TPS

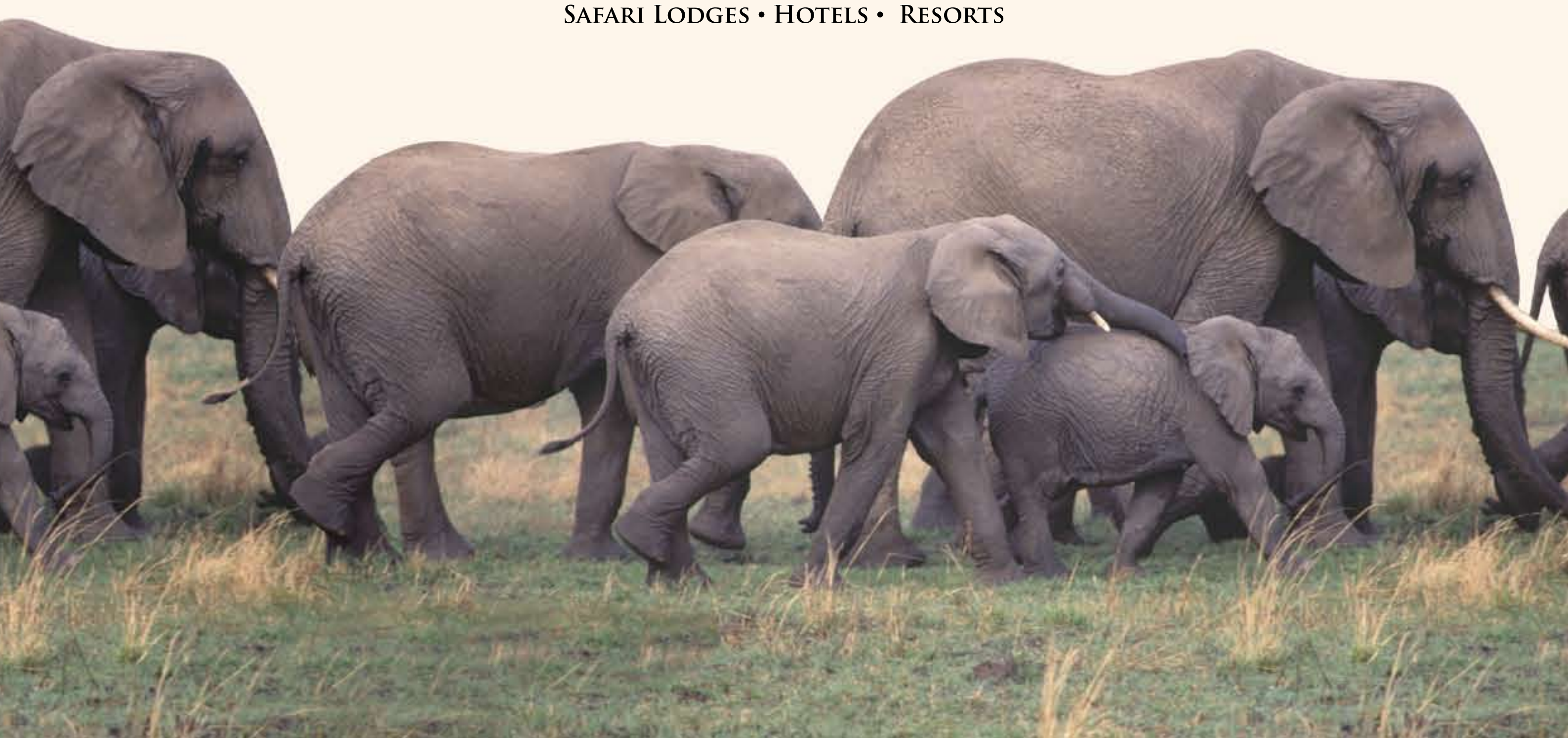
TPS EASTERN AFRICA LIMITED

ANNUAL REPORT AND ACCOUNTS

2007

Serena Hotels

Safari Lodges • Hotels • Resorts



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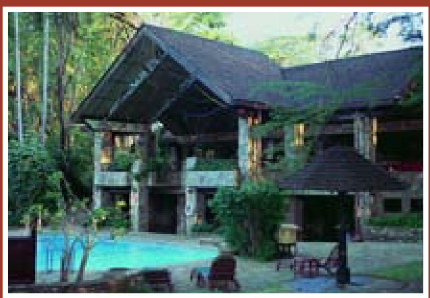
Directors and Administration

Business Suite, Nairobi Serena Hotel

Serena Beach Hotel and Spa, Mombasa



Samburu Serena Safari Lodge

Ballooning at Mara Serena Safari Lodge

BOARD OF DIRECTORS

Francis Okomo - Okello	(Chairman)
Mahmud Jan Mohamed	(Managing Director)
Abdulmalek J Virani	(Finance Director)
Ali Mufuruki****	
Ameer Kassim - Lakha	
Dr. Ramadhani K Dau****	
Jack J Kisa	
Jean Philippe Prosper**	
Jean - Louis Vinciguerra*	
Kate Bandawe****	(Alternate to Dr. Ramadhani Dau)
Kabir Hyderally***	
Kungu Gatabaki	
Mahmood P Manji	

BOARD AUDIT & FINANCE COMMITTEE

Jean Philippe Prosper	(Chairman)
Jean-Louis Vinciguerra	
Kungu Gatabaki	
Ameer Kassim - Lakha	

BOARD NOMINATION AND REMUNERATION COMMITTEE

Jack J Kisa	(Chairman)
Dr. Ramadhani K Dau	
Mahmood P Manji	
Kabir Hyderally	

*French **Haitian*** Pakistani****Tanzanian

COMPANY SECRETARY

Damaris A Angulu (Mrs)

Directors and Administration

Kilaguni Serena Safari Lodge

Ol Pejeta House (Managed by Serena)

Mountain Lodge (Managed by Serena)

Lake Manyara Serena Safari Lodge

PRINCIPAL OFFICERS

Peter Mbogua	Director of Sales and Marketing E.A.
Alastair Addison	Director of Operations E.A.
Surinder Sandhu	Chief Engineer E.A.
Charles Ogada	Financial Controller E.A.
Salim Janmohamed	General Manager – TPS (T) and TPS (Z)

Tourism Promotion Services (Kenya) Limited [TPS (K)]

Mark Gathuri	General Manager – Nairobi Serena Hotel
Charles Muia	General Manager – Serena Beach Hotel and Spa, Mombasa
Stanley Kongoley	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
Wilson Mbahi	Ag. Manager – Mountain Lodge
James Odenyo	Manager – Sweetwaters Tented Camp

Tourism Promotion Services (Tanzania) Limited [TPS (T)]

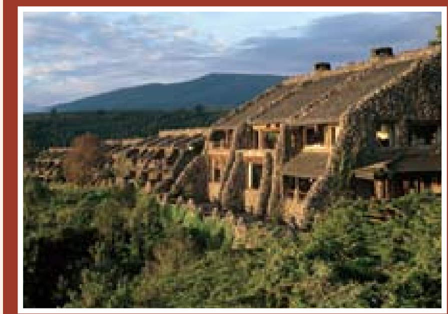
Daniel Sambai	Manager – Kirawira Luxury Tented Camp
Charles Mbuya	Manager – Lake Manyara Serena Safari Lodge
Edwin Chemisto	Manager – Serengeti Serena Safari Lodge
Wilfred Shirima	Manager – Ngorongoro Serena Safari Lodge
Gerald Macharia	Manager – Mountain Village Hotel
Dismas Simba	Manager – Mbuzi Mawe Tented Camp

Tourism Promotion Services (Zanzibar) Limited [TPS (Z)]

Anthony Chege	General Manager – Zanzibar Serena Inn

Operating Subsidiaries and Properties

Serengeti Serena Safari Lodge



Ngorongoro Serena Safari Lodge

Mountain Village Hotel (Managed by Serena)

Zanzibar Serena Inn

Tourism Promotion Services (Kenya) Limited

Nairobi Serena Hotel
Serena Beach Hotel and Spa, Mombasa
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 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

Sales and Marketing offices, South Africa

REGISTERED OFFICE:

4th Floor, Williamson House
4th Ngong Avenue
P O Box 48690-00100 Nairobi, Kenya
Telephone: 254(20) 2710511/2842000
Fax: 254 (20) 2718100/1
E-mail: admin@serena.co.ke
Website: www.serenahotels.com

AUDITORS:

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

PRINCIPAL BANKERS:

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

Notice of Annual General Meeting

Notice is hereby given that the Thirty-Sixth Annual General Meeting of the Company will be held at Kenyatta International Conference Centre, Nairobi on Friday, 30 May 2008 at 2.30 pm to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Thirty-Fifth Annual General Meeting held on 8 June 2007.

2. To receive, consider and, if thought fit, adopt the accounts for the year ended 31st December 2007, together with the Directors' and Auditors' Reports thereon.

3. To approve payment of a final dividend for the year 2007 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 30 May 2008. Payment of the dividend to be made on or about 1 July 2008.

4. To elect Directors:
   (a) Mr. Kabir Hyderally, 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) Mr. Kungu Gatabaki retires by rotation in accordance with Articles No. 110, 111 and 112 of the Company's Articles of Association and being eligible, offers himself for re-election.
   (c) Mr. Mahmood Manji retires by rotation in accordance with Articles No. 110, 111 and 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 2007.

6. To note the Company's Auditors, PricewaterhouseCoopers (PwC), continue in office in accordance with Section 159 (2) of the Kenyan Companies Act (Cap. 486). PwC have indicated their willingness to continue in office.

7. To note the Auditors' remuneration for the year 2007 and to authorise the Directors to fix the Auditors' remuneration for the year 2008.

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 resolution which shall be proposed as a special resolution:

"THAT the Company's equity participation in Tourism Promotion Services (Rwanda) Limited be and is hereby ratified"

By Order of the Board

D.A. Angulu
Company Secretary

Nairobi, 3 April 2008

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, Image Registrars, not later than 11 a.m , Wednesday the 28th May 2008.

