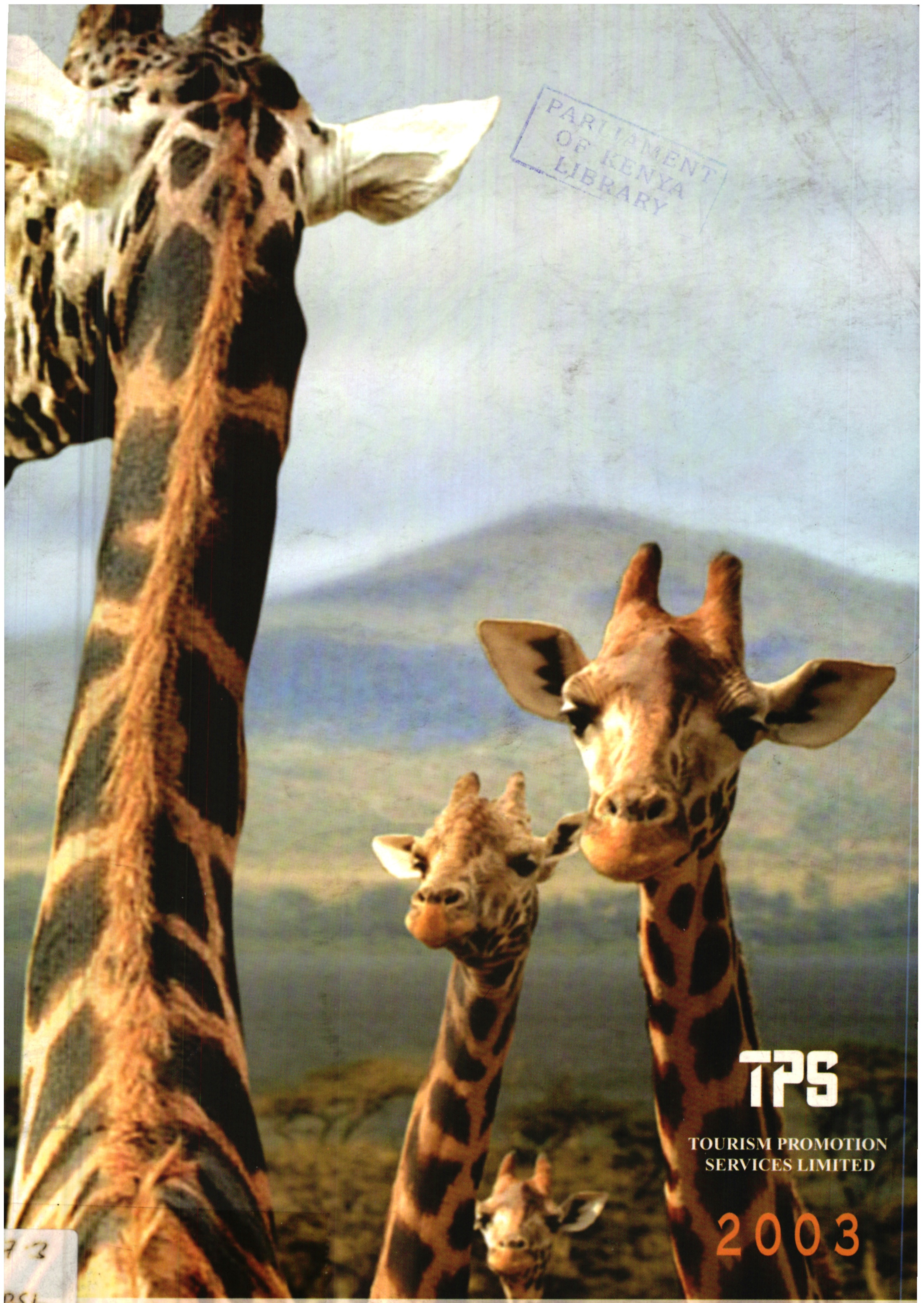

TPS

TOURISM PROMOTION SERVICES LIMITED

2003

ANNUAL REPORT AND ACCOUNTS

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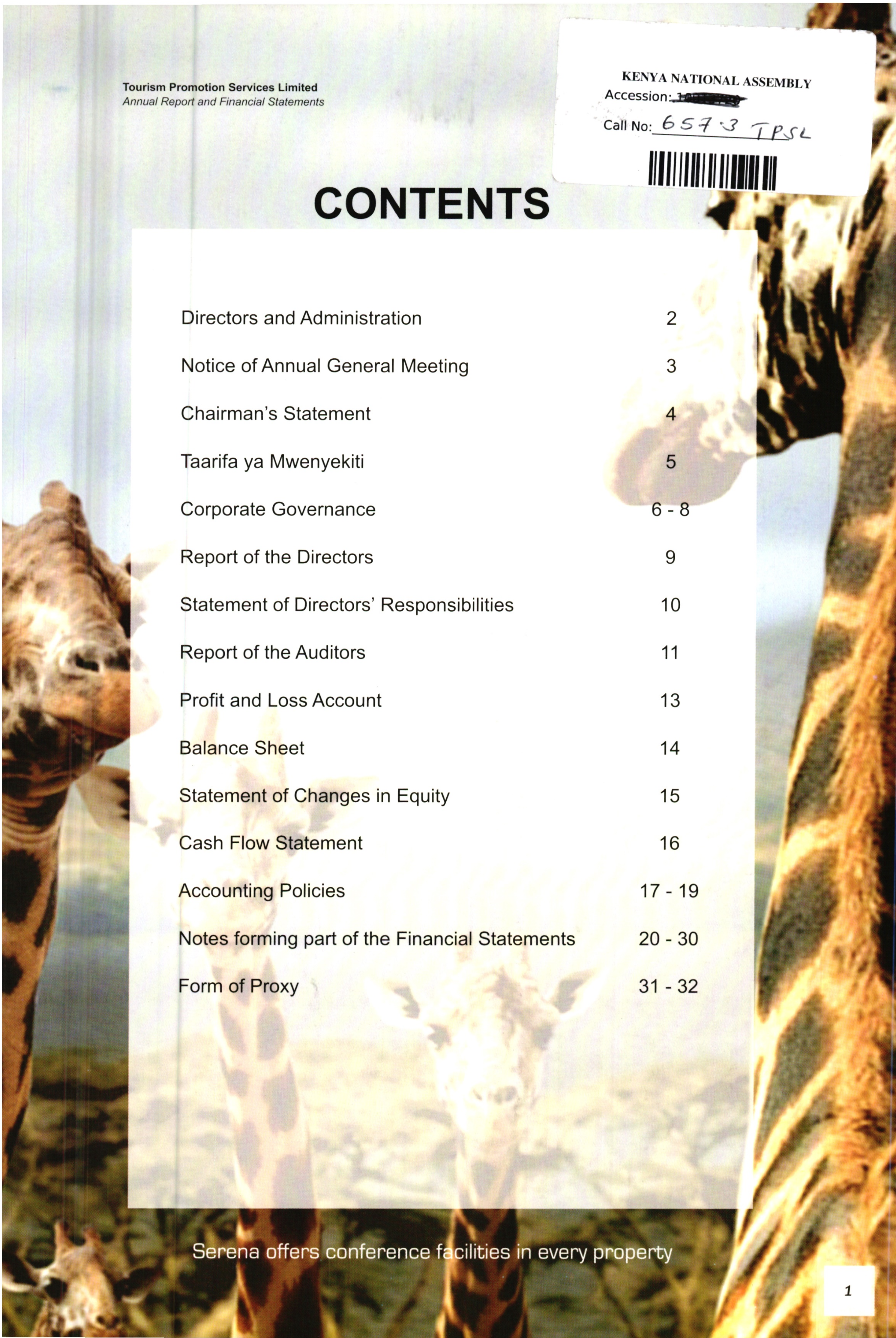


Serena offers conference facilities in every property

Directors and Administration

BOARD OF DIRECTORS:

Francis Okomo-Okello
(Chairman)
Mahmud Jan Mohamed
(Managing Director)
Abdulmalek J Virani
(Finance Director)
Iain Cheyne*
Frederic Lucien*
Kungu Gatabaki
Jack Kisa
Mahmood P Manji
Abdul I Paroo
(Deceased 18 June 2003)

BOARD AUDIT & FINANCE COMMITTEE

Saleem Karimjee****
(Chairman)
Kungu Gatabaki
Kabir Hyderally**
Mahmood P Manji
Abdul I Paroo***
(Deceased 18 June 2003)

BOARD NOMINATION AND REMUNERATION COMMITTEE

Jack Kisa
(Appointed Chairman on 18 December 2003)
Francis Okomo-Okello
Mahmood P Manji

British **TanzanianCanadian****Pakistani**

COMPANY SECRETARY

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

PRINCIPAL OFFICERS:

Peter Mbogua
(Regional Sales and Marketing Director)
Alastair Addison
(Group Operations Director)
Charles Ogada
(Group Financial Controller)
Mark Gathuri
(General Manager – Nairobi Serena)
Mugo Maringa
(General Manager – Mombasa Serena)
June Kyula
(Manager – Amboseli Serena)
Edwin Chemisto
(Manager - Samburu Serena)
Tuva Mwahunga
(Manager – Mara Serena)
Stanley Kongoley
(Manager – Mountain Lodge)
Anthony Chege
(Manager – Kilaguni Serena)

REGISTERED OFFICE:

4th Floor, Williamson House
4th Ngong Avenue
P O Box 48690-00100 Nairobi, Kenya
Telephone: 254(2) 2710511
Fax: 254 (2) 2718100/1
E-mail: admin@serena.co.ke
Website: www.serenahotels.com

HOTELS AND LODGES:

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

AUDITORS:

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

PRINCIPAL BANKERS:

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

Notice of Annual General Meeting

Notice is hereby given that the Thirty-fifth Annual General Meeting of the Company will be held at the Amphitheatre, Kenyatta International Conference Centre, Nairobi on Monday 7th June 2004 at 11.00 a.m. to transact the following business:

1. To confirm the minutes of the thirty-fourth Annual General Meeting held on 6th June 2003.

2. To receive, consider and, if thought fit, adopt the accounts for the year ended 31st December 2003, together with the Directors' and Auditors' Reports thereon.

3. To approve payment of a final dividend for the year 2003 of Shs. 1.10 per share of Shs. 5.00 subject to withholding tax, where applicable, to the Members on the Register at the close of business on 7th June 2004.

4. To elect Directors:

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

(b) Mr. Mahmud P Manji, retires by rotation in accordance with Articles No. 95 and 96 of the Company's Articles of Association and being eligible, offers himself for re-election.

