Ameer Kassim-Lakha (mkurugenzi anayestaafu kwa zamu) ambaye umri wake ni zaidi ya miaka 70 anachaguliwa tena kama Mkurugenzi wa kampuni hadi atakapostaafu kwa zamu chini ya sheria za kampuni".

(ii) "Kwamba kuambatana na Kanuni 158 ya sheria za kampuni, na kutegemea kibali cha Mamlaka ya Masoko ya Mitaji (Capital Markets Authority), na Soko la Hisa la Nairobi (Nairobi Stock Exchange) kuidhinisha uuzaji wa hisa mpya za kawaida za Kampuni, na baada ya pendekezo la Halmashauri, inafaa kutumia mtaji wa Shilingi. 17,644,124 ikiwa ni kiasi cha jumla ya pesa zilizobaki katika akiba iliyotengwa ya mapato ya Kampuni na kwamba kwa minajili ya kiasi kama hicho cha pesa kitolewe ili kugawiwa miongoni mwa wamiliki hisa za kawaida katika mtaji wa Kampuni wa daftari ya wanachama kufikia Juni 8, 2007 kwa sharti kwamba kiasi hicho kisilipwe kwa pesa taslimu lakini kitumiwe katika kulipia kamili sawasawa Shilingi 17,644,124 hisa za kawaida za KSh1 kila moja katika mtaji wa Kampuni na kwamba hisa kama hizo 17,644,124 zinakilishwe kwamba zimelipiwa kamili na kwa minajili ya hii kugawia watu hao vivyo hivyo kwa kimo cha hisa moja kwa kila hisa tano (5) za kawaida katika Kampuni zinazomilikiwa wakati huo na mtu kama huyo (mafungu ya hisa kupuuziliwa mbali) na hisa hizo zilizogawa zitahesabiwa kuwa kutoshana na hisa zilizopo na zilizotolewa za kawaida na zitachukuliwa kwa vyo vyote vile kuwa ongezeko la kiasi kilichoandikishwa cha mtaji wa Kampuni kilichomilikiwa na kila mwenyehisa wala si kama pato na Wakurugenzi wawe hapa na hivyo waidhinishwe kushughulikia maswala yote yanayohitajika kutekeleza azimio hili."

"Kwamba endapo hisa zo zote zile zinazosemekana za bakshishi zisitolewe kwa sababu ya mafungu ya hisa zinazopuuziliwa mbali, Wakurugenzi wanaweza kugawa na kutoa hisa hizo kwa watu hao na kwa masharti na hali wanazoweza kufikiria kufaa."

(iii) "Kwamba kuanzishwa na Kampuni kwa kampuni ndogo inayomilikiwa kamili nchini Afrika Kusini na kuitwa Tourism Promotion Services (SA) (Pty) Limited kuwe hivyo na kuthibitishwe."

Kwa Amri ya Halmashauri

D.A Angulu
Katibu wa Kampuni
Imenukuliwa Machi 23, 2007

Muhimu:
Mwanachama mwenye uwezo wa kuhudhuria na kupiga kura wakati wa mkutano wa pamoja wa mwaka na akawa hawezi kufanya hivyo, anaweza kumtuma wakala/mwakilishi wake kufanya hivyo kwa niaba yake. Sio lazima kwa wakala/mwakilishi kama huyo kuwa mwanachama wa kampuni.

Ili kuhudhuria, fomu ya wakala ambayo imeambatanishwa na ripoti hii lazima ijazwe vyema na mwanachama na kupokelewa katika ofisi ya usajili ya kampuni (maelezo yamo kwenye fomu ya wakala) na kupokelewa kabla ya saa tano asubuhi Jumatano Juni 6, 2007.

Chairman's Statement

It gives me great pleasure to present to you the first Annual Report and Financial Statements of the restructured TPS Eastern Africa Limited (TPSEAL) for the year ended 31 December 2006, since it became a public Company and commenced trading on Nairobi Stock Exchange on 15 March 2006.

The Board was delighted that the share swap exercise was successful with 6,568 out of a total of 8,584 shareholders of Tourism Promotion Services Limited (TPSL) (formerly listed on Nairobi Stock Exchange), and now called Tourism Promotion Services (Kenya) Limited, swapping their shares in TPSL for shares in TPSEAL. At the close of the share swap exercise, only 2,016 shareholders (23% of shareholders) with a total aggregate holding of 1,218,538 shares (3% of the total share capital) had not swapped their shares in TPSL for shares in TPSEAL due to communication problems that had impeded the delivery of the relative Notices; a situation that was beyond the Management's control. I thank all the shareholders who responded positively to the share swap as this move demonstrated the level of confidence which the said shareholders have in the future of the Company. I would also like to take this opportunity to welcome you all to TPSEAL which is a bigger and a truly regional Group. I believe that the shareholders' action further reaffirms their trust and confidence on the strong leadership of the Group led by a committed Board and dedicated Management team.

The restructuring of the Group has resulted in the consolidation of the Group's presence in the region and diversified the revenue streams as was originally envisaged. It is expected that most of the risks previously associated with business concentration in Kenya that have affected the Group's business in the past, would now be brought under control as much as it is also our expectation that the East African Governments 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. In addition, the Group expects to realize cost savings as a result of centralised management systems and the attendant economies of scale which will help in its regional growth. This is good news, not only for the industry, but also for the economies of Tanzania and Kenya whose economic growth is partly driven by tourism.

It has been observed that the tourism sector in Kenya witnessed increased arrivals in the past year from both traditional and new markets. The positive turnaround in Kenya and continuing good levels of business in Tanzania and Zanzibar resulted in your Group achieving results that can be considered commendable.

The Group has 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, as much as enhancing its human resource capital. These initiatives have enabled the Group to maintain its strong financial standing and market leadership.

The Group achieved a turnover of KShs. 3.264 billion (2005: KShs. 3.059 billion) and a profit before tax of KShs. 499 million (2005: KShs. 140 million).

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 2006, of KShs. 1.25 per share of nominal value of KShs. 1.00 each subject to withholding tax, where applicable. The dividend will be payable

Chairman's Statement

on or about 8 July, 2007, to members on the Register at the close of business on 8 June, 2007. In addition, the Directors have recommended that subject to approval by the Capital Markets Authority, a bonus issue of one share for every 5 shares held at the close of business on 8 June, 2007, be made.

The Group has continued to maintain world class standards and innovation remains the key to the Group's success. We continue to invest substantially in physical product and human resource development.

In line with the Group's policy of continuing investment in the physical property, a number of rehabilitation projects were carried out at the units during the year.

At Nairobi Serena, the State Suite was rehabilitated and all the guest bedrooms were re-carpeted giving them a fresh look. The Mandhari and Café Maghreb Restaurants were also refurbished during the year.

During the period between 1st May and 30th June 2006, the Mombasa Serena Beach Hotel was closed as renovation works were carried out in the public areas and in 101 guest bedrooms. The renovated hotel reopened in July 2006 and has been well received by clients.

37 Amboseli Serena guest bedrooms were upgraded during the low season of 2006. The upgrade included creation of balconies, soft furnishing replacements, creation of family rooms and improved external path lighting. Another 33 rooms are being upgraded in the current low season of 2007.

On the human capital front, the Group has continued to invest substantially in the development of our human resources base. 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 realize their potential and optimise their performance. The Group's Management has taken a number of steps to engage sufficient human resources to meet the Group's fast growing needs and business expansion plans.

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

The Group remains a significant contributor to Governments' revenue in the East African region and paid KShs.450.28 million in direct and indirect taxes and KShs. 105.7 million to local authorities in royalty/rent payments during 2006. In addition, as a responsible corporate citizen, the Group 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. The Group is an equal opportunity employer and in this regard, the Board and Management ensure that the Group's employment policies and practices conform to international best practices and standards.

The exemplary and continued 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 Group would not have achieved the results recorded in year 2006.

Francis Okomo-Okello.
CHAIRMAN

Taarifa ya mwenyekiti

Ni fahari kuu kwangu kuwatangazia ripoti ya kwanza ya mwaka ya matokeo ya hesabu za pesa ya kampuni iliyofanyiwa mabadiliko ya TPS Eastern Africa Limited (TPSEAL) kwa kipindi kilichomalizika Desemba 31, 2006 na kumilikiwa na umma na kuanza shughuli zake katika soko la uuzaji hisa la Nairobi, Machi 15, 2006.

Halmashauri ilifurahi kuona kwamba, zoezi la ubadilishanaji hisa lilifaulu huku idadi ya wanahisa 6,568 kati ya jumla ya 8,584 wa Tourism Promotion Services Limited (TPSL) (ambayo zamani ilikuwa imeorodheshwa katika soko la Hisa la Nairobi) na sasa kuitwa Tourism Promotion Services (Kenya) Limited, wakibadili hisa zao kutoka TPSL hadi TPSEAL. Wakati wa kumalizika kwa zoezi hili, ni wanahisa 2,016 tu (asilimia 23 ya wanahisa) wakiwa na kiwango cha wastani cha umiliki wa hisa 1,218,538 (sawa na asilimia 3 ya jumla ya hisa) ambao walikuwa hawajabadilisha hisa zao kutoka TPSL hadi TPSEAL. Hii ilitokana na matatizo ya mawasiliano ambayo yalikuwa kikwazo cha utoaji Notisi hali ambayo ilikuwa nje ya uwezo wa wasimamizi. Nawashukuru wanahisa wote walioitikia mwito wa ubadilishanaji hisa kwani hatua hii inadhihirisha imani kubwa waliyo nayo kwa Kampuni siku za usoni. Ningependa kuchukua fursa hii pia kuwakaribisha nyote katika TPSEAL kampuni kubwa kanda hii ya Africa Mashariki. Ninaamini kwamba hatua hii ya wanahisa inatoa hakikisho la imani na matumaini kwa uongozi thabiti wa kampuni chini ya Halmashauri iliyojitolea ikishirikiana na timu ya wasimamizi inayowajibika ipasavyo.