Notisi kuhusu Mkutano wa Pamoja wa Mwaka

NOTISI inatolewa hapa kwamba, mkutano mkuu wa Thelathini na Sita wa pamoja wa mwaka wa kampuni utafanyika katika jumba la mikutano la Kimataifa la Kenyatta (Kenyatta International Conference Center, mjini Nairobi), Ijumaa, Mei 30, 2008, kuanzia saa nane na nusu alasiri, ili kushughulikia mambo yafuatayo-:

SHUGHULI ZA KAWAIDA

1. Kuthibitisha kumbukumbu za mkutano wa Thelathini na Tano wa mwaka uliofanyika Juni 8, 2007.

2. Kupokea, kuangazia na endapo itaonekana kuwa sawa, kukubali hesabu kwa kipindi cha mwaka uliomalizika Desemba 31, 2007 pamoja na ripoti ya wakurugenzi na ile ya wakaguzi wa hesabu.

3. Kupitisha malipo ya mwisho ya mgawo wa faida wa mwaka 2007 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 Mei 30, 2008. Malipo ya mgawo wa faida yatatolewa kabla au karibu na Julai 1, 2008.

4. Kuwachagua wakurugenzi:
   a) Bw. Kabir Hyderally atastaafu kwa zamu kwa mujibu wa vifungu nambari 110, 111 na 112 vya sheria za kampuni na kwa kuwa anastahili, amejitokeza tena kuchaguliwa.

   b) Bw. Kungu Gatabaki anastaafu kwa zamu kwa mujibu wa vifungu nambari 110, 111 na 112 vya sheria za kampuni na kwa kuwa anastahili, anajitokeza tena kuchaguliwa.

   c) Bw. Mahmood Manji 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 2007.

6. Kufahamu kwamba, mkaguzi wa pesa PricewaterhouseCoopers (PwC), ataendelea mbele na jukumu lake kwa mujibu wa sehemu 159 (2) ya sheria za makampuni nchini Kenya chini ya kifungu nambari 486. Mhasibu PwC ameonyesha nia ya kutaka kuendelea na jukumu hili.

7. Kupitisha malipo ya wakaguzi wa hesabu ya mwaka 2007 na wakati huo kuwaidhinisha wakurugenzi kuamua malipo yao ya mwaka 2008.

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

Shughuli Maalum:

9. Kuangazia na endapo itaonekana kuwa sawa, kupitisha azimio lifuatalo ambalo litachukuliwa kama swala maalum:

   " KWAMBA, ushiriki wa kampuni katika hisa za Tourism Promotion Services (Rwanda) Limited uwepo na uidhinishwe hapa".

Kwa Amri ya Halmashauri

D.A Angulu
Katibu wa Kampuni
Imenukuliwa Aprili 3, 2008

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, Image Registrars, (maelezo yamo kwenye fomu ya wakala) na kupokelewa kabla ya saa tano asubuhi Jumatano, 28 Mei, 2008.

Chairman's Statement

Elephants at a water-hole at Serena Mountain Lodge

I am delighted to present the Annual Report and Financial Statements of TPS Eastern Africa Limited (TPSEAL/The Company) for the year ended 31 December 2007. This is the first complete year of operation since the Company was listed on the Nairobi Stock Exchange following the successful restructuring of the TPS Group in Eastern Africa (The Group) that was completed in the course of 2006.

During the year under review, the tourism industry continued to perform well, with increased arrivals to the East Africa region. Demand for traditional safari and beach holidays steadily increased and this was complemented by increased activity in the corporate sector as well.

I am pleased to report that the increase in the number of visitors has led to a healthy increase in revenues and earnings per share. The Group achieved a turnover of KShs 3.67 billion (2006: KShs 3.26 billion), an improvement of 12.6% and a Profit Before Tax of KShs 617 million (2006: KShs 499 million), a 24% improvement. The commendable results have been achieved despite the strengthening of both the Kenya and the Tanzania shilling against some major international currencies which has led to dilution of revenues on conversion from foreign currencies into local currency. Centralized management systems and attendant economies of scale following the restructuring have led to significant cost savings, in spite of inflationary pressures. You will note, for instance, that operating expenses have only increased by 12% over previous year.

In view of the favourable results, the Board of Directors is pleased to recommend for approval, the payment of a final dividend for 2007, of KShs 1.25 per share. The dividend will be payable on or about 1 July, 2008. Shareholders will appreciate that while the amount of dividends in absolute terms is at the same level as the previous year, the dividend is based on a broader Authorized, Issued and Paid-up Share Capital following the issue of bonus shares of 1:5 in 2007.

The Group continues to build on the Serena brand which is recognized internationally as representing a premier product, unrivalled in the region. In the course of the year, Serena Hotels was the first hotel group to be awarded Superbrands status, an acknowledgement that it is indeed one of East Africa's superlative brands. The continued efforts to increase brand awareness and diversify market sources has led to the creation of a broad base of business support from non-traditional markets. This is in line with TPSEAL's risk management strategy which saw the regional restructuring of the Group in the course of 2006.

During the period under review, Serena was voted the Most Respected Company in East Africa in the Tourism Sector, for the fifth year running, in a survey carried out by PricewaterhouseCoopers and the Nation Media Group. I would like to thank the East Africa Business community for, once again, bestowing this great honour on the Group.

Serena Hotels has been nominated a finalist in the prestigious Tourism for Tomorrow Awards organized by the World Tourism Council. The Awards, which represent the highest accolade for Best Practice in travel and tourism aim to recognize and promote the world's leading examples in responsible tourism development. This is a major endorsement of the Group's efforts to practice responsible and sustainable tourism.

In 2007, several of the Group's properties received World Travel Awards for being "Best in Class".

In line with the Group's policy of continuing investment in the physical product, a number of rehabilitation and cost saving projects were carried out during the year. Considerable amounts of financial resources were spent in replacing plant and equipment to ensure efficient operations.

At Amboseli Serena Safari Lodge, phase 2 of the rehabilitation and reconfiguration project was undertaken in the months of April and May 2007. The project, covering 30 guest bedrooms included creation of balconies, replacement of soft furnishings and improved path lighting. A state suite was also created.

The Maisha Health Club at Nairobi Serena Hotel underwent an upgrade which included expansion of changing facilities and the creation of a separate spa section with four new treatment rooms.

The Spa facility at the Serena Beach Hotel and Spa, Mombasa, was

Chairman's Statement

also completed during the year, and has been well received by the market as it improves the profile of the hotel.

The Group recognizes the importance of information technology in making it easy and convenient for customers to book hotel facilities on line as also in enhancing operational efficiency and quality of service delivery. During the year, a consultant was commissioned to undertake a study of the Group's use of ICT. The resultant report and strategy will enable the Group to leverage its use of ICT to improve guest experience and enhance bottom-line results. In line with this strategy, the Group implemented the first phase of a Fidelio Central Reservations System which when fully implemented, will see all the Group's properties being linked seamlessly across the region thus improving room reservations and guest information management and will pave the way for implementation of an Internet booking engine.

The Group recognizes that its human resources are its most important asset. Management pursues human resources management practices which ensure the provision of rewarding careers to staff. It is in empowering staff that the Group can grow to its full potential. In the course of 2007, substantial amounts of resources were invested in staff training and development and staff welfare.

Serena's commitment to Corporate Social Responsibility (CSR) activities is part and parcel of the Group's business model. The Group seeks to establish beneficial and symbiotic relationships with local communities in locations where we do business and promotes various community projects in the areas of education, health and community development (see page 17). In 2007, TPSEAL launched its CSR Newsletter, Serena Outreach to Society (SOS), which highlights the Group's CSR activities. During the year the Group also restated its policy on engagement with the general public through its environmental management and social programmes and practices.

The Group remains a significant contributor to the revenues of the Governments in the Eastern Africa region namely; Kenya, Tanzania, and Zanzibar and paid, in aggregate, the equivalent of KShs 606.5 million in direct and indirect taxes and KShs 132.2 million to local authorities in royalty/rent payments in the various jurisdictions during 2007.

Following the success of Serena's regionalisation strategy, and in line with the vision of becoming a truly East African Company, the Board recommended that TPSEAL should enhance its investment portfolio by equity participation in an associate company, Tourism Promotion Services (Rwanda) Limited (TPS (Rw)) which operates Kigali Serena Hotel and Lake Kivu Serena Hotel under a long term Lease. This investment opportunity was an ideal strategy to enhance and diversify the Company's revenue streams. Your Company therefore took an 8% stake in TPS (Rw), valued at KShs 55 million for the investment. The Directors shall, as a regulatory compliance requirement, seek your ratification of the investment, under Special Business, at the Annual General Meeting to be held on Friday 30th May 2008.

As you may be aware, the tourism sector was negatively impacted by the post election violence experienced in some parts of Kenya in late 2007 and early 2008. European and American Governments issued travel advisories to their citizens barring non-essential travel to Kenya and as a result, the Group like all other Hotel and Lodge companies, suffered massive cancellations. Additionally, the withdrawal of Charter flights into Kenya as well as reduction of capacity of scheduled international airlines also adversely affected arrivals. These actions, also affected the Tanzania and Zanzibar subsidiaries, although to a lesser degree.

Bike riding in Serena Active

It is hoped that the political settlement arrived at through the facilitation of the Dr. Kofi Annan led mediation team will be implemented and that normalcy will return. However, it should be appreciated that recovery of the tourism business would depend on reinstatement of cancelled charter flights and scheduled international flights capacity. The solution to the political impasse was arrived at close to the start of the industry's low season months of April and May, when airlines are least amenable to restarting cancelled flights to Kenya. Thus, the airlines are expected to wait for the start of high season in July 2008 to be assured of a reasonable/viable load factor. Given these circumstances, the Board of Directors wishes to caution that the actual realization of business recovery may be a slow process.

It is therefore projected that the downturn in business will adversely affect the Group's results for first half of 2008. I would however like to assure shareholders and members of the investing public that despite the events of the past few months, the Group's fundamentals remain healthy and that while there is likely to be a dent in profits, the Board and Management will use their best endeavours to ensure that the negative impact on the bottom-line results is minimized.

I should however mention that as a Company, we are greatly honoured to have hosted the Dr. Kofi Annan led mediation team, at Nairobi Serena Hotel, where political solution to the Kenyan post-election crisis was arrived at. In recognition of this historical event , it has been recommended to henceforth rename the meeting room where the peace talks were held, "Amani" which as you all know is a Kiswahili word that means " Peace". It is gratifying to note that during the mediation talks, both the local and international media took to referring fondly to Nairobi Serena Hotel as " House of Peace".

In conclusion, I would like to thank my colleagues on the Board for their invaluable support during the year. On behalf of the Board, I would also like to pay tribute to the Management and staff for their continued diligence and dedication that has seen the Group achieve favorable and commendable results for the year.