5. To approve the Directors' remuneration for the year 2003.

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

7. To note the Auditors' remuneration for the year 2003 and to authorise the Directors to fix the Auditors' remuneration for the year 2004.

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

By Order of the Board

Damaris Ayuku Angulu (Mrs.)
Company Secretary
Nairobi 20 March 2004

Note:

A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. To be valid, a Form of Proxy which is provided with this report, must be duly completed by the member and must be received at the registered offices of the Company not later than 11.00 a.m. on Friday 4th June 2004.

Chairman's Statement

It gives me great pleasure to present to you the Annual Report and Financial Statements of Tourism Promotion Services Limited for the year ended 31 December 2003.

It is generally agreed that for the tourism sector in Kenya, year 2003 has been one of the worst in the country's history.

The Company, like others in the tourism sector, experienced depressed business conditions during the period as a result of travel advisories issued by foreign government agencies, related to the fear of terrorists' attacks and, the effects of the Iraq war that negatively impacted the global tourism industry.

Within this challenging context, the Company maintained its market position and continued to invest in product enhancement, remained competitive by rationalizing operational processes, and identifying new source markets. These efforts resulted in the Company achieving results for year 2003 that can be considered commendable given the prevailing circumstances.

The Company continues to maintain its strong financial standing and is committed to providing the highest standards of product and service, as also to its policy of allocating resources to product improvements with the aim of realizing business at improved levels for year 2004.The recent acquisition, by way of a long term lease, by the Aga Khan Fund for Economic Development (AKFED) of the Nile Hotel in Kampala, has resulted in the Group further strengthening its presence in key locations in East Africa and the attendant operational synergies and economies of scale will be beneficial to the Company.

During the period under review, the Company was voted amongst the top 10 Most Respected Companies in East Africa, and the Most Respected Company in the Tourism Sector in a survey carried out by PriceWaterhouseCoopers.

Notwithstanding the difficult trading conditions, the Company achieved a profit before taxation of Shs. 42 million. In view of these results, the Board proposes to recommend to the shareholders at the forthcoming Annual General Meeting the payment of a final dividend, for year 2003, of 22% or Shs. 1.10 per share of Shs. 5.00 subject to withholding tax, where applicable. The recommended level of dividend is the same as the one declared and paid for year 2002.

The Company remains a significant contributor to Government revenue and paid Shs. 173.908 million in direct and indirect taxes and Shs. 43.244 million to local authorities in royalty/rent payments for 2003. During the year, Serena Hotels generated a total of Shs. 977 million worth in foreign exchange earnings. In addition, as a responsible corporate citizen, the Company continues to adhere to the highest standards relating to environmentally and socially responsible practices and positively contributes to the economic activities of local communities in which it operates. Looking ahead, it is our expectation that the Government will continue to focus attention on efforts aimed at creating a buoyant tourism industry by providing the necessary infrastructure, security and product initiatives that are needed to enable the sector offer competitive services, create employment opportunities and generate economic growth.

Finally on behalf of the Board, I would like to thank the Management and Staff of the Company for their continued dedication without which such commendable results would not have been achieved during these difficult times. I also wish to express my gratitude to our shareholders, customers and other stakeholders for their continued support and look forward to this continued support as we face the challenges ahead of us in 2004 and beyond.

Francis Okomo-Okello
Chairman

Taarifa ya Menyekiti

Ni furaha kubwa kwangu kuwasilisha ripoti ya mwaka na taarifa ya Mahesabu ya kampuni ya Tourism Promotion Services ya kipindi kilichomalizika Disemba-31 mwaka wa 2003.

Ni dhahiri kuwa sekta ya utalii hapa nchini mwaka uliopita ilikabiliwa na wakati mgumu zaidi katika historia ya nchi hii.

Kampuni hii, kama kampuni nyingine katika sekta ya utalii iliathiriwa kibiashara katika kipindi hicho kutokana na tahadhari za usafiri zilizotolewa na serikali za kigeni, kufuatia hofu ya mashambulizi ya kigaidi na madhara ya uvamizi wa Iraq ambayo yaliathiri mno sekta ya utalii duniani.

Licha ya matatizo hayo, kampuni hii imedumisha soko lake na kuendelea kuweka rasilimali kuboresha shughuli zake kwenye sekta hii yenye ushindani mkubwa na kutafuta masoko mapya kwa huduma zake. Juhudi hizo ziliwezesha kampuni hii kupata matokeo bora mwaka jana ambayo ni ya kupendeza licha ya hali ngumu.

Kampuni hii imeendelea kujiimarisha kifedha na imejitolea kutoa huduma za hali ya juu sambamba na sera zake kwa lengo la kuleta mafanikio zaidi katika kipindi cha mwaka wa 2004. Hatua ya hivi majuzi ya hazina ya ustawi wa kiuchumi ya Aga Khan-AKFED ya kukodisha kwa muda mrefu hoteli ya Nile mjini Kampala, imewezesha kampuni kujiimarisha zaidi katika sehemu muhimu za kitalii eneo la Afrika Mashariki. Mikakati hiyo na viwango vya kiuchumi ni vya manufaa kwa kampuni hii.

Katika kipindi hicho, kampuni hii ilichaguliwa kuwa miongoni mwa kampuni kumi bora zilizoheshimika zaidi katika eneo hili la Afrika mashariki na kampuni inayotambuliwa zaidi katika sekta ya kitalii kufuatia uchunguzi uliofanywa na kampuni ya uhasibu ya PricewaterhouseCoopers.