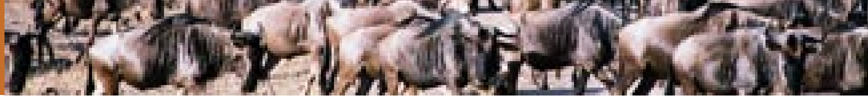
Mabadiliko yaliyofanywa yamepelekea kuimarika kwa hali ya kampuni kanda hii na kupanua njia za kupata mapato kama ilivyofikiriwa hapo awali. Inatarajiwa kwamba, mashaka mengi yaliyotokana na kuweka pamoja biashara nchini Kenya ambayo yameathiri biashara za kundi nyakati za nyuma, sasa yatadhibitiwa kwani, ni matumaini yetu kwamba, serikali za mataifa ya Afrika Mashariki zitaendelea mbele kuangazia na kuweka juhudi zenye lengo la kuimarisha biashara ya utalii kwa kubuni miundo misingi inayohitajika, kutoa huduma za usalama na mikakati itakayowezesha sekta hii kutoa ushindani katika huduma zake, kubuni nafasi za kazi na kupatikana ukuaji wa uchumi. Zaidi ya hayo, kundi linatarajia kupunguza gharama kutokana na mfumo wa kuweka usimamizi pamoja na kushughulikia viwango vya uchumi vitakazosaidia ukuaji wake kanda hii. Hizi ni habari njema sio tu kwa biashara bali pia kwa uchumi wa mataifa ya Tanzania na Kenya ambayo ukuaji wake kiuchumi hutegemea kwa kiwango utalii.

Imebainika kwamba, sekta ya utalii nchini Kenya imeshuhudia ongezeko la watalii mwaka uliopita kutoka masoko ya zamani na mapya. Mafanikio mema nchini Kenya na viwango bora vya biashara nchini Tanzania na Zanzibar vilipelekea kampuni yenu kupata matokeo yanayoweza kutajwa kuwa bora.

Kampuni inazidi kutafuta uwekezaji katika biashara mpya ikiwemo kutambua masoko mapya na pia mkakati wake wa kudhibiti gharama za uendeshaji bila kuathiri viwango vya ubora na kuimarisha mtaji kwa wafanyakazi wake. Mkakati huu umewezesha kundi kuthibiti hali yake ya kifedha na uongozi katika soko.

Kampuni ilipata jumla ya Shilingi Bilioni 3.264 (mwaka 2005: zilikuwa Shilingi Bilioni 3.059) na faida ya Shilingi Milioni 499 kabla ya kutozwa ushuru (Mwaka 2005: Shilingi Milioni 140).

Kutokana na matokeo haya ya kufana, Halmashauri ya wakurugenzi itapendekeza wakati wa mkutano mkuu wa pamoja wa mwaka



Taarifa ya mwenyekiti

kuidhinishwa kwa malipo ya mgawo wa mwisho wa faida wa mwaka 2006 wa Shilingi 1.25 kwa kila hisa yenye thamani ya Shilingi 1.00 kwa kila moja kwa kutegemea ushuru ulioshilikiwa pale inapohitajika. Mgawo huu utalipwa kabla au karibu na Julai 8, 2007 kwa wanachama ambao majina yao yatakuwa kwenye rejista kufikia kipindi cha biashara Juni 8, 2007. Zaidi ya hayo, wakurugenzi wamependekeza kwamba, baada ya kupata idhini kutoka Mamlaka ya Masoko ya Mitaji, kutoa malipo ya ziada kwa kila hisa 5 zilizoshikiliwa wakati wa kumalizika kwa kipindi cha biashara Juni 8, 2007.

Kampuni imezidi kudumisha viwango vya kimataifa huku uvumbuzi ukiwa swala muhimu kwa ufanisi wake. Tunazidi kuwekeza vyema kuimarisha hoteli zetu na maendeleo ya wafanyakazi.

Kwa mujibu wa sera za kampuni kuzidi kuwekeza katika uimarishaji wa hoteli zetu, miradi fulani ilifanyiwa ukarabati wakati wa kipindi hiki cha mwaka.

Katika Hoteli ya Nairobi Serena, chumba cha kifahari (State Suite) kilifanyiwa ukarabati huku vyumba vyote vya kulala wageni vikiwekwa mikeka mipya na kuvipa sura ya kuvutia. Kumbi za maankuli za Mandhari na Café Maghreb pia ziling'arishwa wakati wa kipindi hiki cha mwaka.

Baina ya Mei mosi na Juni 30, 2006, hoteli ya Mombasa Serena Beach ilifungwa wakati ukarabati ulipofanyiwa maeneo ya umma na vyumba 101 vya wageni kulala. Hoteli iliyofanyiwa ukarabati ilifunguliwa tena mwezi Julai 2006 na imekuwa ikipokelewa vyema na wageni.

Jumla ya vyumba 37 vya kulala katika hoteli ya Amboseli Serena viliimarishwa hali yake wakati wa msimu usio na watalii wengi mwaka 2006 (low season). Uimarishaji huu ulihusu kujengwa kwa roshani (balcony) kuweka fanicha mpya, kuanzisha vyumba vya familia na kuimarisha uwekaji taa za nje. Vyumba vingine 33 vinaimarishwa hali yake wakati wa kipindi hiki kisichokuwa na watalii wengi mwaka 2007.

Kwa mtaji wa wafanyakazi, kampuni inazidi kuwekeza katika maendeleo ya wafanyakazi kazi wake. Kumekuwa na mtazamo unaoendelea na sisitizo katika utoaji mafunzo na maendeleo kwa wafanyakazi. Kama hatua ya kujitolea kwetu kitaaluma, tumekuwa tukivutia na kuhifadhi wafanyakazi wa viwango vya juu na pia kuimarisha mazingira ya utendaji kazi ambayo yamewazesha kutambua umuhimu wao kuimarisha matokeo yao. Wasimamizi wa kampuni wamechukua hatua kadhaa kutenga raslimali za kutosha kuafikia mahitaji ya kampuni na mipango ya upanuzi.

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

Kampuni imekuwa msitari wa mbele kuchangia mfuko wa hazina ya serikali eneo la Afrika Mashariki na imelipa jumla ya Shilingi Milioni 450.28 kama ushuru kwa njia ya moja kwa moja au nyingine na wakati huo kulipa Shilingi Milioni 105.7 kwa mabaraza ya serikali za wilaya kama malipo ya mkataba/kodi mwaka wa 2006. Zaidi ya hayo, kama kampuni mzalendo, imekuwa ikizingatia viwango vya juu vya uhifadhi mazingira na kujihusisha na miradi ya kijamii na wakati huo kuinua hali ya uchumi kwa jamii inakohudumu. Kundi hili lina hadhi yake kama mwajiri na kutokana na hali hii, Halmashauri ya wasimamizi inahakikisha kwamba sera za uajiri zinaafikiana na viwango vya kimataifa.

Mchango unaotolewa na wasimamizi na wafanyakazi unatambuliwa vyema. 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 wao, kampuni haingepata matokeo ya kuridhisha mwaka wa 2006.

Francis Okomo-Okello,
MWENYEKITI

TPS EASTERN AFRICA LIMITED
Annual Report and Accounts 2006 9

Board of Directors

Mr. Francis Okomo Okello - Chairman

Mr. Okello joined the Board on 28 April 1986 and was elected Chairman on 13 March 2006. He holds a Bachelor of Laws Degree from the University of Dar-es-Salaam, is an Advocate of the High Court of Kenya, an Albert Parvin Fellow of the Princeton University, Woodrow Wilson School of Public and International Affairs 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 South 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, 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.

Mr. Mahmud Jan Mohamed - Managing Director

Mr. Jan Mohamed joined the Board on 13 March 2006. 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. Mr. Jan Mohamed 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).

Mr. Abdulmalek Virani – Finance Director

Mr. Virani joined the Board on 13 March 2006. He holds a Bachelor of Commerce Degree. He is a Chartered Accountant and a CPA (K). He has worked for TPS Group of Companies for 30 years rising to his current position of Finance Director. He served on Tax and Law Committee of ICPA (K). He has extensive training in Leadership and Management Techniques. He is a Director of Mountain Lodges Limited, TPS (Uganda) Limited, Tourism Promotion Services (Kenya) Limited and Tourism Promotion Services (Rwanda) Limited.

Mr. Ali Mufuruki – Non -executive Director

Mr. Mufuruki graduated in 1986 with a Bachelor of Science Degree in Mechanical Engineering Design from The Fachhochschule for Technology and Economics in Reutlingen, Germany. He chairs Infotech Investment Group Limited and manages, and has controlling interests in M & M Communications Limited, Infotech Computers Limited, W-Stores Company Limited and IIG Retail Limited.

He is the current Lead Chief Executive Officer of the Tanzania Chief Executives Officers' Roundtable that brings together Chief Executive Officers of the top 50 companies in Tanzania. He was the founding Chairman of the National Carrier – Air Tanzania Company Limited and is the Chairman of Mwananchi Communications Limited.

Mr. Mufuruki sits on the Boards of Nation Media Group Limited, Stanbic Bank Tanzania Limited, New York based Technoserve Inc. and is a trustee of Social Action Trust Fund. He is a member of the East Africa Regional Advisory Panel of Actis and is a member of the Presidential Investors Roundtable (IIRT) and a Henry Crown Fellow of the Aspen Institute (Co. USA) class of 2001. He is the Chairman of the Africa Leadership Initiative (ALI), East Africa. He was appointed a Director of TPS Eastern Africa Limited on 13 March 2006.

Mr. Ameer Kassim-Lakha - Non-executive Director

Mr. Kassim-Lakha was appointed a Director on 30 June 1971 and was the Chairman until 13 March 2006, when the Company became public and later listed on the Nairobi Stock Exchange. He is a fellow of the Institute of Chartered Accountants of England and Wales and a Fellow of the Institute of Certified Public Accountants of Kenya. He is an Associate Member of the Chartered Institute of Arbitrators and O.P.M. (Harvard). He is a past Chairman of the Association of Professional Societies in East Africa, the Institute of Certified Public Accountants of Kenya and of the Association of Accountants in East Africa. He is a Director of Jumbani Limited, Arkle Management Consultants Limited, Scarbro Investments Limited, Jenamee Investments Limited and Gambato (1975) Limited, the Crises Response Development Foundation Limited, Trustee –Kenya College of Accountancy (KCA).