I also wish to acknowledge, with appreciation, the vital support, confidence, and trust that we have continued to receive from our shareholders, customers and other stakeholders within the industry without which the Group would not have achieved the results recorded in 2007. Finally, I would like to thank the Governments within the East African region for facilitating the growth of the tourism industry and the various regulatory authorities for their continued support that has made it possible for the industry to be such a significant contributor towards the region's economic development.

Francis Okomo-Okello
CHAIRMAN

Taarifa ya Mwenyekiti

Watalii wafurahia mbuga katika hoteli ya Kilaguni Serena Safari Lodge

Nina furaha kuwatangazia ripoti ya mwaka pamoja na Taarifa ya hesabu za pesa ya TPS Eastern Africa Limited (TPSEAL/ kampuni) kwa kipindi cha mwaka uliomalizikia Desemba 31, 2007. Hiki ni kipindi cha mwaka wa kwanza cha utoaji huduma tangu kampuni hii iorodheshwe katika soko la hisa la Nairobi baada ya kundi la TPS (kundi) kufanyiwa mabadiliko kanda ya Afrika Mashariki na kumalizika mwaka 2006.

Wakati wa kipindi cha mwaka unaongaziwa, sekta ya utalii ilizidi kufanya vyema huku kukiwa na ongezeko la wageni kanda ya Afrika Mashariki. Hitaji kubwa la safari na likizo katika ufuo wa bahari zilishamiri. Hali hii ilishamirishwa na ongezeko la shughuli za kundi.

Kutokana na kuongezeka kwa idadi ya wageni, nina furaha kuwatangazia kwamba, hali hii ilipelekea kuongezeka kwa mapato na malipo kwa kila hisa. Kundi lilipata mapato ya jumla ya shilingi bilioni 3.67 (2006: shilingi milioni 3.26) hili likiwa ni imariko la asilimia 12.6 (12.6%) na faida kabla ya ushuru ya shilingi milioni 617 (2006 shilingi milioni 499) na kuwakilisha ongezeko la asilimia 24 (24%) Matokeo haya ya kufana yameafikiwa ingawa uwezo wa shilingi za Kenya na Tanzania ulizidi kuimarika dhidi ya sarafu za kigeni na kusababisha kupotea kwa idadi ya pesa wakati wa ubadilishanaji hadi sarafu za humu nchini. Mifumo ya kuweka pamoja usimamizi na kushughulikia viwango vya uchumi kufuatia kufanyika kwa mabadiliko, vilipelekea uokoaji wa pesa hata ingawa kulikuwa na shinikizo na mifumuko ya bei. Mtafahamu kwamba, gharama za utekelezaji shughuli zimeongezeka kwa asilimia 12 (12%) tu mwaka jana.

Kutokana na matokeo haya ya kufana, Halmashauri ya Wakurugenzi ina furaha kupendekeza ili kuidhinishwa kwa malipo ya mwisho ya mgawo wa faida wa mwaka 2007 wa shilingi 1.25 kwa kila hisa . Mgawo huu wa faida utalipwa kabla au kufikia Julai 1, 2008. Hata hivyo, wanahisa wataridhika kwamba huku kiwango cha mgawo wa faida kikiwa sawa na mwaka uliotangulia, mgawo huo umeegemea mtaji ulioidhinishwa kufuatia swala la malipo ya ziada ya hisa za 1:5 mwaka 2007.

Kundi linazidi kuimarisha sura ya Serena ambayo inatambulikana kimataifa kwa kuwakilisha bidhaa ya kipekee ambayo haina ushindani katika kanda. Wakati wa kipindi hiki cha mwaka, hoteli za Serena zilikuwa katika kundi la kwanza kupokea tuzo la hadhi ya daraja la kwanza hali inayodhihirisha kweli kwamba hili ni mojawapo wa kundi lenye sifa ya juu Afrika Mashariki. Juhudi zinaondelea za kuongeza ufahamu na kupanua masoko zimepelekea kutambuliwa kwa maeneo makubwa ya kibiashara katika masoko yasiyo ya kawaida. Hali hii ni sambamba na mkakati wa TPSEAL wa kusimamia hatari ambao ulishuhudia kufanyika kwa mabadiliko ya kundi mwaka 2006.

Wakati wa kipindi tunachoangazia, kundi lilitunukiwa zawadi ya kuwa kampuni inayoheshimiwa sana Afrika Mashariki katika nyanja ya utalii kwa mwaka wa tano mfufulizo. Zoezi hili lilisimamiwa na PricewaterhouseCopers na kampuni ya usambazaji habari ya Nation Media Group. Ningependa kushukuru jamii za wafanyabiashara kanda ya Afrika Mashariki kwa kulitunuku kundi heshima hii.

Hoteli za Serena zimeteuliwa kushiriki fainali ili kupokea tuzo la kifahari la *prestigious for tomorrow* ambalo limeandaliwa na Baraza la kimataifa la Utalii, *(world tourism council)*. Matuzo haya ambayo ni ya hadhi ya juu kutokana na shughuli bora katika usafiri na utalii, yanakusudiwa kutambua na kusaidia makampuni yanayoongoza kwa kuonyesha mfano bora katika uwajibikiaji na ukuzi wa maendeleo ya utalii. Huu ni uungwaji mkono mkubwa wa juhudi za kundi kuendeleza kuimarisha utalii.

Mnamo mwaka 2007, baadhi ya miliki za kundi zilizawadia tuzo za kimataifa za utalii kwa kuwa "bora katika viwango"

Kufungamana na sera ya kundi ya kuzidi kuwekeza katika raslimali za mijengo, miradi mbali mbali ya ukarabati na uokoaji pesa ilitekelezwa wakati wa kipindi hiki cha mwaka. Viwango mbali mbali vya pesa vilitumika kuweka mitambo mipya na vifaa ili kuhakikisha shughuli zinatekelezwa ipasavyo.

Katika hoteli ya Amboseli Safari Lodge, mradi wa awamu ya pili wa ukarabati na uimarishaji sura ulitekelezwa miezi ya Aprili na mei 2007. Mradi huu uliohusu vitanda 30 vya wageni ulijumuisha kujengwa kwa roshani, kubadilishwa kwa vifaa na kuimarisha uwekaji taa kwenye vinjia vya miguu. Pia, chumba cha kulala cha kifahari kilijengwa.

Kituo cha Maisha Health Club katika hoteli ya Nairobi Serena kiliimarishwa ikiwemo upanuzi wa vifaa vya kubadilishia na kubuniwa sehemu tofauti za kufanyia mazoezi huku kukiwa na vyumba vinne vya kukandia misuli.

Kitengo cha kufanyia mazoezi katika hoteli ya Serena Beach kilikamilika kipindi hiki cha mwaka na kupokelewa vyema masokoni kwa kuinua hadhi ya hoteli.

Kundi linatambua umuhimu ulioko katika teknolojia ya mawasiliano kuwarahisishia wateja kutuma maombi yao ya

Taarifa ya Mwenyekiti

kuhifadhi hoteli kupitia mtandao na pia kuimarisha uwajibikaji na utoaji huduma. Wakati wa kipindi hiki cha mwaka, mshauri alipewa jukumu kufanyia uchunguzi matumizi ya teknolojia na mawasiliano ya kundi. Matokeo ya ripoti na mkakati, zitaliwezesha kundi kufanikisha uwezo wake wa matumizi ya teknolojia na mawasiliano hivyo kuimarisha huduma kwa wateja na kuinua hali ya matokeo ya chini. Kufungamana na mkakati huu, kundi lilizindua awamu ya kwanza ya mfumo wa *Fidelio Central Reservations* ambao utakapozinduliwa kabisa, utaunganisha kwa pamoja raslimali zote za kundi hivyo kuimarisha huduma za uhifadhi wa nyumba na usimamizi wa maelezo kuhusu wateja na hatimaye kuandaa njia ya kunukuu kumbukumbu kupitia mtandao wa intanenti.

Kundi linatambua kitengo cha uajiri Kama sehemu muhimu ya raslimali zake. Usimamizi unazingatia mifumo bora ambayo itahakikisha kuwepo Kwa nafasi ya kuwafaidi wafanyakazi ili kuendeleza taaluma zao. Ni kupitia kuimarishwa kwa hali ya wafanyakazi ambapo kundi litaweza kuimarika kikamilifu. Wakati wa kipindi cha mwaka 2007, kiwango cha haja cha mtaji kilitumika kutoa mafunzo kwa wafanyakazi na kuimarisha hali yao ya maisha.

Uwajibikaji wa Serena katika majukumu ya kijamii ni mojawapo wa shughuli za kibiashara za kundi. Kundi linazidi kuzindua manufaa ya uhusiano na jamii linakotekeleza shughuli zake na linaimarisha miradi mbali mbali ya kijamii kama vile elimu, Afya na maendeleo ya umma. (angalia ukurasa 17) Mnamo 2007, TPSEAL ilianzisha jarida la *CSR (Serena Outreach to Society - SOS)* ambalo linaangazia shughuli zake kwa jamii. Wakati wa kipindi hiki cha mwaka, kundi lilirejelea upya sera ya kujihusisha na umma kupitia mipango yake ya kijamii na shughuli za mazingira.

Kundi limekuwa likitoa mchango mkubwa katika hazina ya serikali kanda ya Afrika Mashariki na lililipa kiwango cha wastani cha Shilingi milioni 606.5 kama ushuru wa moja kwa moja au kupitia njia nyingine na kiasi kingine cha shilingi milioni 132.2 kwa mabaraza ya serikali za wilaya kama malipo ya nia njema au ukodishaji mwaka 2007.

Kufuatia ufanisi wa mkakati wa Serena katika kanda na kwa kufungamana na ndoto yake ya kuwa kampuni bora Afrika Mashariki, Halmashauri ilipendekeza kwamba TPSEAL iimarishe nafasi yake ya uwekezaji wa hisa katika kampuni mwandani ya Tourism Promotion Services (Rwanda) Limited (TPS (Rw) inayoendesha kupitia mkataba wa muda mrefu hoteli za Kigali Serena na Lake Kivu Serena. Nafasi hii ya uwekezaji ilikuwa mkakati mzuri kuimarisha mifumo ili kuliletea kundi mapato. Kwa sababu hiyo, kampuni yenu ilichukua umiliki wa asilimia nane (8%) katika TPS (Rw) na ikalipa jumla ya shilingi milioni 31.4 kwa uwekezaji huu. Na Kama mashirika yanayotoa mwongozo wa kisheria yanavyohitaji, Wakurugenzi watatafuta idhini la uwekezaji kama swala la kipekee wakati wa mkutano mkuu wa pamoja wa mwaka utakaofanyika Ijumaa Mei 30, 2008.