Licha ya hali ngumu ya kibiashara, kampuni hii ilipata faida ya shilingi milioni-42 kabla ya kutozwa ushuru. Kutokana na faida hiyo, halmashauri imependekeza kuwa wenye hisa katika mkutano mkuu ujao walipwe mgao wa mwisho wa mwaka wa 2003 wa asilimia-22 au shilingi moja na centi kumi kwa kila hisa ya shilingi tano, baada ya kukatwa ushuru inapobidi. Kiwango kilichopendekezwa kwa mgao huo ni sawa na kile kilichotolewa mwaka wa 2002.

Kampuni hii itaendelea kubakia mlipaji mkuu wa kodi kwa serikali. Katika kipindi hicho, kampuni hiyo imelipa shilingi milioni-173.908 kama ushuru wa moja kwa moja na kodi nyingine kwa serikali na shilingi milioni-43.244 kama mrabaha na kodi kwa mabaraza ya wilaya. Katika kipindi hicho cha mwaka 2003, kampuni iliweza kapata shilingi milioni 977 ya pesa za kigeni. Kadhalika kama kampuni inayojivunia sifa yake, inazingatia utunzaji wa mazingira na kuchangia vilivyo katika shughuli za kiuchumi kwa manufaa ya jamii zinazohusika.

Kwa mstakabali, ni matumaini ya kampuni hii kuwa serikali itaimarisha usalama na kukarabati muundo msingi ili kuwezesha kampuni hii kutoa huduma bora, kubuni nafasi za kazi, na kustawisha uchumi.

Hatimaye, kwa niaba ya Wakurugenzi, ningependa kuwashukuru wasimamizi na wafanyikazi wa kampuni hii kwa kujitolea kwa kazi yao kwani bila wao matokeo hayo hayangepatikana katika mazingira hayo magumu. Pia ningependea kutoa shukrani kwa wenye hisa, wateja na wahusika wengine kwa kuendelea kutuunga mkono na tunataraji wataendelea kushirikiana nasi huku tukijitahidi kukabiliana na changamoto za mwaka huu wa 2004 na katika siku za usoni.

Francis Okomo-Okello.
Mwenyekiti.

Corporate Governance

The Centre for Corporate Governance defines Corporate Governance as:

"The process by which companies are directed and controlled with the ultimate aim of achieving shareholders' long-term value while taking into account the interest of the other stakeholders."

Tourism Promotion Services Limited recognizes the need to conduct its business in accordance with generally accepted best corporate practices and principles of corporate governance and business ethics. Thus, the Directors attach great importance to the need to conduct the operations of the Company with integrity and in particular, to exceed where possible, the standards prescribed in the guidelines issued by the Capital Markets Authority on Corporate Governance Practices by Public Listed Companies (May 2002).

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

The Board of Tourism Promotion Services Limited consists of seven Directors, two of which are non-executive independent Directors, while two are executive Directors, i.e the Managing Director and the Finance Director. The Directors are of varied expertise and skills and bring a wealth of relevant experience to the Board deliberations. In 2003, one of the non-executive Directors, Mr. Abdul Paroo, passed away and the Board's Nomination and Remuneration Committee is currently working out modalities for his replacement. This involves the preparation by the Board of the most suitable profile for the new Director to be sought according to the impartial external third-party procedure agreed by the Board. All the non-executive Directors are subject to periodic retirement and re-election in accordance with the Company's Articles of Association.

The Directors meet at least six times a year. The Board provides direction on general policy and is responsible for maintaining the Company's overall internal control of strategic, financial, operational and compliance issues. The Directors are given accurate and timely information so that they can discharge their functions effectively. Responsibility for implementing strategy and for day to day operations is delegated by the Board to the Managing Director and his top Management team.

COMMITTEES OF THE BOARD

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

Audit and Finance Committee

In 1997, the Board established an Audit and Finance Committee. Its membership comprises of two non-executive Directors of the Company and two non-executive Directors of the Management Company, namely Tourism Promotion Services (Management) Limited, as listed on page 2 of the Annual Report. The Board reviews membership of the Audit and Finance Committee annually in accordance with Capital Markets Authority guidelines of May 2002. The Committee meets at least 3 times a year or as may be required by business exigencies. The external Auditors, internal Auditors, and executive Directors attend the Committee meetings on as required basis. The Committee's main duties are to review financial information and ensure that the system of internal control is effectively administered. Significant findings identified by the Company's internal and external Auditors are also considered.

Nomination and Remuneration Committee

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

The Committee is mandated to review the salaries, benefits packages, and service contracts of the executive Directors and senior Management and to ensure that the same are competitively structured and linked to performance. The Committee is further mandated to propose new nominees to the Board as may be appropriate and to assess the effectiveness of the Board as a whole, the Committees of the Board, as well as each individual Director and make necessary recommendations to the Board on enhancing the overall level of effectiveness of the Board, its Committees and individual Directors. Executive Directors do not attend those meetings of the Committee that consider their remuneration and benefits.

INTERNAL CONTROLS

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

CORPORATE SOCIAL RESPONSIBILITIES

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

DIRECTORS' EMOLUMENTS AND LOANS

The aggregate amounts of emoluments paid to Directors during financial year 2003 are disclosed in the notes to the financial statements. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party whereby Directors might have acquired benefits by means of the acquisition of the Company's shares.