Board of Directors

Dr. Ramadhani Dau – Non-executive Director

Dr. Dau joined the Board on 15 December 2004. He has been the Director-General of the National Social Security Fund, Tanzania since January 2001. Dr. Dau holds a PhD in Marketing from the Victoria University of Wellington, New Zealand, an MBA from the American University of Cairo and a Bachelor of Commerce Degree, Marketing option, from the University of Dar es Salaam. He held academic posts at the University of Dar es Salaam prior to joining the Tanzania Harbours Authority as Director of Marketing in 1992. He is Chairman of Tanzania Reinsurance Limited, a Director of Tourism Promotion Services (Tanzania) Limited and of the Jubilee Insurance Company (Tanzania) Limited.

Mr. Iain Cheyne – Non-executive Director

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 resigned as Director of TPS Eastern Africa Limited on 13 March 2006.

Mr. Jack Kisa – Non-executive Director

Mr. Kisa joined the Board on 13 March 2006. He holds a B.Sc. (Economics) (London) Degree and M.P.A. (Harvard) degree. He served as Principal Economist in Kenya's Ministry of Finance and Planning in the 1970s. In 1974, the United Nations appointed Mr. Kisa as the Director of the World Employment Programme for Africa, in which capacity he served until 1977. And in 1978, the World Bank appointed him as Senior Economist at its Headquarters in Washington D.C. During the period 1986-1991, Mr. Kisa served as Economic Advisor to the Southern African Development Community on secondment from the World Bank. He retired from the World Bank in 1995 and is currently engaged in private business. He is a Director of Diamond Trust Bank.

Mr. Jean-Philippe Prosper – Non-executive Director

Mr. Prosper is the Senior Manager, Eastern Africa for the International Finance Corporation. He has a B.SC. in Mathematics as well as a Degree in Civil Engineering, and holds an MBA (Finance and Monetary Economics). Mr. Prosper was appointed a Director on 30 June 2005. He is also a Director of Aureos East Africa Fund, Industrial Promotion Services Limited, and K-Rep Bank.

Mr. Jean-Louis Vinciguerra – Non-executive Director

Mr. Vinciguerra is a Graduate of the Institute of Political Studies and completed the Programme for Management Development from the Harvard Business School. He began his career in 1971 with Pechiney, one of the World leaders in Aluminium and Packaging, where he was Vice President of Finance, then Group Chief Financial Officer and finally Head of the Packaging Division. After leaving Pechiney, he acquired banking experience as a Senior Partner of Rothschild and Company, then BZW, (Barclays Group) and finally Indosuez as Head of Investment Banking Division for Asia-Pacific. In 1998 he joined France Telecom as Senior Executive Vice President and Chief Financial Officer. In May 2003, Mr. Vinciguerra joined the Aga Khan Fund for Economic Development as a Finance Director and was later appointed a Senior Financial Advisor.

Mr. John Harris - Alternate to Mr. Cheyne

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 ceased being an alternate Director on 13 March 2006.

Board of Directors

Mr. Kabir Hyderally – Non-executive Director

Mr. Hyderally holds a Bachelor of Commerce Degree and is a Fellow of the Institute of Chartered Accountants. He is a Director of three other companies in East Africa. He is currently the Executive Director of Industrial Promotion Services (Tanzania) Limited. He also serves as a member on Fiscal Affairs and Taxation Committee of Confederation of Tanzania Industries (CTI).

Mr. Kungu Gatabaki – Non-executive Director

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, Mr. Gatabaki started his working career with Firestone East Africa (1969) Ltd in 1972, briefly moving to Nation Media Group where he served as Marketing Assistant before joining CDC Group Plc in 1974 where he worked till retirement in 2004. He serves on various Boards including Chairman of Housing Finance, Chairman of MicroAfrica, Director of Mumias Sugar Company Limited, Development Bank of Kenya, Grain Bulk Handlers Limited, Shelter Afrique, Uganda Micro Finance among others.

Mr. Mahmood Manji – Non-executive Director

Mr. Manji is the Chairman of the Diamond Trust Banks in East Africa, Property Development and Management Limited and a Director of the Kenya Civil Aviation Authority. A career banker, he is the former Group Chief Executive of the Diamond Trust Bank and CFC Bank Ltd. Mr. Manji is a member of the Institute of Chartered Accountants in England and Wales and the International Who's Who of Professionals.

Mr. Nizar Shariff- Non-executive

Mr. Shariff is a Chartered Accountant (England and Wales). He is the Project Development Director for Serena Group in Pakistan, Afghanistan and Tajikistan, and a Director of Property Development and Management Limited. Mr. Shariff resigned as a Director on 13 March 2006.

Mr. Zulfikar K. Mohamed-Non-executive Director

Mr. Mohamed was appointed a Director on 13 March 2006. He holds a Bachelor of Science (Economics) Degree. He is a fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. He resigned as a Director on 1 November 2006

Damaris Angulu (Mrs.) – Company Secretary

Appointed on 17 March 2003, Mrs. Angulu holds a Bachelor of Law (LLB) Degree from the University of Nairobi and Diploma from the Kenya School of Law. Prior to joining Serena, she had served as a Legal Counsel at Mwangi Njenga & Co. Advocates, Kantai & Co. Advocates, and Muthoga Gaturu & Co. Advocates. She is an Advocate of the High Court of Kenya, a Member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya. Mrs. Angulu has completed her Master of Business Administration (MBA) 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 realisation of long term shareholder value while taking into account the interests of other stakeholders.

TPS Eastern Africa Limited recognises 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.

A majority of TPS Eastern Africa Limited's Board consists of non-executive independent Directors. There are two executive Directors on the Board, 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 four 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 senior 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.

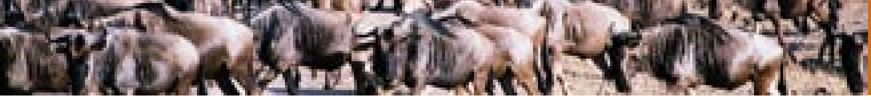
Audit and Finance Committee:

In 1997, the Board established an Audit and Finance Committee. Its membership comprises of non-executive Directors of the Company, 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 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.



Corporate Governance Statement *(continued)*

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. The Company releases periodic news letters covering corporate social responsibility activities carried out by the Company.

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 end year results through the press and regulatory bodies, and monthly disclosures of shareholding statistics to the Nairobi Stock Exchange and Capital Markets Authority. Half year results are communicated through regulatory bodies.

Shareholders have direct access to the Company and its Registrars, and all their enquiries 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.

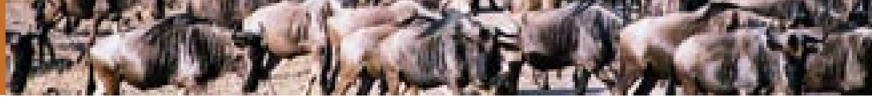
DIRECTORS' EMOLUMENTS AND LOANS:

The aggregate amounts of emoluments paid to Directors during financial year 2006 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 27 to the financial statements.

DIRECTORS' INTEREST:

	Name of Director	No. of Shares	% Shareholding
1.	Mr. Francis Okomo-Okello	868	0.00098%
2.	Mr. Abdulmalek Virani	868	0.00098%
3.	Mr. Mahmood Manji	868	0.00098%
4.	Mr. Ameer Kassim-Lakha	868	0.00098%



Corporate Governance Statement *(continued)*

SHAREHOLDERS' PROFILE AS AT 31ST DECEMBER 2006

SHAREHOLDER CATEGORIES

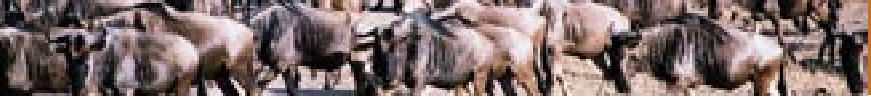
Category	Number of Shareholders	Number of shares held	%
Local individual investors	7,390	13,510,367	15.31
Local corporate investors	513	23,004,708	26.08
East African individual investors	9	17,409	0.02
East African corporate investors	3	1,180,618	1.34
Foreign individual investors	58	668,652	0.76
Foreign corporate investors	8	49,838,864	56.49
	7,981	**88,220,618**	**100**

TEN LARGEST SHAREHOLDERS:

	Name of shareholder	Number of Shares	%
1	Aga Khan Fund for Economic Development	39,423,756	44.69
2	International Finance Corporation	10,022,286	11.36
3	The Jubilee Insurance Company Limited	5,395,800	6.12
4	Industrial Promotion Services (Kenya) Limited	4,581,600	5.19
5	Property Development and Management Limited	3,933,000	4.46
6	Craysell Investments Limited	1,296,783	1.47
7	Premchand Kanji Shah	1,363,500	1.55
8	Karim Jamal	1,300,100	1.47
9	National Social Security Fund (Tanzania)	1,157,118	1.31
10	Barclays Nominee Limited A/C 9230	715,500	0.81
		69,189,443	**78.43%**

SHARES DISTRIBUTION:

Shares Range	Number of Shareholders	Number of Shares Held	%
1-500	1,160	288,180	0.33
501-5000	6,429	6,326,770	7.17
5001-10000	180	1,414,902	1.60
10001-100000	180	5,749,831	6.52
100001-1000000	23	5,966,992	6.76
1000001 and Over	9	68,473,943	77.62
	7,981	**88,220,618**	**100**



Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2006, which disclose the state of affairs of the group and of the company.

PRINCIPAL ACTIVITIES

The principal activities of the group are the ownership and operation of hotel and lodge facilities in Kenya and Tanzania serving the business and tourist markets.

RESULTS AND DIVIDEND

The net profit for the year of Shs 309,243,971 has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 110,275,773 (2005: Shs 31,020,000).