Na kama mnavyofahamu, sekta ya utalii iliathiriwa na ghasia za baada ya uchaguzi zilizoshuhudiwa nchini Kenya mwisho wa mwaka 2007 na mapema mwaka 2008. Serikali za mataifa ya Ulaya na Marekani zilitoa ushauri kwa raia wao kususia safari zisizo rasmi nchini Kenya. Sawa na makampuni mengine yanayomiliki hoteli, kundi liliathirika kutokana na ufutiliaji mkubwa wa safari za watalii. Zaidi ya hayo, kujiondoa kwa safari za ndege nchini Kenya na kupunguka kwa idadi ya wasafiri wanaotumia ndege za kimataifa, pia, kuliathiri biashara ya utalii. Hatua hizi pia ziliathiri biashara zilizoko mataifa ya Tanzania na Zanzibar ingawa kwa kiwango kidogo.

Watalii wakiendesha dau katika ziwa Duluti iliyoko Mountain Village Hotel, Arusha

Inatarajiwa kwamba maafikiano ya kisiasa yaliyoafikiwa na tume ya majadiliano chini ya Dkt. Kofi Annan,yatatekelezwa na hali ya kawaida kurejelea. Hata hivyo, ni lazima ifahamike kwamba, shughuli za biashara ya utalii zitategemea kurejelea kwa safari za ndege zilizofutiliwa. Suluhu la mzozo wa kisiasa liliafikiwa mwanzo wa msimu wa miezi ya upungufu wa biashara *(low season)* baina ya Aprili na Mei wakati ambapo hapana shirika lolote la ndege litakalorejesha safari zilizokatizwa. Hivyo, mashirika hayo ya ndege yanatarajiwa kusubiri hadi mwanzo wa msimu wa kuimarika kwa biashara unaotarajiwa kuanza mwezi Julai 2008 ili kuwa na hakika maalumu ya kuwa na wasafiri. Kutokana na sababu hizi, Halmashauri ya wakurugenzi ingependa kutoa tahadhari kwamba hali kamili ya biashara inaweza kwenda pole pole.

Kwa sababu hiyo, inakisiwa kwamba, kushuka kwa hali ya biashara kutaathiri pakubwa matokeo ya kundi kipindi cha kwanza cha mwaka 2008. Hata hivyo, ningependa kuwahakikishia wanahisa na wanachama wanaowekeza kwamba, kinyume na matukio ya miezi michache iliyopita, hali ya kundi ni imara ingawa kunatarajiwa kuwa na upungufu katika faida. Halmashauri ya wasimamizi itatumia juhudi zake zote kuhakikisha kwamba athari za matokeo ya chini zimethibitiwa.

Ningependa kutaja kwamba, Kama kampuni tulipewa hadhi ya kuwa mwenyeji wa timu ya upatanishi chini ya Dkt. Kofi Anan katika hoteli ya Nairobi Serena ambapo muafaka wa ghasia za baada ya uchaguzi uliafikiwa. Kwa kutambua kitendo hiki cha kihistoria, imependekezwa kwamba, chumba mlikofanyiwa mazungumzo lipewe jina la " Amani" ambalo mwafahamu maana yake katika lugha ya Kiswahili kama amani. Ni fahari kuona kwamba, wakati wa majadiliano hayo, vyombo vya habari vya humu nchini na kimataifa viliashiria hoteli ya Nairobi Serena kama " nyumba ya amani".

Kwa kuhitimisha, ningependa kuwashukuru wenzangu katika Halmashauri kutokana na mchango wao wa dhati kipindi chote cha mwaka. Kwa niaba ya Halmashauri, ningependa kutoa shukrani zangu kwa wasimamizi na wafanyakazi kwa kuendelea na uwajibikaji wao ambao umeshuhudia kundi likipata matokeo ya kufana mwaka huo.

Pia, ningependa kutambua kwa moyo mkunjufu msaada wa dhati, ujasiri na imani ambazo tunaendelea kupokea kutoka kwa wanahisa, wateja na washika-dau wengine katika biashara hii ambao bila mchango wao kundi halingeweza kupata matokeo yaliyoafikiwa mwaka 2007. Mwisho, ningependa kuzishukuru serikali kutoka eneo la Afrika Mashariki na Halmashauri mbali mbali zinazotoa miongozo ya kisheria kwa kuandaa mazingira bora ya ukuaji wa biashara ya Utalii na kuiwezesha sekta hii kutoa mchango wake katika maendeleo ya kiuchumi kanda hii.

Francis Okomo-Okello
MWENYEKITI.

Board of Directors

Mr. Francis Okomo-Okello – Chairman

Mr. Okello 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 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, Mountain Lodges Limited among others. He is an associate member of the Hotel Catering Institutional Management Association (UK), and a member of the Cornell Hotel Society (USA).

Mr. Abdulmalek Jeevan Virani – Finance Director

Mr. Virani holds a Bachelor of Commerce Degree. He is a Chartered Accountant and a Certified Public Accountant of Kenya. He has worked for TPS Group of Companies for 31 years rising to his current position of Finance Director. He served on Taxation and Law Committee of the Institute of Certified Public Accountants of Kenya and is a Director of Tourism Promotion Services (Kenya) Limited, Tourism Promotion Services (SA) (Pty) Limited and Tourism Promotion Services (Rwanda) Limited.

Mr. Ali Mufuruki – Non-executive Director

Mr. Mufuruki graduated in 1996 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 11G Retail Limited.

Mr. Mufuruki sits on the Boards of the Nation Media Group 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 (PIRT) 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.

Mr. Ameer Kassim-Lakha – Non-executive Director

Mr. Kassim-Lakha 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 served as Chairman of the Association of Professional Societies in East Africa, the Institute of Certified Public Accountants of Kenya (ICPAK) and of the Association of Accountants in East Africa. He is a Director of several companies including The Crises Response Development Foundation Limited, and is a trustee of KCA University.

Dr. Ramadhani Dau – Non-executive Director

Dr. Dau 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 The Jubilee Insurance Company (Tanzania) Limited.

Board of Directors

Mr. Jack Jacob Kisa – Non-executive Director

Mr. Kisa 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 and Tourism Promotion Services (Kenya) Ltd.

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 is a Director of Industrial Promotion Services (Kenya) Limited.

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. Kabir Hyderally – Non-executive Director

Mr. Hyderally holds a Bachelor of Commerce Degree and is a fellow of the Institute of Chartered Accountants England and Wales. He is a Director of three 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, an Economist, holds a Bachelor of Science Degree from Legon University, Ghana and a diploma in Project Planning and Management from the Bradford University, UK. Mr. Gatabaki started his working career with Firestone Africa (1969) Limited 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 his retirement in 2004. He serves on various Boards including Chairman of Housing Finance and 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, PDM Holdings Limited, and a Director of the Kenya Civil Aviation Authority. A career Banker, he is the former Group Chief Executive of the Diamond Trust Banks and CFC Bank Limited. Mr. Manji is a member of the Institute of Accountants in England and Wales and the International Who's Who of Professionals.

Mrs. Damaris Angulu – Company Secretary

Mrs. Angulu holds an MBA and a Bachelor of Laws Degree from the University of Nairobi, and, a Diploma from the Kenya School of Law. Prior to joining Serena, she had served as a Legal Counsel in law firms in Mombasa and Nairobi. She is an Advocate of the High Court of Kenya, CPS, a Member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya (ICPSK). She is a member of the Disciplinary Committee of the ICPSK.

Corporate Governance Statement

The TPS Group recognizes the principles of conducting its business in accordance with generally accepted best corporate practices, 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, as a fundamental characteristic of its operations, the Group is committed to nurturing good corporate governance and ensuring compliance with the laws and regulations in the jurisdictions in which it operates. 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 and other regulatory bodies.

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

The Board of TPS Eastern Africa Limited consists of 12 Directors listed on page12 and 13. A majority of the Directors are non-executive and independent and there are two executive Directors i.e the Managing Director and the Finance Director. The Directors are of varied expertise and skills who bring a wealth of relevant experience to the Board deliberations in areas of tourism, finance, banking, economics, law and marketing. 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, budgets and compliance issues which are pre-agreed with the Management team and reviewed periodically against performance. The Directors are given accurate and timely information so that they can discharge their functions effectively. Responsibility for implementing strategy and for day to day operations is delegated by the Board to the Managing Director and his top Management team.

COMMITTEES OF THE BOARD

To assist the Board in performance of its duties, the Board has constituted two Committees and has delegated a specific mandate to each of them. The Committees meet as required under the terms of reference set by the Board.

Audit and Finance Committee

The Committee works closely with the Internal Audit Department. The Committee's main duties are to review financial information and ensure that the system of internal control is effectively administered. Significant audit findings identified by the Company's internal and external Auditors are also considered. The Committee is authorised by the Board to seek from the employees any information on matters within its Terms of Reference and also seek independent professional advice whenever necessary. 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. Members of these Committee are set out on page 2 of the Annual Report.

Nomination and Remuneration Committee

The Committee's membership is set out on page 2. The Committee sits at least three times a year, or as may be required.

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

Corporate Governance Statement

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. The executive Directors normally attend Committee meetings. They do not however attend meetings of the Committee that consider their remuneration and benefits.

INTERNAL CONTROLS

The Group 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. The internal control function is largely complimented by the Internal Audit function which is an independent appraisal function

COMMUNICATION WITH SHAREHOLDERS

The Group 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 TPS Eastern Africa Limited's Annual Report at least 21 days before the Annual General Meeting, release of half year and end year results through the press and regulatory bodies, and monthly disclosures of shareholding statistics to the Nairobi Stock Exchange and Capital Markets Authority.

Shareholders have direct access to the Group's information through the internet and all enquires are responded to in a timely manner. In this regard, the Group 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 Group 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 2007 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 TPS Group 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 28 of the financial statements.