There were no non-executive Directors' loans during the year. Executive Directors' loans are disclosed in note 24 (iii) to the financial statements.

DIRECTORS' INTEREST

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

SHARE HOLDING

TPSL SHARE HOLDING - 31.12.2003

The shareholders profile as at 31st December 2003 was as follows:

	Number of Shareholders	Number of Shares held	% of issued Share capital
1. Kenyan individual investors	9,211	7,305,701	18.89%
2. Kenyan institutional investors	364	31,321,397	80.98%
3. Other East African individual investors	8	8,786	0.02%
4. Foreign investors	27	43,116	0.11%
TOTAL	**9,610**	**38,679,000**	**100.00%**

Ten largest Shareholdings	Number of shareholders	No. of Shares	% Shareholding
1. TPS Holdings Limited		29,653,900	76.67%
2. Mr Premchand K Shah		929,827	2.40%
3. Craysell Investments Limited		502,231	1.30%
4. Wildlife Safari Kenya Limited		201,714	0.52%
5. Barclays (Kenya) Nominees - 4 A/cs		140,577	0.36%
6. Mr Hassanali Asaria		100,354	0.26%
7. Dr. Emmanuel Nuwokpor Ayim		71,922	0.19%
8. The Heritage A.I.I Insurance Company		71,068	0.18%
9. Aga Khan Foundation		67,610	0.17%
10. Phoenix of E. A Assurance Co. Ltd		53,391	0.14%
		31,792,594	**82.19%**

Shares distribution

Shares Range			
1 - 500	4,679	2,214,867	5.73%
501 - 5,000	4,836	3,616,325	9.35%
5001 - 10,000	39	282,254	0.73%
10,001 - 100,000	51	1,177,528	3.04%
100,001 - 1,000,000	4	1,734,126	4.48%
1,000,000 and over	1	29,653,900	76.67%
TOTAL	**9,610**	**38,679,000**	**100.00%**

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2003 which disclose the state of affairs of the company.

INCORPORATION AND REGISTERED OFFICE

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Shs 25,077,000 (2002: Shs 105,889,000) has been added to retained earnings. The Directors recommend the approval of 22% (2002: 22%) dividend amounting to Shs 42,546,900 (2002: Shs 42,546,900).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

DIRECTORS

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

F O Okello	(Chairman)
M Jan Mohamed	(Managing Director)
A J Virani	(Finance Director)
M P Manji	
A Paroo	(Deceased 18 June 2003)
I Cheyne	
F Lucien	(Alternate to I Cheyne)
K Gatabaki	
J Kisa	

SECRETARY

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

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

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

AUDITORS

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

By order of the Board

Damaris Ayuku Angulu (Mrs)

SECRETARY

26 February 2004

Statement of Directors' Responsibilities

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

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

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

Director	Director
26 February 2004	26 February 2004

Report of the Independent Auditors to the Members of Tourism Promotion Services Limited

We have audited the financial statements of Tourism Promotion Services Limited for the year ended 31 December 2003, set out on pages 13 to 30.

Respective responsibilities of Directors and Auditors

The Directors are responsible for the preparation of financial statements as set out on page 10. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the Directors, as well as an evaluation of the overall presentation of the financial statements.

We obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements, which are in agreement with the Company's books of account, give a true and fair view of the state of the Company's financial affairs at 31 December 2003 and of its profit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

PRICEWATERHOUSECOOPERS

Certified Public Accountants

26 February 2004
Nairobi


Serena
offers
Conference
facilities
in
every
property

Profit and Loss Account

for the year ended 31 December 2003

	Notes	2003 Shs'000	2002 Shs'000
Sales		1,217,130	1,450,158
Cost of sales		(260,057)	(309,978)
Gross profit		957,073	1,140,180
Other operating income		99,113	103,396
Staff costs		(332,617)	(347,018)
Administration expenses		(237,988)	(254,792)
Other operating expenses		(451,282)	(470,718)
Operating profit	1	34,299	171,048
Net finance income/(costs)	3	8,767	(5,657)
Share of results of associate	4	(98)	3,596
Profit before tax		42,968	168,987
Tax	5	(17,891)	(63,098)
Net profit		25,077	105,889
Earnings per share (Shs) - basic and diluted	7	0.65	2.74
Dividends:			
Proposed final dividend for the year	6	42,547	42,547

Balance Sheet

for the year ended 31 December 2003

	Notes	2003 Shs'000	2002 Shs'000
CAPITAL EMPLOYED			
Share capital	8	193,395	193,395
Revaluation reserve	9	411,627	416,210
Retained earnings		356,091	368,978
Proposed dividends	6	42,547	42,547
Shareholders' funds		1,003,660	1,021,130
Non-current liabilities			
Borrowings	10	122,533	136,589
Deferred tax	11	191,094	188,366
Provisions for liabilities and charges	12	73,266	65,713
		386,893	390,668
		1,390,553	1,411,798
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13	1,281,499	1,311,026
Prepaid operating lease rental	14	13,373	13,533
Intangible assets	15	6,680	7,255
Investment in subsidiary	16	6,000	6,000
Investment in associate	4	13,790	13,770
		1,321,342	1,351,584
Current assets			
Inventories	17	99,046	112,793
Receivables and prepayments	18	544,465	588,753
Cash and cash equivalents	19	35,819	69,662
		679,330	771,208
Current liabilities			
Trade and other payables	20	192,597	345,152
Current tax		14,150	41,686
Borrowings	10	403,372	324,156
		610,119	710,994
Net current assets		69,211	60,214
		1,390,553	1,411,798