DIRECTORS

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

F O Okello	(Chairman)
M Jan Mohamed	(Appointed 13 March 2006)
A J Virani	(Appointed 13 March 2006)
A Mufuruki	(Appointed 13 March 2006)
A R Kassim-Lakha	
Dr R K Dau	
I Cheyne	(Resigned 13 March 2006)
J Harris	
(Alternate to I. Cheyne)	(Resigned 13 March 2006)
J Kisa	(Appointed 13 March 2006)
J L Vinciguerra	(Appointed 13 March 2006)
J P Prosper	
K Bandawe	
(Alternate to Dr R.K. Dau)	
K Gatabaki	
K Hyderally	(Appointed 13 March 2006)
M P Manji	
N Shariff	(Resigned 13 March 2006)
Z K Mohamed	(Appointed 13 March 2006 and resigned 1 November 2006)

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Kenyan Companies Act.

By order of the Board

SECRETARY
23 March 2007

Statement of Directors' Responsibility

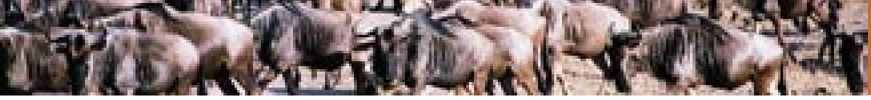
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss. It also requires the directors to ensure 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 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 group and of the company and of the group's profit or loss in accordance with International Financial Reporting Standards. 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 designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Francis Okomo-Okello
Chairman
23 March 2007

Mahmud Jan Mohamed
Managing Director
23 March 2007



Report of the Independent Auditor

to the Members of TPS Eastern Africa Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of TPS Eastern Africa Limited (the Company) and its subsidiaries (together, the group), as set out on pages 19 to 50. These financial statements comprise the consolidated balance sheet at 31 December 2006 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the Company standing alone as at 31 December 2006 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the Company at 31 December 2006 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

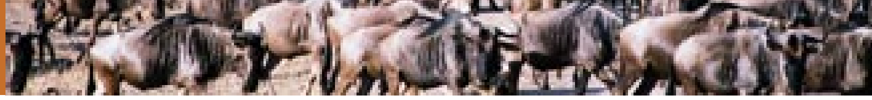
i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;

iii) the company's balance sheet is in agreement with the books of account.

PRICEWATERHOUSECOOPERS

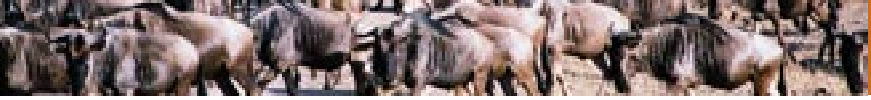
Certified Public Accountants
23 March 2007
Nairobi



Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Notes	2006 Shs'000	2005 Shs'000
Sales	5	3,264,006	3,059,477
Other operating income		238,428	195,994
Inventory expensed		(672,972)	(654,203)
Employee benefits expense	7	(677,221)	(637,910)
Other operating expenses		(1,264,098)	(1,250,564)
Profit before depreciation, interest and income tax expense		888,143	712,794
Depreciation on property, plant and equipment	17	(205,973)	(193,141)
Operating profit	6	682,170	519,653
Net finance costs	8	(187,519)	(382,253)
Share of profit of associates	22	3,954	2,900
Profit before income tax		498,605	140,300
Income tax expense	9	(165,945)	(117,355)
Profit for the year (of which net expenses of Shs 2,520,000 (2005: Shs 582,000) have been dealt with in the accounts of the Company)		332,660	22,945
Attributable to:			
Equity holders of the Company		309,244	(21,731)
Minority interest		23,416	44,676
		332,660	22,945
Earnings per share for profit attributable to the equity holders of the Company			
- basic and diluted (Shs per share)	10	3.61	(0.28)
Dividends:			
Proposed final dividend for the year	11	110,276	31,020



Consolidated Balance Sheet

for the year ended 31 December 2006

	Notes	2006 Shs'000	2005 Shs'000
Capital and reserves attributable to the Company's equity holders			
Share capital	12	88,221	77,682
Share premium	12	1,906,676	1,306,696
Other reserves	13	539,766	209,963
Retained earnings		716,546	473,162
Proposed dividend	11	110,276	31,020
		3,361,485	2,098,523
Minority interest		42,507	289,517
Total equity		3,403,992	2,388,040
Non-current liabilities			
Borrowings	14	1,433,539	1,564,292
Deferred income tax liability	15	526,500	229,265
Provisions for liabilities and charges	16	117,493	106,332
Total non-current liabilities		2,077,532	1,899,889
Total equity and non-current liabilities		5,481,524	4,287,929
Non-current assets			
Property, plant and equipment	17	3,873,561	3,080,657
Prepaid operating lease rentals	18	12,893	13,053
Intangible assets	19	1,039,255	733,218
Investment in associates	22	25,472	21,518
Deferred income tax asset	15	196,814	264,211
		5,147,995	4,112,657
Current assets			
Inventories		180,192	175,933
Receivables and prepayments	23	630,784	616,271
Cash and cash equivalents	24	179,558	118,654
		990,534	910,858
Current liabilities			
Payables and accrued expenses	25	611,226	476,438
Current income tax		17,834	8,608
Borrowings	14	27,945	250,540
		657,005	735,586
Net current assets		333,529	175,272
		5,481,524	4,287,929

The financial statements on pages 19 to 50 were approved for issue by the board of directors on 23 March 2007 and signed on its behalf by:

Francis Okomo-Okello
Chairman

Mahmud Jan Mohamed
Managing Director

Company Balance Sheet

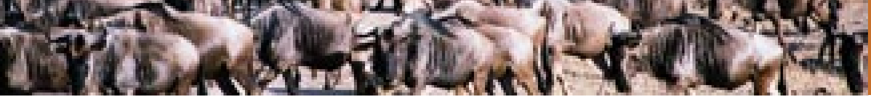
for the year ended 31 December 2006

	Notes	2006 Shs'000	2005 Shs'000
Equity			
Share capital	12	88,221	77,682
Share premium	12	1,906,676	1,306,696
Retained earnings		347,245	48,369
Proposed dividend	11	110,276	31,020
Total equity		2,452,418	1,463,767
Non-current assets			
Investment in subsidiaries	21	2,445,379	1,422,456
Current assets			
Receivables and prepayments	23	8,505	94,279
Cash and cash equivalents	24	-	65
		8,505	94,344
Current liabilities			
Payables and accrued expenses	25	1,348	52,819
Bank overdraft	14	118	214
		1,466	53,033
Net current assets		7,039	41,311
		2,452,418	1,463,767

The financial statements on pages 19 to 50 were approved for issue by the board of directors on 23 March 2007 and signed on its behalf by:

Francis Okomo-Okello
Chairman

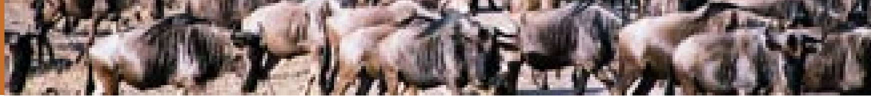
Mahmud Jan Mohamed
Managing Director



Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

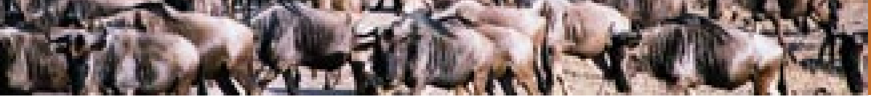
	Notes	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Minority interest Shs'000	Total Shs'000
Year ended 31 December 2005								
At start of year		77,682	1,306,696	312,081	508,965	27,298	254,769	2,487,491
Transfer of excess depreciation to retained earnings		-	-	(4,305)	4,305	-	-	-
Deferred income tax on transfer		-	-	1,291	(1,291)	-	-	-
Currency translation differences		-	-	(99,104)	13,934	-	-	(85,170)
Net (losses)/gains recognised directly in equity		-	-	(102,118)	16,948	-	-	(85,170)
Net (loss)/profit		-	-	-	(21,731)	-	44,676	22,945
Dividends:								
- final for 2004 paid	11	-	-	-	-	(27,298)	(9,928)	(37,226)
- proposed for 2005	11	-	-	-	(31,020)	31,020	-	-
At end of year		77,682	1,306,696	209,963	473,162	31,020	289,517	2,388,040
Year ended 31 December 2006								
At start of year		77,682	1,306,696	209,963	473,162	31,020	289,517	2,388,040
Revaluation during the year		-	-	606,643	-	-	184,596	791,239
Transfer of excess depreciation to retained earnings		-	-	(25,765)	25,765	-	-	-
Deferred income tax on revaluation		-	-	(181,993)	-	-	(55,379)	(237,372)
Deferred income tax on transfer		-	-	7,730	(7,730)	-	-	-
Deferred income tax on transfer of pre-acquisition reserves		-	-	-	15,666	-	-	15,666
Currency translation differences		-	-	(76,812)	10,715	-	-	(66,097)
Net gains recognised directly in equity		-	-	329,803	44,416	-	129,217	503,436
Net profit		-	-	-	309,244	-	23,416	332,660
Issue of shares		10,539	599,980	-	-	-	-	610,519
Acquisition of minority shareholding		-	-	-	-	-	(376,179)	(376,179)
Dividends:								
- final for 2005 paid	11	-	-	-	-	(31,020)	(23,464)	(54,484)
- proposed for 2006	11	-	-	-	(110,276)	110,276	-	-
At end of year		88,221	1,906,676	539,766	716,546	110,276	42,507	3,403,992



Company Statement of Changes in Equity

for the year ended 31 December 2006

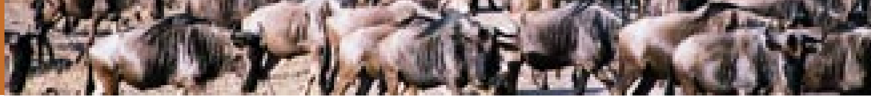
	Notes	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2005						
At start of year		77,682	1,306,696	47,353	27,298	1,459,029
Net profit during the year		-	32,036	-	-	32,036
Dividends:						
- final for 2004		-	-	-	(27,298)	(27,298)
- proposed for 2005		-	(31,020)	31,020	-	-
At end of year		77,682	1,306,696	48,369	31,020	1,463,767
Year ended 31 December 2006						
At start of year		77,682	1,306,696	48,369	31,020	1,463,767
Net profit during the year		-	-	409,152	-	409,152
Issue of shares		10,539	599,980	-	-	610,519
Dividends:						
- final for 2005	11	-	-	-	(31,020)	(31,020)
- proposed for 2006	11	-	-	(110,276)	110,276	-
At end of year		88,221	1,906,676	347,245	110,276	2,452,418



Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Notes	2006 Shs'000	2005 Shs'000
Operating activities			
Cash generated from operations	26	1,013,169	427,360
Interest received		9,274	1,733
Interest paid		(161,715)	(182,552)
Income tax paid		(38,183)	(115,842)
Net cash generated from operating activities		822,545	130,699
Investing activities			
Purchase of property, plant and equipment	17	(375,201)	(258,854)
Proceeds from disposal of property, plant and equipment		5,876	6,280
Cash outflow on acquisition	20	(71,697)	-
Short term bank deposits		(29,395)	(14,330)
Net cash used in investing activities		(470,417)	(266,904)
Financing activities			
Proceeds from long-term borrowings		409,945	1,881,000
Repayments on long-term borrowings		(558,599)	(1,529,160)
(Repayment)/proceeds of commercial paper		(94,523)	94,523
Dividends paid to Company's shareholders		(31,020)	(27,298)
Dividends paid to minority interests		(23,464)	(9,928)
Net cash used in financing activities		(297,661)	409,137
Net increase in cash and cash equivalents		54,467	272,932
Movement in cash and cash equivalents			
At start of year		64,829	(246,947)
Increase in cash		54,467	272,932
Effects of exchange rate changes on cash and cash equivalents		2,786	38,844
At end of year	24	122,082	64,829



Notes to the financials

for the year ended 31 December 2006

1 General information

TPS Eastern Africa 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:

Williamson House,
4th Floor,
4th Ngong Avenue
PO Box 48690-00100
NAIROBI,
KENYA

The Company's shares are listed on the Nairobi Stock Exchange.

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 years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

In 2006, the following new and revised standards and interpretations became effective for the first time and have been adopted by the Group where relevant to its operations.The comparative figures have been restated as required, in accordance with the relevant requirements.

- IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 Amendment – The Fair Value Option
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts
- IFRS 6 – Exploration for and Evaluation of Mineral Resources
- IFRIC 4 – Determining whether an Arrangement contains a Lease
- IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

The Directors assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Standards, interpretations and amendments to published standards that are not yet effective

The following amendment to an existing standard and new standard will be mandatory for the Group's accounting periods beginning on or after 1 January 2007, but which the Group has not early adopted:

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the Group's capital and how it manages capital.

- IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Notes *(continued)*

for the year ended 31 December 2006

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses 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 carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

(ii) Transactions and balances in group entities

Foreign currency transactions are translated into the functional currency of the respective entity 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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(iii) Consolidation of group entities

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(II) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income expenses are translated at the dates of the transactions); and

(III) all resulting exchange differences are recognised as a separate component of equity (translation reserve).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

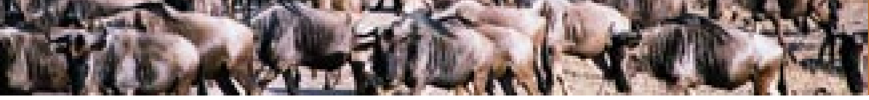
(e) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised in the period in which the group delivers products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.



Notes *(continued)*

for the year ended 31 December 2006

(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 fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group 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 - 4 years
Motor vehicles	4 years
Furniture and fittings	8 years
Lift installations	10 years
Laundry equipment	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(g) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each reporting segment.

(h) Financial assets

The Group classifies its financial assets under loans and receivables. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, Loans and receivables are included in receivables and prepayments in the balance sheet.

Loans and receivables are initially recorded at cost and subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

(i) 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.

(j) 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 business, less the costs of completion and selling expenses.

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the 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.

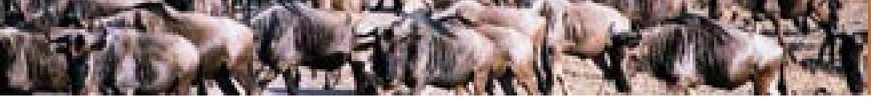
(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Employee benefits

(i) Retirement benefit obligations

For unionised employees, the group 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.



Notes *(continued)*

for the year ended 31 December 2006

(m) Employee benefits (continued)

The group 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 group and the employees. The group and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. The group'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 group 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.

(n) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

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 income 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 income 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 income tax liability is settled.

Deferred income 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Dividends

Dividends payable to the Company's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(q) Comparatives

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

3 Financial risk management

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

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group also has policies that limit the amount of credit exposure to any financial institution.

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

Impairment of goodwill

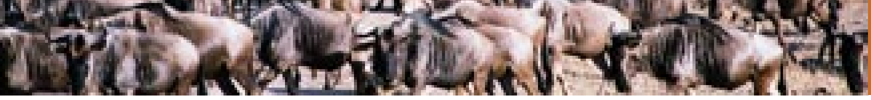
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 19).

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

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



Notes *(continued)*

for the year ended 31 December 2006

5 Segment information

Primary reporting format – geographical segments

The Group has two geographical segments – Kenya and Tanzania. The group subsidiary in South Africa operates as a sales agency and does not constitute a separately reportable segment.

Sales (allocated based on the country in which the customer is located)

	2006 Shs'000	2005 Shs'000
Kenya	2,093,403	1,969,769
Tanzania	1,170,603	1,089,708
	3,264,006	3,059,477

Total assets (allocated based on the country in which the assets are located)

	2006 Shs'000	2005 Shs'000
Kenya	4,063,180	2,766,442
Tanzania	2,028,274	2,257,073
Others	47,075	-
	6,138,529	5,023,515

Capital expenditure (allocated based on the country in which the assets are located)

	2006 Shs'000	2005 Shs'000
Kenya	336,432	240,109
Tanzania	38,769	18,744
	375,201	258,853

The segment results for the year ended 31 December 2006 are as follows:

	Kenya Shs'000	Tanzania Shs'000	Group total Shs'000
Sales	2,093,403	1,170,603	3,264,006
Operating profit	351,756	330,414	682,170
Finance costs – net	(18,221)	(169,298)	(187,519)
Share of profit of associates	3,954	-	3,954
Profit before income tax	337,489	161,116	498,605
Income tax expenses	(107,272)	(58,673)	(165,945)
Minority interest	(23,416)	-	(23,416)
Profit for the year	206,801	102,443	309,244

Notes *(continued)*

for the year ended 31 December 2006

5 Segment information (continued)

The segment results for the year ended 31 December 2005 are as follows:

	Kenya Shs'000	Tanzania Shs'000	Group total Shs'000
Sales	1,969,769	1,089,708	3,059,477
Operating profit	295,089	224,564	519,653
Finance costs – net	(18,156)	(364,097)	(382,253)
Share of profit of associates	2,900	-	2,900
Profit/(loss) before income tax	279,833	(139,533)	140,300
Income tax expenses	(90,527)	(28,812)	(117,355)
Minority interest	(44,676)	-	(44,676)
Profit/(loss) for the year	146,614	(168,345)	(21,731)

Other segment items included in the profit and loss account are:

	Year ended 31 December 2006			Year ended 31 December 2005		
	Kenya Shs'000	Tanzania Shs'000	Group Shs'000	Kenya Shs'000	Tanzania Shs'000	Group Shs'000
Depreciation	131,727	74,246	205,973	111,387	81,754	193,141
Impairment of trade receivables	7,276	478	7,754	873	2,447	3,320

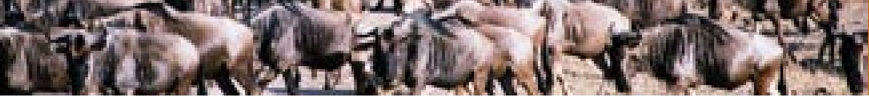
Secondary reporting format – business segments

The group only has one business segment, which is the operation of hotels and lodges.

6 Operating profit

The following items have been (credited)/charged in arriving at operating profit:

	Group	
	2006 Shs'000	2005 Shs'000
Profit on disposal of property, plant and equipment	(3,686)	(1,900)
Foreign currency exchange losses / (gains) on trading balances	16,157	(40,521)
Prepaid operating lease rentals expensed	160	160
Receivables – provision for impairment losses	7,754	3,320
Auditors' remuneration (Company: 2006: Shs 1,435,560 2005:Shs 1,254,000)	7,579	6,155



Notes *(continued)*

for the year ended 31 December 2006

7 Employee benefits expense

	Group	
	2006 Shs'000	**2005 Shs'000**
The following items are included within employee benefits expense:		
Retirement benefits costs:		
- Gratuity charge (Note 16)	15,992	18,706
- Defined contribution scheme	20,022	11,414
- National Social Security Funds	13,390	16,456

8 Net finance costs

	Group	
	2006 Shs'000	**2005 Shs'000**
Interest expense:		
- bank borrowings	(160,274)	(176,502)
- related party loans	(473)	-
- commercial paper	(968)	(6,050)
	(161,715)	(182,552)
Interest income:		
- related party loans	7,162	-
- staff loans	2,112	1,733
	9,274	1,733
Net foreign exchange losses	(35,078)	(201,434)
Net finance costs	(187,519)	(382,253)

9 Income tax expense

	Group	
	2006 Shs'000	**2005 Shs'000**
Current income tax	47,409	52,730
Deferred income tax (Note 15)	118,536	64,625
Income tax expense	165,945	117,355

Notes *(continued)*

for the year ended 31 December 2006

9 Income tax expense (continued)

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

	2006 Shs'000	2005 Shs'000
Profit before income tax	498,605	140,300
Tax calculated at domestic rates applicable to profits in the respective countries - 30% (2005 - 30%)	149,582	42,090
Tax effect of:		
Income not subject to tax	(1,676)	(1,466)
Expenses not deductible for tax purposes	15,692	14,665
Over-provision of deferred income tax in prior year	4,750	1,643
Under-provision of current income tax in prior year	(2,403)	-
Effect of changes in tax legislation	-	60,423
Income tax expense	165,945	117,355

10 Earnings per share

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

The Company issued 10,538,915 shares in March 2006 for the acquisition of 20.18% of Tourism Promotion Services (Kenya) Limited through share swap to the general public.