DIRECTORS' INTEREST

Name of Director	No. of Shares	% Shareholding
1. Francis Okomo-Okello (Chairman)	1,041	0.00098
2. Ameer Kassim-Lakha	1,041	0.00098
3. Abdulmalek Jeevan Virani	1,041	0.00098
4. Mahmood Manji	1,041	0.00098

Corporate Governance Statement

SHAREHOLDERS' PROFILE AS AT 31ST DECEMBER 2007

SHAREHOLDER CATEGORIES:

Category	Number of Shareholders	Number of Shares Held	%
East African Corporate Investors	2	1,388,621	1.312
East African Individual Investors	15	49,688	0.047
Foreign Corporate Investors	7	59,656,936	56.352
Foreign Individual Investors	98	844,465	0.798
Local Corporate Investors	633	30,111,210	28.443
Local Individual Investors	8,011	13,813,822	13.049
Grand Total	**8,766**	**105,864,742**	**100.000**

TEN LARGEST SHAREHOLDERS:

Name of Shareholder	Number of Shares	%
1. Aga Khan Fund for Economic Development S.A.	47,308,507	44.69
2. Barclays (K) Nominees Limited A/C 9198-GCS FBO	12,026,743	11.36
3. The Jubilee Insurance Company of Kenya Limited.	6,824,760	6.45
4. Industrial Promotion Services (Kenya) Limited	5,497,920	5.19
5. Property Development and Management Limited	4,719,600	4,46
6. Craysell Investments Limited	2,021,079	1.91
7. Premchand Kanji Shah	1,636,200	1.55
8. National Social Security Fund (Tanzania)	1,388,541	1.31
9. Kenya Commercial Bank Nominees Limited A/C	1,013,300	0.96
10. Barclays (Kenya) Nominees Limited A/C 9230	810,200	0.77
	83,246,850	**78.64**

SHARES DISTRIBUTION:

Shares Range	Number of Shareholders	Number of shares Held	%
1-500	2,021	377,024	0.36
501-5,000	6,270	7,139,099	6.74
5,001-10,000	192	1,352,744	1.28
10,001-100,000	237	6,344,354	5.99
100,000 - 1,000,001	37	8,214,871	7.76
1,000,001 and Over	9	82,436,650	77.87
	8,766	**105,864,742**	**100.00**

Corporate Social Responsibility

Responsible Business is good business

Serena continues to maintain positive, ethical and accountable relationships with all stakeholders including local communities, customers, shareholders and providers of capital, suppliers, employees, trade unions and the public sector.

Community Involvement, Development and Investment

Serena strives to establish mutually beneficial relationships with communities in which it operates. While these communities provide Serena lodges with ready workforce, fresh produce, handicrafts, cultural knowledge and insights for guests, Serena has in turn improved their inhabitants' quality of life including their educational, cultural, economic and social well-being.

Serena is committed to innovative, sustainable projects and partnerships that respect the values and identities of the locals. This has not only generated the much needed goodwill but has also led to self-sustenance, participation and empowerment of many individuals.

Joseph Juaje best performer, in Kenya Certificate of Secondary Education (KCSE) from Shimo-La-Tewa School gets a certification of recognition from Serena Beach Hotel and Spa General Manager, Charles Muia. The hotel has provided him with temporary employment and training as he awaits admission to the university.

Projects include access to lodge clinics by locals where Serena provides free medical consultations and subsidised medication through its on-site medical clinics and vehicles for emergency medical transport.

Serena has also ensured that those living around the Lake Manyara Serena Safari Lodge, Amboseli Serena Safari lodge and Samburu Serena Safari Lodge have access to clean drinking water points which have been constructed or are maintained by the Group.

When it comes to education, Serena not only provides for advanced training and promotion, within its lodges to the locals, but has also helped in the construction of classrooms to meet community needs in specific areas including Ngorongoro, Kilaguni and most recently the Masai Mara. There are also numerous underprivileged children from Nairobi, Sweetwaters and Mombasa who have benefited from direct financial sponsorships by the company.

Environmental stewardship

With specific interests in eco-tourism, Serena recognizes that it has a responsibility to contribute towards improving and preserving the environment in which it operates. It exercises this responsibility by contributing to conservation and educative programmes that assist communities to manage and preserve their environments.

Projects undertaken during the year related to community development, waste management and anti-pollution, wildlife preservation, natural resource conservation and 'greening' the environment.

Through its commitment to environmental preservation, Serena has won numerous accolades from various quarters with the most recent award being given by Kenya's environmental watchdog, the National Environmental Management Authority (NEMA) in June 2007.

Serena was granted 'Best Industry Award' for its aggressive reforestation program in the Mount Kenya forest that has seen well over one million trees being planted by staff in conjunction with the communities found around Serena Mountain lodge.

School children of juhudi club plant trees at Amboseli Serena Lodge

The Amboseli Serena Safari Lodge tree planting project has also been a tremendous success with thousands of guests, school children, local communities, visiting dignitaries and Serena staff having planted hundreds of thousands of trees to date.

Other conservation initiatives that have had great impact are from the Serena Beach Hotel and Spa, Mombasa, where thousands of baby turtles and butterflies have been protected by Serena.

Encouraging a good work-life balance

Serena is committed to providing a working environment that is both safe and fit for the intended purpose and ensures that health and safety issues are a priority for all business operations. In order to promote the overall health of its workforce, the Employee Wellness Program (EWP) was established in 2007. Essentially holistic in approach, the EWP aims to radically reduce the incidence of accident and illness at the workplace by means of a series of targeted awareness campaigns. These promote healthy lifestyles, leading to maximised potential and optimal quality of life.

Some Serena employees who recently took part in the Standard Chartered Marathon this year.

Directors' Report

for the year ended 31 December 2007

The directors submit their report together with the audited financial statements for the year ended 31 December 2007, which disclose the state of affairs of the group and of the company.

PRINCIPAL ACTIVITIES

The principal activities of the group are to own and operate hotel and lodge facilities in Kenya, Tanzania and Zanzibar serving the business and tourist markets.

RESULTS AND DIVIDEND

The net profit for the year of Shs 416,475,000 has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 132,330,928 (2006: Shs 110,275,773).

DIRECTORS

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

F O Okello	(Chairman)
M Jan Mohamed	(Managing Director)
A J Virani	(Finance Director)
A Mufuruki	
A Kassim-Lakha	
Dr. R K Dau	
J J Kisa	
J P Prosper	
J L Vinciguerra	
K Bandawe	(Alternate to Dr. R K Dau)
K Hyderally	
K Gatabaki	
M P Manji	

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Kenyan Companies Act (CAP 486).

By order of the Board

SECRETARY
3 April, 2008

Statement of Directors' Responsibility

for the year ended 31 December 2007

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
3 April, 2008

Mahmud Jan Mohamed
Managing Director
3 April, 2008

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 21 to 53. These financial statements comprise the consolidated balance sheet at 31 December 2007 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 2007 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 2007 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
3 April, 2008

Consolidated Profit and Loss Account

for the year ended 31 December 2007

	Notes	2007 Shs'000	2006 Shs'000
Sales	5	3,667,660	3,264,006
Other operating income		242,694	247,702
Inventory expensed		(763,446)	(672,972)
Employee benefits expense	7	(757,437)	(677,221)
Other operating expenses		(1,414,138)	(1,264,098)
Profit before depreciation, interest and income tax expense		975,333	897,417
Depreciation on property, plant and equipment	18	(216,912)	(205,973)
Operating profit	6	758,421	691,444
Net finance costs	8	(145,883)	(196,793)
Share of profit of associate	23	4,842	3,954
Profit before income tax		617,380	498,605
Income tax expense	9	(200,905)	(165,945)
Profit for the year (of which net profit of Shs 382,603,000 (2006: Shs 409,152,000) have been dealt with in the accounts of the Company)		416,475	332,660
Attributable to:			
Equity holders of the Company		414,367	309,244
Minority interest		2,108	23,416
		416,475	332,660
Earnings per share for profit attributable to the equity holders of the Company			
- basic and diluted (Shs per share)	10	3.91	3.01
Dividends:			
Proposed final dividend for the year	11	132,331	110,276

Consolidated Balance Sheet

for the year ended 31 December 2007

	Notes	2007 Shs'000	2006 Shs'000
Capital and reserves attributable to the Company's equity holders			
Share capital	12	105,865	88,221
Share premium	12	1,906,676	1,906,676
Revaluation Reserve	13	698,001	715,682
Translation Reserve		(146,315)	(175,916)
Retained earnings		1,114,184	826,822
		3,678,411	3,361,485
Minority interest		-	42,507
Total equity		3,678,411	3,403,992
Non-current liabilities			
Borrowings	14	1,079,358	1,433,539
Deferred income tax liability	15	573,590	526,500
Provisions for liabilities and charges	16	121,701	117,493
Total non-current liabilities		1,774,649	2,077,532
Total equity and non-current liabilities		5,453,060	5,481,524
Non-current assets			
Property, plant and equipment	18	4,103,430	3,873,561
Prepaid operating lease rentals	19	12,733	12,893
Intangible assets	20	1,077,869	1,039,255
Investment in associates	23	30,314	25,472
Available-for-sale financial asset	17	31,418	-
Deferred income tax asset	15	128,549	196,814
		5,384,313	5,147,995
Current assets			
Inventories		203,329	180,192
Receivables and prepayments	24	1,032,379	630,784
Cash and cash equivalents	25	160,998	179,558
		1,396,706	990,534
Current liabilities			
Payables and accrued expenses	26	891,670	611,226
Current income tax		42,396	17,834
Borrowings	14	393,893	27,945
		1,327,959	657,005
Net current assets		68,747	333,529
		5,453,060	5,481,524

The financial statements on pages 21 to 53 were approved for issue by the board of directors on 3 April, 2008 and signed on its behalf by:

Francis Okomo - Okello
Chairman
3 April, 2008

Mahmud Jan Mohamed
Managing Director
3 April, 2008

Company Balance Sheet

for the year ended 31 December 2007

	Notes	2007 Shs'000	2006 Shs'000
Equity			
Share capital	12	105,865	88,221
Share premium	12	1,906,676	1,906,676
Retained earnings		712,204	457,521
Total equity		2,724,745	2,452,418
Non-current assets			
Investment in subsidiaries	22	2,528,608	2,445,379
Available-for-sale financial asset	17	31,418	-
		2,560,026	2,445,379
Current assets			
Receivables and prepayments	24	169,880	8,505
		169,880	8,505
Current liabilities			
Payables and accrued expenses	26	4,888	1,348
Bank overdraft	14	273	118
		5,161	1,466
Net current assets		164,719	7,039
		2,724,745	2,452,418

The financial statements on pages 21 to 53 were approved for issue by the board of directors on 3 April, 2008 and signed on its behalf by:

Francis Okomo - Okello
Chairman
3 April, 2008

Mahmud Jan Mohamed
Managing Director
3 April, 2008

Consolidated Statement of Changes in Equity

Year ended 31 December

	Notes	Share Capital Shs'000	Share premium Shs'000	Revaluation reserves Shs'000	Translation reserves Shs'000	Retained earnings Shs'000	Minority interest Shs'000	Total Shs'000
Year ended 31 December 2006								
At start of year		77,682	1,306,696	309,067	(99,104)	504,182	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	15	-	-	(181,993)	-	-	(55,379)	(237,372)
Deferred income tax on transfer	15	-	-	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 (losses)/gains recognised directly in equity		-	-	406,615	(76,812)	44,416	129,217	503,436
Net (loss)/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		-	-	-	-	(31,020)	(23,464)	(54,484)
At end of year		88,221	1,906,676	715,682	(175,916)	826,822	42,507	3,403,992

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December

	Notes	Share Capital Shs'000	Share premium Shs'000	Revaluation reserves Shs'000	Translation reserves Shs'000	Retained earnings Shs'000	Minority interest Shs'000	Total Shs'000
Year ended 31 December 2007								
At start of year		88,221	1,906,676	715,682	(175,916)	826,822	42,507	3,403,992
Transfer of excess depreciation to retained earnings		-	-	(25,258)	-	25,258	-	-
Deferred income tax on transfer	15	-	-	7,577	-	(7,577)	-	-
Deferred income tax on transfer of pre-acquisition reserves		-	-	-	-	7,884	-	7,884
Currency translation differences		-	-	-	29,601	(24,650)	-	4,951
Net (losses)/gains recognised directly in equity		-	-	(17,681)	29,601	915	-	12,835
Net (loss)/profit		-	-	-	-	414,367	2,108	416,475
Bonus issue of shares		17,644	-	-	-	(17,644)	-	-
Acquisition of minority shareholding		-	-	-	-	-	(44,615)	(44,615)
Dividends:								
- final for 2006 paid	11	-	-	-	-	(110,276)	-	(110,276)
At end of year		105,865	1,906,676	698,001	(146,315)	1,114,184	-	3,678,411

Company Statement of Changes in Equity

Year ended 31 December

	Notes	Share Capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2006					
At start of year		77,682	1,306,696	79,389	1,463,767
During the year		-	-		
Net profit				409,152	409,152
Issue of shares		10,539	599,980	-	610,519
Dividends:			-		
- final for 2005		-	-	(31,020)	(31,020)
At end of year		88,221	1,906,676	457,521	2,452,418
Year ended 31 December 2007					
At start of year		88,221	1,906,676	457,521	2,452,418
During the year					
Net profit		-	-	382,603	382,603
Bonus issue of shares		17,644	-	(17,644)	-
Dividends:					
- final for 2006	11	-	-	(110,276)	(110,276)
At end of year		105,865	1,906,676	712,204	2,724,745

Consolidated Cashflow Statement

Year ended 31 December 2007

	Notes	2007 Shs'000	2006 Shs'000
Operating activities			
Cash generated from operations	27	834,438	1,022,443
Interest paid		(145,883)	(161,715)
Income tax paid		(52,232)	(38,183)
Net cash generated from operating activities		636,323	822,545
Investing activities			
Purchase of property, plant and equipment	18	(439,960)	(375,201)
Proceeds from disposal of property, plant and equipment		3,700	5,876
Cash outflow on acquisition	22	(83,229)	(71,697)
Investment on available-for-sale financial asset	17	(31,418)	-
Short term bank deposits	25	12,428	(29,395)
Net cash used in investing activities		(538,479)	(470,417)
Financing activities			
Proceeds from long-term borrowings		376,607	409,945
Repayments on long-term borrowings		(507,078)	(558,599)
Repayment of commercial paper		-	(94,523)
Dividends paid to Company's shareholders		(110,276)	(31,020)
Dividends paid to minority interests		-	(23,464)
Net cash used in financing activities		(240,747)	(297,661)
Net (decrease)/increase in cash and cash equivalents		(142,903)	54,467
Movement in cash and cash equivalents			
At start of year		122,082	64,829
(Decrease)/Increase in cash		(142,903)	54,467
Effects of exchange rate changes on cash and cash equivalents		63	2,786
At end of year	25	(20,758)	122,082

Notes

1 General information

TPS Eastern Africa Limited is incorporated in Kenya under the Companies Act as a public limited liability Company, and is domiciled in Kenya. The address of its registered office is:

George Williamson House
4th Ngong Avenue
PO Box 48690
00100 Nairobi
Kenya

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 2007, 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 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 relating to financial instruments.

This standard does not have any impact on the classification or measurement of the Group's financial instruments.

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

The following amendment to an existing standard and new standard and interpretations will be mandatory for the Group's accounting periods beginning on or after 1 January 2008, but which the Group has not early adopted:

- *IFRIC 11 – Group and Treasury Share Transactions* – from 1 January 2008
- *IFRIC 12 – Service Concession Arrangements* – from 1 January 2008
- *IFRS 8 – Operating segments* – from 1 January 2009
- *IAS 23 – Borrowing costs (revised)* – from 1 January 2009.

The Directors have 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, other than IFRS 8, which will result in changes to the reportable segments and the information disclosed in respect of those segments.

(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:

Notes (continued)

(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.

(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.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings are subsequently shown at fair value, based on periodic, but at least every five year, 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:

(f) Property, plant and equipment (continued)

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.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount isgreater 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 and available-for-sale financial assets.The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date.

(i) Loans and receivables

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.They are included in current assets, loans and receivables are included in receivables and prepayments in the balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidenceexists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account

Notes (continued)

(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) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) Share capital

Ordinary shares are classified as equity.

(n) 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.

(o) 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.

The group operates a defined contribution post-employment benefit scheme for all its permanent employees after their first year of employment. 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 permanent 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.

Notes (continued)

(p) 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.

(q) 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.

(r) 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.

(s) 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.

Risk management is carried out by the treasury department under the guidance of management. Treasury identifies, evaluates and hedges financial risks. The management provides guidance on principles for overall risk management covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

3 Financial risk management (continued)

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using forward contracts, but has not designated any derivative instruments as hedging instruments.

The Group manages foreign exchange risk by converting its foreign currency collections into local currency on an ongoing basis to cater for its operational requirements. As a result, the Group does not hold large amounts of foreign currency deposits. In addition, the Group receives its collections in foreign currency and therefore any future foreign currency commercial transactions are settled in the same currency to avoid the effect of swinging currency exchange rates.

Currency exposure arising from the net assets of foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31 December 2007, if the Shilling had weakened/strengthened by 5% against the US Dollar with all other variables held constant, consolidated post tax profit for the year would have been Shs 10,313,016 (2006: Shs 4,151,721) higher/lower, mainly as a result of US dollar receivables, payables and bank balances.

(ii) Price risk

During the year, the Group invested in unquoted shares of Tourism Promotion Services (Rwanda) Limited classified under Available-for-sale assets. In the opinion of the directors, there is no material exposure to price risk.

(iii) Cash flow and fair value interest rate risk

The Group has borrowings at variable rates. No limits are placed on the ratio of variable rate borrowing to fixed rate borrowing. At 31 December 2007, an increase/decrease of 2% on interest rate would have resulted in an increase/decrease in consolidated post tax profit of Shs 25,683,287 (2006: Shs 29,380,620).

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash equivalents, derivative financial instruments, corporate bonds and deposits with banks, as well as trade and other receivables. Neither the Group nor the Company has any significant concentrations of credit risk. The group credit controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 December 2007 is made up as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cash equivalents	160,998	179,558	-	-
Trade receivables	839,367	472,034	-	-
Receivables from related companies	82,806	84,818	167,884	5,392
Other receivables	110,206	73,932	1,996	3,113
	1,193,377	810,342	169,880	8,505

No collateral is held for any of the above assets. For receivables that are neither past due or impaired they are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

Notes (continued)

3 Financial risk management (continued)

	Group		Company	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Past due but not impaired:				
- by up to 30 days	147,756	118,047	-	-
- by 31 to 60 days	57,994	38,762	-	-
- by 61 to 90 days	36,783	12,837	-	-
- by over 90 days	32,107	43,480	-	-
Total past due but not impaired	274,640	213,126	-	-
Impaired and provided for	54,232	35,406	-	-

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Subsequent to the year end, the Group has renegotiated short term borrowings, for one of its Kenyan subsidiary, to a term loan of five years. The below position is after including the debt refinancing.

(a) Group

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000
At 31 December 2007:				
- borrowings	209,319	440,767	778,990	44,175
- interest	130,054	137,076	49,917	-
- trade and other payables	891,669	-	-	-
- current income tax	42,396	-	-	-
- dividends	132,331	-	-	-
At 31 December 2006:				
- borrowings	27,945	535,478	898,061	-
- interest	128,003	110,041	226,830	-
- trade and other payables	611,226	-	-	-
- current income tax	17,834	-	-	-
- dividends	110,276	-	-	-

Notes (continued)

3 Financial risk management (continued)

(b) Company

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000
At 31 December 2007:				
- borrowings	273	-	-	-
- trade and other payables	4,888	-	-	-
- dividends	132,331	-	-	-
At 31 December 2006:				
- borrowings	118	-	-	-
- trade and other payables	1,348	-	-	-
- dividends	110,276	-	-	-

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

During 2007 the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio between 25% and 40%. The gearing ratios at 31 December 2007 and 2006 were as follows

	2007 Shs'000	2006 Shs'000
Total borrowings	1,473,251	1,461,484
Less: cash and cash equivalents	(160,998)	(179,558)
Net debt	1,312,253	1,281,926
Total equity	3,678,411	3,403,992
Total capital	4,990,664	4,685,918
Gearing ratio	26%	27%

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

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date.

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.

4 Critical accounting estimates and judgements (continued)

These calculations require the use of estimates (Note 20).

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 impairment of assets, goodwill, gratuity provisions.

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. The information has therefore been consolidated with the results of the parent company.