The financial statements on pages 13 to 30 were approved for issue by the Board of directors on 26 February 2004 and signed on its behalf by:

Director

Director

Statement of Changes in Equity

for the year ended 31 December 2003

	Notes	Share capital Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2002						
At start of year		193,395	395,075	304,874	42,547	935,891
Revaluation surplus		-	31,281	-	-	31,281
Deferred tax on revaluation		-	(9,384)	-	-	(9,384)
Transfer of excess depreciation		-	(1,089)	1,089	-	-
Deferred tax on transfer		-	327	(327)	-	-
Net (losses)/gains not recognised in the profit and loss account		-	21,135	762	-	21,897
Net profit for the year		-	-	105,889	-	105,889
Dividends:						
- Final for 2001 paid		-	-	-	(42,547)	(42,547)
- Proposed for 2002	6	-	-	(42,547)	42,547	-
At end of year		193,395	416,210	368,978	42,547	1,021,130
Year ended 31 December 2003						
At start of year		193,395	416,210	368,978	42,547	1,021,130
Transfer of excess depreciation			(6,547)	6,547		
Deferred tax on transfer			1,964	(1,964)		
Net (losses)/gains not recognised in the profit and loss		-	(4,583)	4,583	-	-
Net profit for the year		-	-	25,077	-	25,077
Dividends:						
- Final for 2002 paid		-	-	-	(42,547)	(42,547)
- Proposed for 2003	6	-	-	(42,547)	42,547	-
At end of year		193,395	411,627	356,091	42,547	1,003,660

for the year ended 31 December 2003

	Notes	2003 Shs'000	2002 Shs'000
Operating activities			
Cash generated from operations	23	48,707	188,438
Interest received		36,851	26,892
Interest paid		(37,155)	(40,728)
Tax paid		(42,816)	(38,224)
Net cash from operating activities		5,587	136,378
Investing activities			
Purchase of property, plant and equipment	13	(62,527)	(64,871)
Proceeds from disposals of property, plant and equipment		318	1,970
Net cash used in investing activities		(62,209)	(62,901)
Financing activities			
Proceeds from issue of commercial paper		21,625	52,923
Proceeds from bank borrowings		157,690	70,000
Payments of bank borrowings		(75,705)	(205,944)
Dividends paid		(42,547)	(42,547)
Net cash from/(used in) financing activities		61,063	(125,568)
Increase/(Decrease) in cash and cash equivalents		4,441	(52,091)
Movement in cash and cash equivalents			
At start of year		14,834	66,925
Increase/(Decrease)		4,441	(52,091)
At end of year	19	19,275	14,834

Accounting Policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Shs) and are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

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

(b) Consolidation

The company is controlled by TPS Holdings Limited. The company results and those of its subsidiary, the Uaso Nyiro Lodge Limited are therefore consolidated under TPS Holdings Limited. The accounting policies for the company and its subsidiary are similar to those of TPS Holdings Limited

(c) Revenue recognition

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

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

(d) Translation of foreign currencies

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

(e) Investment in subsidiary

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

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

(f) Investment in associate

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

(g) Property, plant and equipment

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

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

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

Buildings	Over the period of the lease
Computers	3 years
Motor vehicles	4 years
Furniture and fittings	8 years
Lift installations	10 years
Freehold land is not depreciated	

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(h) Intangible assets

On acquisition, the excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as an intangible asset in the balance sheet. The intangible asset, goodwill, is amortised to the profit and loss account on the straight-line basis over its estimated useful life. Goodwill arising from purchase of shares in Kilaguni lodge is amortised over 20 years while that on Mountain lodge is amortised over 15 years. The carrying amount of goodwill is reviewed when circumstances or events indicate that there may be uncertainty, over the carrying amount and written down for impairment, if required.

(i) Accounting for leases

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

(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 businesses, less selling expenses.

(k) Trade receivables

Trade receivables are carried at amortised invoiced amounts less an estimate made for doubtful receivables. A provision for impairment of trade receivables is established where there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified as irrecoverable.

(l) Employee entitlements

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

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

(m) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

n) Deferred tax

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

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

(o) Retirement benefit obligations

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

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

(p) Dividends

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

1 Operating profit

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

	2003 Shs'000	2002 Shs'000
Depreciation on property, plant and equipment (Note 13)	91,978	101,683
Operating lease rentals	43,244	50,169
Amortisation of goodwill (Note 15)	575	575
Staff costs (Note 2)	332,617	347,018
Auditors' remuneration	1,960	2,390

2 Staff costs

The following items are included within staff costs:		
Salaries and wages	221,486	243,078
Social security benefits	4,126	2,811
Retirement benefit costs - defined contribution scheme	5,392	10,126
	Number	**Number**
The number of persons employed by the company at the year end was:	1,121	1,186

3 Net finance income/(costs)

Interest income:		
- bank deposits	34,729	18,388
- staff loans	2,122	8,504
	36,851	26,892
Foreign exchange gain	9,071	8,179
Interest payable and similar charges		
- bank borrowings	(32,913)	(33,773)
- bank overdraft	-	(31)
- commercial paper	(4,242)	(6,924)
	8,767	(5,657)