	2006	2005
Profit/(loss) attributable to equity holders of the Company (Shs 000s)	309,244	(21,731)
Weighted average number of ordinary shares in issue (thousands)	85,593	77,682
Basic earnings per share (Shs)	3.61	(0.28)

There were no potentially dilutive shares outstanding at 31 December 2006 or 2005. Diluted earnings per share are therefore the same as basic earnings per share.

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. Qualifying shares for 2006 were 88,220,618 shares (2005: 77,681,703 shares). A dividend in respect of qualifying shares for the year ended 31 December 2006 of Shs 1.25 per share (2005: Shs 0.40) amounting to Shs 110,275,773 (2005: Shs 31,020,000) is to be proposed at the forthcoming annual general meeting.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

Notes *(continued)*

for the year ended 31 December 2006

12 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 January and 31 December 2005	77,682	77,682	1,306,696
Balance at 1 January 2006	77,682	77,682	1,306,696
Issue of shares – share swap for acquisition of subsidiary	10,539	10,539	599,980
Balance at 31 December 2006	88,221	88,221	1,906,676

The total authorised number of ordinary shares is 100,000,000 with a par value of Shs 1.00 per share. All issued shares are fully paid.

On 31 March 2006, a total of 10,538,915 shares were issued as consideration for an additional 20.18% shares in Tourism Promotion Services (Kenya) Limited.

13 Other reserves - Group

	Revaluation surplus Shs'000	Translation reserve Shs'000	Total Shs'000
Balance at 1 January 2005	312,081	-	312,081
Transfer of excess depreciation	(4,305)	-	(4,305)
Deferred income tax on transfer	1,291	-	1,291
Currency translation differences	-	(99,104)	(99,104)
Balance at 31 December 2005	309,067	(99,104)	209,963
Revaluation during the year	606,643	-	606,643
Deferred income tax on revaluation	(181,993)	-	(181,993)
Transfer of excess depreciation	(25,765)	-	(25,765)
Deferred income tax on transfer	7,730	-	7,730
Currency translation differences	-	(76,812)	(76,812)
Balance at 31 December 2006	715,682	(175,916)	539,766

The revaluation surplus represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable.

Translation reserve arises on revaluation of the group's investment in foreign subsidiaries.

Notes *(continued)*

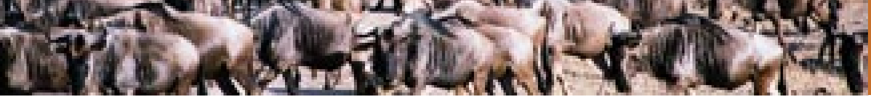
for the year ended 31 December 2006

14 Borrowings

	Group		Company	
	2006	**2005**	**2006**	**2005**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
The borrowings are made up as follows:				
Non-current				
Bank borrowings	1,433,539	1,564,292	-	-
Current				
Bank overdraft	13,751	39,495	118	214
Bank borrowings	14,194	98,657	-	-
Other loans	-	17,865	-	-
Commercial paper	-	94,523	-	-
	27,945	250,540	118	214
Total borrowings	1,461,484	1,814,832	118	214

The borrowings include secured liabilities (bank borrowings and overdraft) in a total amount of Shs 1,461,484,000 (2005: Shs 1,702,444,000). Bank loans and overdrafts are secured by legal charges over certain land, buildings and other assets of the group in addition to a floating debenture over all assets of Tourism Promotion Services (Kenya) Limited and a certificate of shares in the name of TPS Eastern Africa Limited.

The effective interest rates at the year-end were as follows:		Group 2006	Group 2005
Kenya			
- bank overdrafts:	Kenya Shillings	-	9.33%
- bank borrowings:	US Dollars	-	5.19%
	Kenya Shillings	7.90%	8.30%
- commercial paper:	US Dollars	-	4.87%
	Kenya Shillings	-	8.69%
Tanzania			
- bank overdrafts:	US Dollars (3% above 3-month LIBOR)	6.50%	-
	Tanzania Shillings	-	12.00%
- bank borrowings:	US Dollars	6.98%	8.37%
	Tanzania Shillings – Barclays Bank Tanzania Limited	14.96%	-
	Tanzania Shillings – National Bank of Commerce Tanzania Limited	10.00%	-
Zanzibar			
- bank overdrafts:	US Dollars	-	4.20%
	Tanzania Shillings	12.50%	-
- bank borrowings:	Tanzania Shillings	12.50%	11.00%



Notes *(continued)*

for the year ended 31 December 2006

14 Borrowings (continued)

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 Group at the balance sheet date.

It is impracticable to assign fair values to the Group's long term liabilities due to inability to forecast interest rate and foreign exchange rate changes.

Maturity of non-current borrowings:

	Group	
	2006 Shs'000	**2005 Shs'000**
Between 1 and 2 years	535,478	148,621
Between 2 and 5 years	898,061	1,058,831
Over 5 years	-	356,840
	1,433,539	1,564,292

The Group has the following undrawn borrowing facilities:

	2006 Shs'000	**2005 Shs'000**
Floating rate		
- expiring within one year	-	-
- expiring beyond one year	-	72,350

The facilities expiring within one year are annual facilities subject to review at various dates during the year 2006.

15 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:

Year ended 31 December 2005	**Movement in deferred tax liability Shs'000**	**Movement in deferred tax asset Shs'000**	**Total Shs'000**
At start of year	193,452	(342,861)	(149,409)
Income statement charge (Note 9)	35,813	28,812	64,625
Currency translation differences charged to equity	-	49,838	49,838
At end of year	229,265	(264,211)	(34,946)
Year ended 31 December 2006			
At start of year	229,265	(264,211)	(34,946)
Income statement charge (Note 9)	59,863	58,673	118,536
Charge to equity on revaluation of buildings	237,372	8,724	246,096
At end of year	526,500	(196,814)	329,686

Notes *(continued)*

for the year ended 31 December 2006

15 Deferred income tax (continued)

The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group 2006 Shs'000	Group 2005 Shs'000
Deferred income tax assets	196,814	264,211
Deferred income tax liabilities	(526,500)	(229,265)

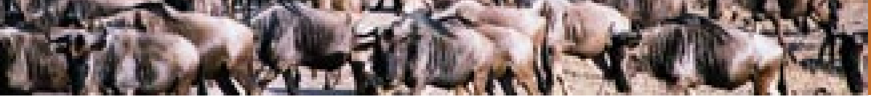
Deferred income tax liability (Tourism Promotion Services (Kenya) Limited)

	At 1.1.2006 Shs'000	Charged/ (credited) to Profit & Loss Acc. Shs'000	Charged/ (credited) to equity Shs'000	At 31.12.2006 Shs'000
Deferred income tax liabilities				
Property, plant & equipment				
- on historical cost	90,752	68,363	-	159,115
- on revaluation surpluses	166,807	(8,341)	237,372	395,838
Unrealised exchange gains	8,123	989	-	9,112
	265,682	61,011	237,372	564,065
Deferred income tax assets				
Provisions	(36,061)	(1,504)	-	(37,565)
Interest payable	(356)	(356)	-	-
	(36,417)	(1,148)	-	(37,565)
Net deferred income tax liability	229,265	59,863	237,372	526,500

Deferred income tax asset (Tourism Promotion Services (Tanzania) Limited and Tourism Promotion Services (Zanzibar) Limited)

	1.1.2006 Shs'000	Charged/ (credited) to Profit & Loss Acc. Shs'000	Translation difference Shs'000	31.12.2006 Shs'000
Deferred income tax liabilities				
Property revaluation	232,298	17,458	(4,222)	245,534
Deferred income tax assets				
Accelerated tax depreciation	40,702	-	-	40,702
Tax losses carried forward	(491,441)	81,291	6,110	(404,040)
Other deductible temporary differences	(45,770)	(37,570)	4,330	(79,010)
	(496,509)	43,721	10,440	(442,348)
Net deferred income tax asset	(264,211)	61,179	6,218	(196,814)

Deferred income tax of Shs 7,730,000 (2005: Shs 1,291,487) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.



Notes *(continued)*

for the year ended 31 December 2006

16 Provisions for liabilities and charges – Non - current

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:

	Group	
	2006 Shs'000	**2005 Shs'000**
At start of year	106,332	91,729
Additional provisions	15,992	18,706
Utilised during year	(4,831)	(4,103)
	117,493	106,332

17 Property, plant and equipment - Group

	Land & buildings Shs'000	**Plant & machinery Shs'000**	**Vehicles & equipment Shs'000**	**Capital work in progress Shs'000**	**Total Shs'000**
At 1 January 2005					
Cost or valuation	3,735,110	1,118,676	93,001	31,801	4,978,588
Accumulated depreciation	(715,569)	(844,598)	(69,326)	-	(1,629,493)
Net book amount	3,019,541	274,078	23,675	31,801	3,349,095
Year ended 31 December 2005					
Opening net book amount	3,019,541	274,078	23,675	31,801	3,349,095
Additions	132,285	100,603	14,187	11,779	258,854
Disposals	-	(3,517)	(7)	(855)	(4,379)
Transfer	26,650	(664)	-	(27,314)	-
Depreciation charge	(97,969)	(82,918)	(12,254)	-	(193,141)
Translation differences	(321,402)	(7,983)	(302)	(85)	(329,772)
Closing net book amount	2,759,105	280,927	25,299	15,326	3,080,657
At 31 December 2005					
At cost / revaluation	3,894,045	1,216,426	107,181	15,411	5,233,063
Accumulated depreciation	(813,538)	(927,516)	(81,580)	-	(1,822,634)
Translation differences	(321,402)	(7,983)	(302)	(85)	(329,772)
Net book amount	2,759,105	280,927	25,299	15,326	3,080,657
Year ended 31 December 2006					
Opening net book amount	2,759,105	280,927	25,299	15,326	3,080,657
Additions	236,924	87,677	64,581	(13,981)	375,201
Disposals	-	(2,190)	(93)	-	(2,283)
Depreciation charge	(109,969)	(68,877)	(27,127)	-	(205,973)
Revaluation	791,239	-	-	-	791,239
Translation differences	(161,901)	(31,173)	27,794	-	(165,280)
Closing net book amount	3,515,398	266,364	90,454	1,345	3,873,561