Sales (allocated based on the country of subsidiary)

	2007 Shs'000	2006 Shs'000
Kenya	2,362,597	2,093,403
Tanzania	1,305,063	1,170,603
	3,667,660	3,264,006

Total assets (allocated based on the country of subsidiary)

	2007 Shs'000	2006 Shs'000
Kenya	4,753,542	4,110,255
Tanzania	2,027,477	2,028,274
	6,781,019	6,138,529

Capital expenditure (allocated based on the country of subsidiary operations)

	2007 Shs'000	2006 Shs'000
Kenya	368,028	336,432
Tanzania	71,932	38,769
	439,960	375,201

5 Segment information (continued)

The segment results for the year ended 31 December 2007 are as follows:

	Kenya Shs'000	Tanzania Shs'000	Group total Shs'000
Sales	2,362,597	1,305,063	3,667,660
Operating profit	421,063	337,358	758,421
Finance costs – net	(33,858)	(112,025)	(145,883)
Share of profit of associate	4,842	-	4,842
Profit before income tax	**392,047**	**225,333**	**617,380**
Income tax expense	(123,882)	(77,023)	(200,905)
Profit for the year	**268,165**	**148,310**	**416,475**
Minority interest	(2,108)	-	(2,108)
Profit attributable to shareholders	**266,057**	**148,310**	**414,367**

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	361,030	330,414	691,444
Finance costs – net	(27,495)	(169,298)	(196,793)
Share of profit of associate	3,954	-	3,954
Profit before income tax	**337,489**	**161,116**	**498,605**
Income tax expense	(107,272)	(58,673)	(165,945)
Profit for the year	**230,217**	**102,443**	**332,660**
Minority interest	(23,416)	-	(23,416)
Profit attributable to shareholders	**206,801**	**102,443**	**309,244**

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

	Year ended 31 December 2007			Year ended 31 December 2006		
	Kenya Shs'000	Tanzania Shs'000	Group Shs'000	Kenya Shs'000	Tanzania Shs'000	Group Shs'000
Depreciation	139,610	77,302	216,912	131,727	74,246	205,973
Impairment of trade receivables	21,827	4,307	26,134	7,276	2,191	9,467

Secondary reporting format – business segments

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

Notes (continued)

6 Operating profit

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

	Group	
	2007 Shs'000	**2006 Shs'000**
Profit on disposal of property, plant and equipment	(2,848)	(3,593)
Foreign currency exchange losses on trading balances	61,545	16,157
Prepaid operating lease rentals expensed	160	160
Inventories expensed	763,446	672,972
Receivables – provision for impairment losses	26,134	9,467
Auditors' remuneration (Company: 2007: Shs 1,730,000 2006: Shs 1,666,630)	8,334	7,579

7 Employee benefits expense

	Group	
	2007 Shs'000	**2006 Shs'000**
The following items are included within employee benefits expense:		
Retirement benefits costs:		
- Gratuity charge (Note 16)	13,450	15,992
- Defined contribution scheme	21,769	20,022
- National Social Security Funds	16,284	13,390

8 Net finance costs

	Group	
	2007 Shs'000	**2006 Shs'000**
Interest expense:		
- bank borrowings	(145,787)	(160,274)
- related party loans	(96)	(473)
- commercial paper	-	(968)
	(145,883)	(161,715)
Net foreign currency exchange losses	-	(35,078)
Net finance costs	(145,883)	(196,793)

Notes (continued)

9 Income tax expense

	Group 2007 Shs'000	2006 Shs'000
Current income tax	76,794	47,409
Deferred income tax (Note 15)	124,111	118,536
Income tax expense	200,905	165,945

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:

	2007 Shs'000	2006 Shs'000
Profit before income tax	617,380	498,605
Tax calculated at domestic rates applicable to profits in the respective countries - 30% (2006 - 30%)	185,214	149,582
Tax effect of:		
Income not subject to tax	(3,156)	(1,676)
Expenses not deductible for tax purposes	20,474	15,692
(Under)/Over-provision of deferred income tax in prior year	(1,627)	4,750
Under-provision of current income tax in prior year	-	(2,403)
Income tax expense	200,905	165,945

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 17,644,124 bonus shares in August 2007 to the general public.

	2007	2006
Profit attributable to equity holders of the Company (Shs 000s)	414,367	309,244
Weighted average number of ordinary shares in issue (thousands)	105,865	102,712
Basic earnings per share (Shs)	3.91	3.01

There were no potentially dilutive shares outstanding at 31 December 2007 or 2006. 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 2007 were 105,864,742 shares (2006: 88,220,618 shares) after an issue of bonus shares in August 2007. A dividend in respect of qualifying shares for the year ended 31 December 2007 of Shs 1.25 per share (2006: Shs 1.25) amounting to Shs 132,330,928 (2006: Shs 110,275,773) 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)

12 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
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
Balance at 1 January 2007	88,221	88,221	1,906,676
Issue of bonus shares	17,644	17,644	-
Balance at 31 December 2007	105,865	105,865	1,906,676

The total authorised number of ordinary shares is 106,000,000 with a par value of Shs 1.00 per share. 105,864,742 shares are issued at a par value of Shs 1.00 per share and are fully paid.

In August 2007, 17,644,124 bonus shares were issued at a ratio of one share for every five fully paid shares.

13 Revaluation reserve

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

14 Borrowings

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
The borrowings are made up as follows:				
Non-current				
Bank borrowings	1,079,358	1,433,539	-	-
Current				
Bank overdraft	150,459	13,751	273	118
Bank borrowings	243,434	14,194	-	-
	393,893	27,945	273	118
Total borrowings	1,473,251	1,461,484	273	118

The borrowings include secured liabilities (bank borrowings and overdraft) in a total amount of Shs 1,473,251,000 (2006: Shs 1,461,484,000). Bank loans and overdrafts are secured by legal charges over certain land, buildings and other assets of the group

Notes (continued)

14 Borrowings (continued)

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.

	Group	
The effective interest rates at the year-end were as follows:	**2007**	**2006**
Kenya		
- bank borrowings : Kenya Shillings	7.90%	7.90%
Tanzania		
- bank borrowings:		
US Dollars (1.25% below base rate)	7.50%	6.50%
Tanzania Shillings – Barclays Bank Tanzania Limited	-	14.96%
Tanzania Shillings – National Bank of Commerce Tanzania Limited	13.50%	12.50%
Zanzibar		
- bank overdrafts and bank borrowings: Tanzania Shillings	12.50%	12.50%

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.

The Group does not have any undrawn facilities at the end of the year.

15 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2006: 30%). The movement on the deferred income tax account is as follows:

	Movement in deferred tax liability	Movement in deferred tax asset	Total
Year ended 31 December 2006			
	Shs'000	**Shs'000**	**Shs'000**
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
Year ended 31 December 2007			
At start of year	526,500	(196,814)	329,686
Income statement charge (Note 9)	47,090	77,021	124,111
Credit to equity	-	(8,756)	(8,756)
At end of year	573,590	(128,549)	445,041

Notes (continued)

15 Deferred income tax (continued)

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

	1.1.2007 Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2007 Shs'000
Deferred income tax liabilities			
Property, plant & equipment			
- on historical cost	159,115	52,374	211,489
- on revaluation surpluses	395,838	(7,577)	388,261
Unrealised exchange gains	9,112	3,394	12,506
	564,065	48,191	612,256
Deferred income tax assets			
Provisions	(37,565)	(1,101)	(38,666)
	(37,565)	(1,101)	(38,666)
Net deferred income tax liability	526,500	47,090	573,590

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

	1.1.2007 Shs'000	Charged/ (credited) to to P/L Shs'000	Charged/ (credited) to Equity Shs'000	31.12.2007 Shs'000
Deferred income tax liabilities				
Property revaluation	245,534	8,548	(7,884)	246,198
Deferred income tax assets				
Accelerated tax depreciation	40,702	-	-	40,702
Tax losses carried forward	(404,040)	102,030	-	(302,010)
Other deductible temporary differences	(79,010)	(33,557)	(872)	(113,439)
	(442,348)	68,473	(872)	(374,747)
Net deferred income tax asset	(196,814)	77,021	(8,756)	(128,549)

Deferred income tax of Shs 7,577,000 (2006: Shs 7,730,000) 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.

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	
	2007 Shs'000	2006 Shs'000
At start of year	117,493	106,332
Additional provisions	13,450	15,992
Utilised during year	(9,242)	(4,831)
	121,701	117,493

Notes (continued)

16 Provisions for liabilities and charges (Non-current) (continued)

In the opinion of the directors the provision for gratuity entitlement for employees fairly reflects the Group's future obligation under the terms of the Collective Bargaining Agreement.

17 Available for sale financial asset

	Group	
	2007 Shs'000	2006 Shs'000
At start of the year	-	-
Investment during the year	31,418	-
At end of year	31,418	-

On 14 November 2007, the company acquired 8% of the shares in Tourism Promotion Services (Rwanda) Limited, a company incorporated in Rwanda, for Shs 31,418,035. The directors have designated this investment as an 'Available-for-sale financial asset' that is carried at fair value as the investment is to be held for the foreseeable future. As at the year end, there were no movements in the fair value of the asset.

18 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 2006					
At cost or 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
At 31 December 2006					
At cost or revaluation	4,922,208	1,301,913	171,669	1,430	6,397,220
Accumulated depreciation	(923,507)	(996,393)	(108,707)	-	(2,028,607)
Translation differences	(483,303)	(39,156)	27,492	(85)	(495,052)
Net book amount	3,515,398	266,364	90,454	1,345	3,873,561
Year ended 31 December 2007					
Opening net book amount	3,515,398	266,364	90,454	1,345	3,873,561
Additions	198,069	149,344	17,917	74,630	439,960
Disposals	-	(852)	-	-	(852)
Depreciation charge	(112,301)	(84,216)	(20,395)	-	(216,912)
Translation differences	7,424	51,097	(50,854)	6	7,673
Closing net book amount	3,608,590	381,737	37,122	75,981	4,103,430

Notes (continued)

18 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 2007					
At cost or revaluation	5,120,277	1,450,405	189,586	76,060	6,836,328
Accumulated depreciation	(1,035,808)	(1,080,609)	(129,102)	-	(2,245,519)
Translation differences	(475,879)	11,941	(23,362)	(79)	(487,379)
Net book amount	3,608,590	381,737	37,122	75,981	4,103,430

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 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.