4 Investment in associate

Opening net book amount	13,770	12,639
Share of results before tax	(98)	3,596
Share of tax (Note 5)	118	(2,465)
Net share of results after tax	20	1,131
Closing net book amount	13,790	13,770

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

5 Tax

	2003 Shs'000	2002 Shs'000
Current tax	12,717	53,593
Deferred tax (Note 11)	2,728	(1,358)
Share of tax of associate	(118)	2,465
Under provision of current tax in prior year	2,564	12,653
Over provision of deferred tax in prior year	-	(4,255)
	17,891	63,098

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

	2003 Shs'000	2002 Shs'000
Profit before tax	42,968	168,987
Tax calculated at a tax rate of 30 % (2002: 30 %)	12,890	50,696
Tax effect of:		
Income not subject to tax	-	(1,079)
Expenses not deductible for tax purposes	2,555	2,618
Over provision of deferred tax in prior year	-	(4,255)
Share of tax of associate	(118)	2,465
Under provision of current tax in prior year	2,564	12,653
Tax charge	17,891	63,098

6 Dividends per share

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. A dividend in respect of the year ended 31 December 2003 of Shs 1.10 per share (2002:Shs 1.10) amounting to Shs 42,546,900 (2002: Shs 42,546,900) is to be proposed at the forthcoming annual general meeting.

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

7 Earnings per share

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

	2003	2002
Net profit attributable to shareholders (Shs'000)	25,077	105,889
Weighted average number of ordinary shares in issues (thousands)	38,679	38,679
Basic earnings per share (Shs)	0.65	2.74

There were no outstanding potentially dilutive shares at 31 December 2003 or 2002. Diluted earnings per share is therefore the same as basic earnings per share.

8 Share capital

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

9 Revaluation reserve

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

10 Borrowings

	2003 Shs'000	2002 Shs'000
The borrowings are made up as follows:		
Non-current		
Bank loans	122,533	136,589
Current		
Bank overdrafts	16,544	54,828
Bank loans	237,709	141,835
Commercial paper	149,119	127,493
	403,372	324,156
Total borrowings	525,905	460,745

Bank loans movement schedule	**2003 Shs'000**	**2002 Shs'000**
At start of year	278,424	414,744
Additional loans	157,690	70,000
Repayments	(75,705)	(205,944)
Revaluation gain	(167)	(376)
At end of year	360,242	278,424
Current portion	237,709	141,835

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

The weighted average effective interest rates at the year-end were as follows:		**2003**	**2002**
- bank overdrafts	: US Dollars	3.12%	3.65%
	: Kenya Shillings	4.74%	8.87%
- bank borrowings	: US Dollars	4.22%	-
	: Kenya Shillings	7.73%	9.96%
- commercial paper	: US Dollars	2.31%	2.73%
	: Kenya Shillings	4.65%	8.75%

Maturity of non-current borrowings is as follows:

	2003 Shs'000	**2002 Shs'000**
Between 1 and 2 years	41,769	83,989
Between 2 and 5 years	80,764	52,600
	122,533	136,589

11 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2002:30%). The movement on the deferred tax account is as follows:

	2003 Shs'000	2002 Shs'000
At start of year	188,366	184,595
Income statement charge/ (credit) (Note 5)	2,728	(5,613)
Tax charged to equity	-	9,384
At end of year	191,094	188,366

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

	1.1.2003 Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2003 Shs'000
Deferred tax liabilities			
Accelerated tax depreciation	33,599	4,800	38,399
Revaluation surpluses	172,419	(1,964)	170,455
Unrealised exchange gains	5,516	1,931	7,447
	211,534	4,767	216,301
Deferred tax assets			
Provisions	(23,121)	(1,524)	(24,645)
Unrealised exchange losses	(47)	(515)	(562)
	(23,168)	(2,039)	(25,207)
Net deferred tax liability	188,366	2,728	191,094

Deferred tax of Shs 1,964,000 (2002: Shs 327,000) has been transferred within shareholders' equity from retained earnings to revaluation reserves. This represents deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

12 Provisions for liabilities and charges

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

	2003 Shs'000	2002 Shs'000
At start of year	65,713	66,422
Additional provisions	10,860	660
Utilised during year	(3,307)	(1,369)
At end of year	73,266	65,713

13 Property, plant and equipment

	Land & buildings Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost or valuation					
At start of year	1,027,467	703,788	49,938	5,145	1,786,338
Additions	29,750	28,008	1,304	3,465	62,527
Disposals	-	(2,821)	-	-	(2,821)
Transfer	1,735	-	-	(1,735)	-
At end of year	1,058,952	728,975	51,242	6,875	1,846,044
Depreciation					
At start of year	-	429,661	45,651	-	475,312
Charge for the year	25,499	62,838	3,641	-	91,978
Disposals	-	(2,745)	-	-	(2,745)
At end of year	25,499	489,754	49,292	-	564,545
Net book amount					
At 31 December 2003	1,033,453	239,221	1,950	6,875	1,281,499
At 31 December 2002	1,027,467	274,127	4,287	5,145	1,311,026

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

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

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

	2003 Shs'000	2002 Shs'000
Cost	537,867	506,382
Accumulated depreciation	(78,923)	(59,971)
	458,944	446,411

14 Prepaid operating lease rentals

	2003 Shs'000	2002 Shs'000
At start of year	13,533	13,693
Amortisation charge for year	(160)	(160)
At end of year	13,373	13,533
Cost of prepaid operating lease rentals	15,800	15,800
Accumulated amortisation	(2,427)	(2,267)
	13,373	13,533

15 Intangible assets

Intangible assets relate to goodwill arising from the purchase of shares in Kilaguni and Mountain lodges. The movement during the year is as follows:

	2003 Shs'000	2002 Shs'000
At start of year	7,255	7,830
Amortisation charge	(575)	(575)
At end of year	6,680	7,255

16 Investment in subsidiary

Uaso Nyiro Safari Lodge Limited	6,000	6,000

Uaso Nyiro Safari Lodge Limited, which is dormant, is incorporated in Kenya and is a wholly owned subsidiary of Tourism Promotion Services Limited.