Notes *(continued)*

for the year ended 31 December 2006

17 Property, plant and equipment – Group (continued)

	Land & buildings Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
At 31 December 2006					
At cost / revaluation	4,922,208	1,301,914	171,669	1,430	6,397,221
Accumulated depreciation	(923,507)	(996,393)	(108,707)	-	(2,028,607)
Translation differences	(483,303)	(39,157)	27,492	(85)	(495,053)
Net book amount	3,515,398	266,364	90,454	1,345	3,873,561

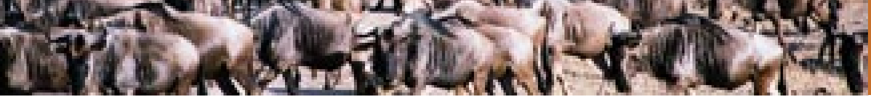
In the opinion of the directors, there is no impairment of property, plant and equipment. Land and buildings for Tourism Promotion Services (Tanzania) Limited & Tourism Promotion Services (Zanzibar) Limited were last revalued on 31 December 2004 while those of Tourism Promotion Services (Kenya) Limited were revalued at the beginning of the year on 2 January 2006 by independent professional valuers. The valuations were carried out by Gimco Africa for Tanzania and Zanzibar, and C.P. Robertson-Dunn for Kenya. Both companies are 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 income tax was credited to the revaluation surplus in shareholders' equity.

Included under land and buildings are lodges with a net book value of Shs 1,791,436,189 (2005: 1,606,610,064) constructed on land which is leased from various local councils.

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

	Group	
	2006 Shs'000	2005 Shs'000
Cost	2,009,739	1,887,962
Accumulated depreciation	(595,889)	(544,442)
Net book amount	1,413,950	1,343,520



Notes *(continued)*

for the year ended 31 December 2006

18 Prepaid operating lease rentals

	Group 2006 Shs'000	Group 2005 Shs'000
At start of the year	13,053	13,213
Amortisation charge for year	(160)	(160)
At end of year	12,893	13,053

	Group 2006 Shs'000	Group 2005 Shs'000
Cost of prepaid operating lease rentals	15,800	15,800
Accumulated amortisation	(2,907)	(2,747)
	12,893	13,053

19 Intangible assets - Group

	Goodwill Shs'000
At start and end of 2005	733,218
Year ended 31 December 2006	
Opening net book amount	733,218
Additions (Note 20)	306,037
Closing net book amount	1,039,255
At 31 December 2006	
Cost	1,039,255
Accumulated amortisation and impairment	-
Net book amount	1,039,255

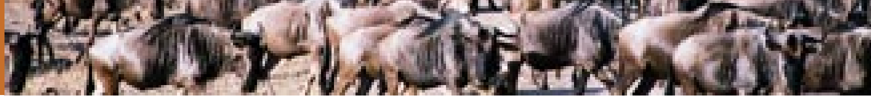
Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	2006 Shs'000	2005 Shs'000
Tourism Promotion Services (Kenya) Limited	306,037	-
Tourism Promotion Services (Tanzania) Limited	576,345	576,345
Tourism Promotion Services (Zanzibar) Limited	154,671	154,671
Tourism Promotion Services (Mangapwani) Limited	2,202	2,202
	1,039,255	733,218

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The growth rates do not exceed the long-term average growth rates for the respective businesses in which the CGUs operate.



Notes *(continued)*

for the year ended 31 December 2006

19 Intangible assets - Group (continued)

Key assumptions used for value-in-use calculations:

	Kenya	Tanzania	Zanzibar
EBITDA margin[1]	23%	37%	37%
Growth rate[2]	2%	2%	2%
Discount rate[3]	12.3%	12.5%	12.5%

[1] Budgeted EBITDA margin
[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period.
[3] Pre-tax discount rate applied to the cash flow projections.

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted EBITDA margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

20 Business combination

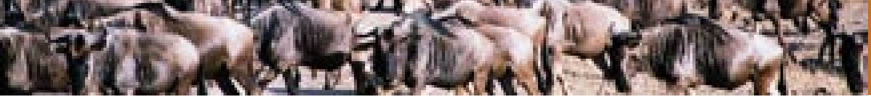
On 31 March 2006, the group acquired a further 20.18% share capital of Tourism Promotion Services (Kenya) Limited and on 31 December 2006, a further 0.49% was acquired. The acquired business contributed net profit of Shs 211,975,000 to the group for the period from 1 March 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, group profit before allocations would have been Shs 331,151,000. These amounts have been calculated using the group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	31 March Shs'000	31 December Shs'000	Total Shs'000
Purchase consideration:			
- cash paid	-	15,473	15,473
- share swap	610,519	-	610,519
- direct costs relating to the acquisition	56,224	-	56,224
Total purchase consideration	666,743	15,473	682,216
Fair value of net assets acquired	(368,348)	(7,831)	(376,179)
Goodwill (Note 19)	298,395	7,642	306,037

The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Group's acquisition of Tourism Promotion Services (Kenya) Limited.

The fair value of the shares issued was based on the average price of shares as at 31 March 2006 and 31 December 2006.



Notes *(continued)*

for the year ended 31 December 2006

20 Business combination (continued)

The assets and liabilities arising from the acquisition as at 31 March 2006 are as follows:

	Fair value (31 March) Shs'000	Acquiree's carrying amount Shs'000
Cash and cash equivalents	97,100	97,100
Property, plant and equipment	2,278,838	2,278,838
Investment in associates	21,518	21,518
Inventories	120,419	120,419
Trade and other receivables	641,533	641,533
Trade and other payables	(314,591)	(314,591)
Retirement benefit obligations	(99,267)	(99,267)
Borrowings	(405,248)	(405,248)
Deferred income tax liabilities	(466,640)	(466,640)
Net assets	1,873,662	1,873,662
Minority interests (3.15%)	(59,020)	
Already acquired (76.67%)	(1,436,538)	
2005 – Minority dividend	(9,757)	
Net assets acquired (20.18%)	368,347	
Direct costs as part of purchase consideration		56,224
Cash outflow on acquisition		56,224

The assets and liabilities arising from the acquisition as at 31 December 2006 are as follows:

	Fair value (31 December) Shs'000	Acquiree's carrying amount Shs'000
Cash and cash equivalents	154,001	154,001
Property, plant and equipment	2,443,259	2,443,259
Investment in associates (Note 22)	25,472	25,472
Inventories	111,767	111,767
Trade and other receivables	256,017	256,017
Trade and other payables	(312,605)	(312,605)
Retirement benefit obligations: (Note 16)	(107,135)	(107,135)
Borrowings	(446,250)	(446,250)
Deferred income tax liabilities (Note 15)	(526,500)	(526,500)
Net assets	1,598,026	1,598,026
Minority interests (2.66%)	(42,507)	
Already acquired (96.85%)	(1,547,688)	
Net assets acquired	7,831	
Purchase consideration settled in cash		15,473
Cash outflow on acquisition		15,473

Notes *(continued)*

for the year ended 31 December 2006

21 Investment in subsidiaries (at cost)

The company's interest in its subsidiaries (Tourism Promotion Services (Kenya) Limited – TPS(K), Tourism Promotion Services (Tanzania) Limited – TPS(T), Tourism Promotion Services (Zanzibar) Limited – TPS(Z), Tourism Promotion Services (Mangapwani) Limited – TPS(Mgp), Tourism Promotion Services (South Africa)(Pty) Limited - TPS(SA) and Tourism Promotion Services (Management) Limited - TPS(M)) all of which are unlisted and all of which have the same year end as the company, were as follows:

The movement in investments in the year is as follows:

	TPS(K) Shs'000	**TPS(T) Shs'000**	**TPS(Z) Shs'000**	**TPS(Mgp) Shs'000**	**TPS(SA) Shs'000**	**TPS(M) Shs'000**	**Total Shs'000**
At 1 January 2005 and 31 December 2005	63,176	1,045,470	268,015	45,795	-	-	1,422,456
At 1 January 2006	63,176	1,045,470	268,015	45,795	-	-	1,422,456
Additional investment	682,216[1]	171,298[2]	169,408[2]	-	1[3]	-	1,022,923
At 31 December 2006	745,392	1,216,768	437,423	45,795	1	-	2,445,379
Country of Incorporation	Kenya	Tanzania	Tanzania	Tanzania	South Africa	Kenya	
% interest held - 2006	97.34%	100%	100%	100%	100%	75%	
% interest held - 2005	76.67%	100%	100%	100%	-	75%	

[1] Tourism Promotion Services (Kenya) Limited (TPS(K)) is an owner and operator of hotel and lodge facilities in Kenya, serving the business and tourist markets. During the year, TPS Eastern Africa Limited offered to acquire, through a share swap, the remaining 23.33% of the shares in TPS (K) at a ratio of 1.35 shares of TPS Eastern Africa Limited for every share in TPS(K). This exercise was completed on 31 March 2006 with the acquisition of 20.18% of the shares in TPS (K). By the end of year, the Company acquired an additional 0.49% of the shares in TPS (K) on a cash basis, leaving a balance of 2.66% which will be acquired in the course of 2007.

[2] TPS Eastern Africa Limited invested further in Tourism Promotion Services (Tanzania) Limited and Tourism Promotion Services (Zanzibar) Limited by converting inter-company receivables into equity and subscribing one additional share in each company.

[3] During the year, the company also invested in a wholly owned subsidiary, Tourism Promotion Services (South Africa) (Pty) Limited, incorporated in South Africa on 17 January, 2006. The accounts have been consolidated in the financial statements.