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

	Group	
	2007 Shs'000	**2006 Shs'000**
Cost	3,812,167	3,614,098
Accumulated depreciation	(1,010,189)	(956,419)
Net book amount	2,801,978	2,657,679

19 Prepaid operating lease rentals

	Group	
	2007 Shs'000	**2006 Shs'000**
At start of the year	12,893	13,053
Amortisation charge for year	(160)	(160)
At end of year	12,733	12,893

	Group	
	2007 Shs'000	**2006 Shs'000**
Cost of prepaid operating lease rentals	15,800	15,800
Accumulated amortisation	(3,067)	(2,907)
	12,733	12,893

20 Intangible asset - Group

	Goodwill Shs'000
Year ended 31 December 2006	
Opening net book amount	733,218
Additions	306,037
Closing net book amount	1,039,255
Year ended 31 December 2007	
Opening net book amount	1,039,255
Additions (Note 21)	38,614
Closing net book amount	1,077,869
At 31 December 2007	
Cost	1,077,869
Accumulated amortisation and impairment	-
Net book amount	1,077,869

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:

	2007 Shs'000	2006 Shs'000
Tourism Promotion Services (Kenya) Limited	344,651	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
	1,077,869	1,039,255

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.

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.

Notes (continued)

21 Business combination

On 28 February 2007, the group acquired the remaining 2.66% share capital of Tourism Promotion Services (Kenya) Limited. The acquired business contributed net profit of Shs 5,628,837 to the group for the period from 1 March 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2006, group profit before allocations would have been Shs 7,496,000. 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 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	Shs'000
Purchase consideration:	
- cash paid	83,229
Fair value of net assets acquired	(44,615)
Goodwill (Note 20)	38,614

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 assets and liabilities arising from the acquisition as at 28 February 2007 are as follows:

	Fair value Shs'000	Acquiree's carrying amount Shs'000
Cash and cash equivalents	151,648	151,648
Property, plant and equipment	2,442,986	2,442,986
Investment in associate	25,472	25,472
Inventories	119,550	119,550
Trade and other receivables	415,915	415,915
Trade and other payables	(413,599)	(413,599)
Retirement benefit obligations	(107,135)	(107,135)
Borrowings	(413,250)	(413,250)
Deferred income tax liabilities	(544,304)	(544,304)
Net assets	1,677,283	1,677,283
Already acquired (97.34%)	(1,632,668)	
Net assets acquired (20.18%)	44,615	
Purchase consideration settled in cash		83,229
Cash outflow on acquisition		83,229

22 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:

Notes (continued)

22 Investment in subsidiaries (at cost) (continued)

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 2006	63,176	1,045,470	268,015	45,795	-	-	1,422,456
Additional investment	682,216	171,298	169,408	-	1	-	1,022,923
At 31 December 2006	745,392	1,216,768	437,423	45,795	1	-	2,445,379
At 1 January 2007	745,392	1,216,768	437,423	45,795	1	-	2,445,379
Additional investment	83,229[1]	-	-	-	-	-	83,229
At 31 December 2007	828,621	1,216,768	437,423	45,795	1	-	2,528,608
Country of Incorporation	Kenya	Tanzania	Tanzania	Tanzania	South Africa	Kenya	
% interest held – 2007	100%	100%	100%	100%	100%	75%	
% interest held - 2006	97.34%	100%	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. On 28 February 2007, TPS Eastern Africa Limited acquired the remaining 2.66% on a cash basis.

In the opinion of the directors, there has been no impairment of any of the investments.

23 Investment in associate (Group)

	2007 Shs'000	2006 Shs'000
At start of the year	25,472	21,518
Share of associate results before tax	7,350	6,074
Share of tax	(2,508)	(2,120)
Net share of results after tax	4,842	3,954
At end of year	30,314	25,472

The Group's interest in the associate, Mountain Lodges Limited, whose principal business is to provide lodge facilities for tourists, and is incorporated in Kenya is follows:

	% interest held	Assets Shs'000	Liabilities Shs'000	Revenues Shs'000	Profit Shs'000
2007					
Mountain Lodges Limited	29.9	44,183	14,323	28,238	4,842
2006					
Mountain Lodges Limited	29.9	42,501	16,316	25,411	3,954

Notes (continued)

24 Receivables and prepayments

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Trade receivables – third parties	891,226	505,356	-	-
Less: provision for impairment of receivables	(54,232)	(35,406)	-	-
Trade receivables – related companies (Note 28)	2,373	2,084	-	-
Net trade receivables	839,367	472,034	-	-
Prepayments	38,566	22,462	-	1,125
Advances to related companies (Note 28)	82,806	84,818	167,884	5,392
Current income tax	19	19	19	19
Other receivables	71,621	51,451	1,977	1,969
	1,032,379	630,784	169,880	8,505

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
At start of year	35,468	29,451	-	-
Provision in the year	26,429	13,108	-	-
Receivables written off during the year as uncollectible	(7,665)	(7,153)	-	-
	-	-	-	-
At end of year	54,232	35,406	-	-

25 Cash and cash equivalents

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Cash at bank and in hand	129,701	135,833	-	-
Short term bank deposits	31,297	43,725	-	-
	160,998	179,558	-	-

The weighted average effective interest rate on short-term bank deposits at the year-end was 4 % (2006: 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	
	2007 Shs'000	2006 Shs'000
Cash and bank balances as above	129,701	135,833
Bank overdrafts (Note 14)	(150,459)	(13,751)
	(20,758)	122,082

Notes (continued)

26 Payables and accrued expenses

	Group		Company	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Trade payables	618,598	455,856		
Trade payables – related companies (Note 28)	3,069	3,459	-	-
Advances from related companies (Note 28)	18,177	10,084	-	-
Dividends Payable	166	100	166	100
Accrued expenses and other payables	251,660	141,727	4,722	1,248
	891,670	611,226	4,888	1,348

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

On 28 February 2007, the company acquired the remaining share in Tourism Promotion Services (Kenya) Limited from minority shareholders who did not take up the share swap offer made in 2006. Under the legal terms of the transaction, Tourism Promotion Services (Kenya) Limited received the full consideration from the company and is holding the amount for a period of three years pending claims by the former shareholders'.

Amounts paid during the year are as follows:

	2007 Shs'000	2006 Shs'000
At start of year	-	-
Additional liability	80,910	-
Payments made	(9,969)	-
At end of year	70,941	-

27 Cash generated from operations

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

	Group	
	2007 Shs'000	2006 Shs'000
Profit before income tax	617,380	498,605
Adjustments for:		
Interest expense (Note 8)	145,883	161,715
Depreciation (Note 18)	216,912	205,973
Amortisation of prepaid operating lease rentals (Note 19)	160	160
Profit on sale of property, plant and equipment	(2,848)	(3,593)
Share of profit from associates (Note 23)	(4,842)	(3,954)
Effect of currency translation	1,873	36,364
Changes in working capital		
- receivables and prepayments	(401,595)	(14,533)
- inventories	(23,137)	(4,261)
- payables and accrued expenses	280,444	134,806
- provisions for liabilities and charges	4,208	11,161
Cash generated from operations	834,438	1,022,443

28 Related party transactions

The group is controlled by Aga Khan Fund for Economic Development SA, incorporated in Switzerland. There are various other companies which are related to the group through common shareholdings, common directorships or through management contracts.

The following transactions were carried out with related parties:

i) Sale of goods and services to:

	2007 Shs'000	2006 Shs'000
Mountain Lodges Limited	14,276	5,660
Diamond Trust Bank Kenya Limited	1,555	1,402
Farmer's Choice Limited	26	270
Frigoken Limited	-	81
The Jubilee Insurance Company Limited	3,784	3,177
Directors & key management	1,155	1,621
TPS (Uganda) Limited	2,063	2,051
Tourism Promotion Services (Rwanda) Limited	6,827	-
Arusha Duluti Limited	1,321	1,314
Mbuzi Mawe Limited	2,764	2,749

ii) Purchase of goods and services from:

	2007 Shs'000	2006 Shs'000
Farmer's Choice Limited	32,621	32,261
Premier Food industries Limited	1,166	1,130
The Jubilee Insurance Company Limited	1,285	460
Serena Tourism Promotion Services S.A.	120,840	102,551

iii) Key management compensation

Salaries and other short-term employment benefits	59,020	51,096

iv) Directors' remuneration

Fees for services as directors	1,035	1,035
Other emoluments (included in key management compensation above)	32,250	25,595
Total remuneration of directors of the Company	33,285	26,630

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

	2007 Shs'000	2006 Shs'000
Receivables from other related parties		
Diamond Trust Bank Kenya Limited	550	298
The Jubilee Insurance Company Limited	1,823	1,786
	2,373	2,084
Payables to other related parties		
Farmer's Choice Limited	2,816	2,985
Premier Food industries Limited	134	430
The Jubilee Insurance Company Limited	119	44
	3,069	3,459

Notes (continued)

28 Related party transactions (continued)

vi) Outstanding balances arising from sale and purchase of goods/services from related parties

	2007 Shs'000	2006 Shs'000
Receivables from related parties		
Mountain Lodges Limited	1,008	-
TPS (Uganda) Limited	108	18,421
Hotel Polana, S.A.R.L.	64	-
Arusha Duluti Mountain Village	51,610	42,493
Ol Pejeta Ranching Ltd - Hotel Division	-	3,574
Mbuzi Mawe Limited	30,016	20,330
	82,806	84,818
Payables to related parties		
Mountain Lodges Limited	13,676	8,797
TPS (Uganda) Limited	967	572
Serena Tourism Promotion Services S.A.	-	701
Hotel Polana, S.A.R.L.	-	14
Ol Pejeta Ranching Ltd - Hotel Division	3,534	-
	18,177	10,084

vii) Loans to directors of the Company

	2007 Shs'000	2006 Shs'000
At start of year	2,486	920
Loans advanced during the period	-	5,932
Loan repayments received	(2,486)	(4,366)
At end of year	-	2,486
Less: current portion	-	(2,486)
Non-current portion	-	-

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

	Amount Shs'000	Term Years	Security Shs'000	Interest rate
2007				
Loan balance	-	-	-	-
2006				
Loan balance	2,486	5	4,392	5%

No provisions for impairment losses have been required in 2006 and 2007 for any related party receivables.

Notes (continued)

29 Contingent liabilities

At 31 December 2007, Tourism Promotion Services (Kenya) Limited had given guarantees amounting to Shs 4,560,000 (2006: 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 2007, Tourism Promotion Services (Tanzania) Limited was a defendant against various claims raised by the Tanzania Revenue Authority (TRA).

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

30 Commitments

Capital commitments

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

	Group	
	2007 Shs'000	**2006 Shs'000**
Property, plant and equipment	-	73,700

Operating lease commitments	Group	
	2007 Shs'000	**2006 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	53,111	54,109
	58,102	59,100

Notes

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, 30th May 2008 at 2.30 p.m. and at any

adjournment thereof.

No. of Shares held: -------------------------------------

Account number: -------------------------------------

Signed this-------------- day of----------------- 2008

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