Notes *(continued)*

for the year ended 31 December 2006

22 Investment in associates (Group)

	2006 Shs'000	2005 Shs'000
At start of the year	21,518	18,618
Share of associate results before tax	6,074	4,884
Share of tax	(2,120)	(1,984)
Net share of results after tax	3,954	2,900
At end of year	25,472	21,518

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

23 Receivables and prepayments

	Group		Company	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
Trade receivables – third parties	505,356	465,973	-	-
Less: provision for impairment of receivables	(35,406)	(30,777)	-	-
Trade receivables – related companies (Note 27)	2,084	2,512	-	-
Net trade receivables	472,034	437,708	-	-
Prepayments	22,462	44,461	1,125	43
Advances to related companies (Note 27)	84,818	86,453	5,392	65,830
Current income tax	19	19	19	19
Other receivables	51,451	47,630	1,969	28,387
	630,784	616,271	8,505	94,279

24 Cash and cash equivalents

	Group		Company	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
Cash at bank and in hand	135,833	104,324	-	65
Short term bank deposits	43,725	14,330	-	-
	179,558	118,654	-	65

The weighted average effective interest rate on short-term bank deposits at the year-end was 4 % (2005: 4 %). These deposits have an average maturity of 30 days.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	Group	
	2006 Shs'000	2005 Shs'000
Cash and bank balances as above	135,833	104,324
Bank overdrafts (Note 14)	(13,751)	(39,495)
	122,082	64,829

Notes *(continued)*

for the year ended 31 December 2006

25 Payables and accrued expenses

	Group		Company	
	2006 Shs'000	**2005 Shs'000**	**2006 Shs'000**	**2005 Shs'000**
Trade payables	455,856	293,228	-	-
Trade payables – related companies (Note 27)	3,459	3,991	-	-
Advances from related companies (Note 27)	10,084	13,391	-	49,840
Dividends Payable	100	1,759	100	1,759
Accrued expenses and other payables	141,727	164,069	1,248	1,220
	611,226	476,438	1,348	52,819

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

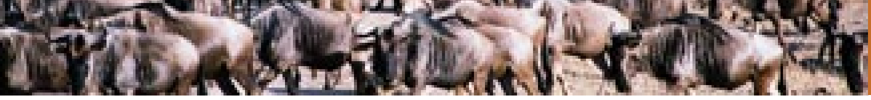
26 Cash generated from operations

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

	Group	
	2006 Shs'000	**2005 Shs'000**
Profit before income tax	498,605	140,300
Adjustments for:		
Interest income (Note 8)	(9,274)	(1,733)
Interest expense (Note 8)	161,715	182,552
Depreciation (Note 17)	205,973	193,141
Amortisation of prepaid operating lease rentals	160	160
(Profit)/loss on sale of property, plant and equipment	(3,593)	(1,900)
Share of (Profit) from associates (Note 22)	(3,954)	(2,900)
Effects of currency translation on investment in subsidiaries	36,364	41,771
Changes in working capital		
- receivables and prepayments	(14,533)	(130,349)
- inventories	(4,261)	14,459
- payables and accrued expenses	134,806	(22,744)
- provisions for liabilities and charges	11,161	14,603
Cash generated from operations	1,013,169	427,360

27 Related party transactions

The group is controlled by Aga Khan Fund for Economic Development SA, incorporated in Switzerland which owns 44.69% of the Company's shares directly and 15.77% indirectly through other companies in which it has control. The remaining 39.54% of the shares are widely held. There are various other companies which are related to the group through common shareholdings or common directorships.



Notes *(continued)*

for the year ended 31 December 2006

27 Related party transactions (continued)

The following transactions were carried out with related parties:

i) Sale of goods and services to:

	2006 Shs'000	2005 Shs'000
Mountain Lodges Limited	5,660	13,038
Diamond Trust Bank Kenya Limited	1,402	1,374
Farmer's Choice Limited	270	-
Frigoken Limited	81	-
The Jubilee Insurance Company Limited	3,177	3,131
Directors & key management	1,621	1,176
Sweetwaters Tented camp	-	5,503
TPS (Uganda) Limited	2,051	2,289
Arusha Duluti Limited	1,314	1,598
Mbuzi Mawe Limited	2,749	3,344

ii) Purchase of goods and services from:

	2006 Shs'000	2005 Shs'000
Farmer's Choice Limited	32,261	36,984
Premier Food industries Limited	1,130	884
The Jubilee Insurance Company Limited	460	17,477
Serena Tourism Promotion Services S.A.	102,551	57,810

iii) Key management compensation

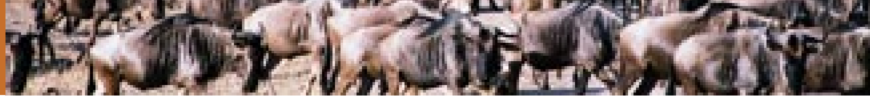
	2006 Shs'000	2005 Shs'000
Salaries and other short-term employment benefits	92,343	88,358

iv) Directors' remuneration

	2006 Shs'000	2005 Shs'000
Fees for services as a director	450	360
Other emoluments (included in key management compensation above)	25,595	21,874
Total remuneration of directors of the Company	26,045	22,234

v) Outstanding balances arising from sale and purchase of goods/services

	2006 Shs'000	2005 Shs'000
Receivables from other related parties		
Diamond Trust Bank Kenya Limited	298	419
The Jubilee Insurance Company Limited	1,786	2,093
	2,084	2,512
Payables to other related parties		
Farmer's Choice Limited	2,985	3,740
Premier Food industries Limited	430	213
The Jubilee Insurance Company Limited	44	38
	3,459	3,991



Notes *(continued)*

for the year ended 31 December 2006

27 Related party transactions (continued)

vi) Advances to/from related parties

Advances to related parties	2006 Shs'000	2005 Shs'000
Mountain Lodges Limited	-	4,130
TPS (Uganda) Limited	18,421	49,919
Arusha Duluti Mountain Village	42,493	29,337
Ol Pejeta Ranching Ltd - Hotel Division	3,574	-
Mbuzi Mawe Limited	20,330	3,067
	84,818	86,453

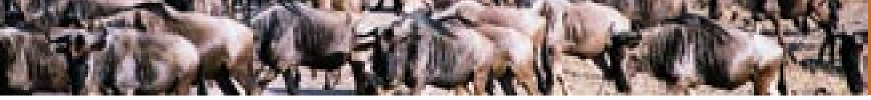
Advances from related parties	2006 Shs'000	2005 Shs'000
Mountain Lodges Limited	8,797	-
TPS (Uganda) Limited	572	-
Serena Tourism Promotion Services S.A.	701	13,391
Tourism Promotion Services (Mozambique) Limited	14	-
	10,084	13,391

	2006 Shs'000	2005 Shs'000
Advances to Mountain Lodges Limited:	4,130	8,287
At start of year	199,017	96,340
Loans repaid during the year	(211,944)	(100,497)
At end of year	(8,797)	4,130

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

vii) Loans to directors of the Company

	2006 Shs'000	2005 Shs'000
At start of year	920	1,651
Loans advanced during the period	5,932	(950)
Loan repayments received	(4,366)	219
At end of year	2,486	920
Less: current portion	(2,486)	-
Non-current portion	-	920



Notes *(continued)*

for the year ended 31 December 2006

27 Related party transactions (continued)

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

	Amount	Term	Security	Interest
2006	**Shs'000**	**Years**	**Shs'000**	**rate**
Loan balance	2,486	5	4,392	5%
2005				
Loan balance	920	5	4,392	5%

No provisions for impairment losses have been required in 2005 and 2006 for any related party receivables.

28 Contingent liabilities

At 31 December 2006, Tourism Promotion Services (Kenya) Limited had given guarantees amounting to Shs 4,560,000 (2004: Shs 4,460,000) to banks on behalf of third parties for supply of goods and services.

Tourism Promotion Services (Kenya) Limited 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.

As at 31 December 2006, Tourism Promotion Services (Tanzania) Limited was a defendant against various claims raised by the Tanzania Revenue Authority (TRA). The total amounts claimed approximate Shs 15,329,670. Of this, Shs 6,538,462 is sales tax claims on hotel service charges, Shs 1,813,187 is sales tax claims on hotel complimentaries, Shs 4,615,385 is VAT claims on hotel service charges and complimentaries and Shs 2,362,636 is hotel levy claims on complimentaries.

In the opinion of the directors, after taking appropriate legal advice, no material liabilities are expected to crystallise from these lawsuits. Consequently no provision has been set against the claims in the books of accounts.

29 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	Group	
	2006	**2005**
	Shs'000	**Shs'000**
Property, plant and equipment	73,700	-

Operating lease commitments

	Group	
	2006	**2005**
	Shs'000	**Shs'000**
Not later than 1 year	998	998
Later than 1 year and not later than 5 years	3,993	3,993
Later than 5 years	54,109	55,105
	59,100	**60,096**

TPS EASTERN AFRICA LIMITED

Form of Proxy

I/We ____

appearing on the Share Certificate of ____________________ being a member/members of the above named Company, hereby appoint ____

____________________ of ____________________ and failing him,

____________________ of ____________________ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday 8th day of June 2007 at 11.00 a.m. and at any adjournment thereof.

No. of Shares held: ____________________

Account nimber: ____________________

Signed this ____________ day of ____________ 2007

SIGNATURE: ______________________________

NOTES:

1. If you so wish you may appoint the Chairman of the meeting as your proxy
2. To be valid, this Form of Proxy MUST be returned to the Company Share Registrars, Image Registrars, 8th floor, Transnational Plaza, Mama Ngina Street, P O Box 9287 – 00100 GPO Nairobi, Kenya, not less than 48 hours before the time fixed for the meeting .
3. A person appointed as a proxy need not be a member of the Company.
4. In the case of a member being a Limited 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.
5. 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.

KATA HAPA

CUT HERE

FOLD 1

Please afix
Stamp here

Image Registrars,

8th floor, Transnational Plaza, Mama Ngina Street
P O Box 9287 – 00100 GPO
Nairobi, Kenya

FOLD 2

CUT HERE