17 Inventories

	2003 Shs'000	2002 Shs'000
Operating inventories	99,046	112,793

18 Receivables and prepayments

	2003 Shs'000	2002 Shs'000
Trade receivables	195,266	298,027
Less: impairment charge for bad and doubtful debts	(13,586)	(19,690)
	181,680	278,337
Prepayments	6,184	6,850
Receivables from related companies (Note 24)	345,547	257,024
Other receivables	11,054	46,542
	544,465	588,753

19 Cash and cash equivalents

Cash at bank and in hand	35,819	69,662

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

	2003 Shs'000	2002 Shs'000
Cash and bank balances as above	35,819	69,662
Bank overdrafts (Note 10)	(16,544)	(54,828)
	19,275	14,834

20 Trade and other payables

Trade payables	91,155	209,364
Amounts due to related companies (Note 24)	12,032	29,044
VAT payable	4,450	6,066
Accrued expenses and other payables	84,960	100,678
	192,597	345,152

21 Contingent liabilities

At 31 December 2003, the company had given guarantees amounting to Shs 4,360,000 (2002: Shs 4,360,000) to banks on behalf of third parties for utilities.

22 Commitments

Capital commitments

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

23 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2003 Shs'000	2002 Shs'000
Profit before tax	42,968	168,987
Adjustments for:		
Depreciation (Note 13)	91,978	101,683
Amortisation of prepaid lease rentals (Note 14)	160	160
Profit on sale of property, plant and equipment	(242)	(1,433)
Amortisation of goodwill (Note 15)	575	575
Interest income	(36,851)	(26,892)
Interest expense	37,155	40,728
Unrealised foreign exchange gains	(167)	(376)
Share of results of associate (Note 4)	98	(3,596)
Changes in working capital		
- receivables and prepayments	44,288	(198,500)
- inventories	13,747	(4,824)
- trade and other payables	(152,555)	112,635
- provisions for liabilities and charges	7,553	(709)
Cash generated from operations	48,707	188,438

24 Related party transactions

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

The following transactions were carried out with related parties:

i) Sale of goods

	2002 Shs'000	2002 Shs'000
Mountain Lodges Limited	4,442	3,087

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

ii) Purchase of management services	2003 Shs'000	2002 Shs'000
Tourism Promotion Services (Management) Limited	187,455	202,403

24 Related party transactions (continued)

iii) Outstanding balances with related parties

	2003 Shs'000	2002 Shs'000
Receivables from related parties		
Receivable from Tourism Promotion Services Holdings Limited:		
At start of year	36,670	35,037
Advances during the year	21,523	34,252
Repayments	(32,619)	(32,619)
At end of year	25,754	36,670
Receivable from Tourism Promotion Services (Management) Limited and others:		
At start of year	220,354	134,788
Advances during the year	224,974	624,674
Repayments received	(125,535)	(539,108)
At end of year	319,793	220,354
Total	345,547	257,024
Payable to other related parties		
At start of year	29,044	8,453
Advances received during the year	72,615	20,591
Payments made	(89,627)	-
At end of year	12,032	29,044

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

Advances to Tourism Promotion Services (Management) Limited include car loans amounting to Shs 3,325,000 (2002: 4,168,000) to directors of the company. Interest is charged at the rate of 15% per annum.

Tourism Promotion Services (Management) Limited incurs expenses on behalf of the company and manages the property of Mountain Lodge Limited, a related company. All such expenditure is recharged to the company net of the management fees received from Mountain Lodge Limited.

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

24 Related party transactions (continued)

iv) Directors' emoluments

	2003 Shs'000	2002 Shs'000
Fees	360	300
Management	18,021	16,362

TOURISM PROMOTION SERVICES LIMITED
FORM OF PROXY

(PLEASE COMPLETE IN BLOCK LETTERS)

I/We

....

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

....of..and

failing him,..

of...and failing him, the Chairman of the meeting, as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Monday, 7th June, 2004 at 11.00 a.m. and at any adjournment thereof.

As witnessed by my/our hand this................................day of 2004

SIGNATURE:...

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

NOTES:

1. To be valid, this Form of Proxy MUST be returned to the Company Secretary, Tourism Promotion Services Limited, 4th floor, Williamson House, 4th Ngong Avenue, P O Box 48690 – 00100 Nairobi, Kenya so as to be received not later than 11.00 a.m. on Friday, 4th June, 2004.

2. A person appointed to act as a proxy need not be a member of the Company.

3. In the case of a member being a Limited Company/Corporation, this form of Proxy must be completed under its seal or under the hand of an officer or attorney duly authorised in writing.

4. In the case of joint holders, the signature of any one of them will suffice but the names of all joint holders should be stated.

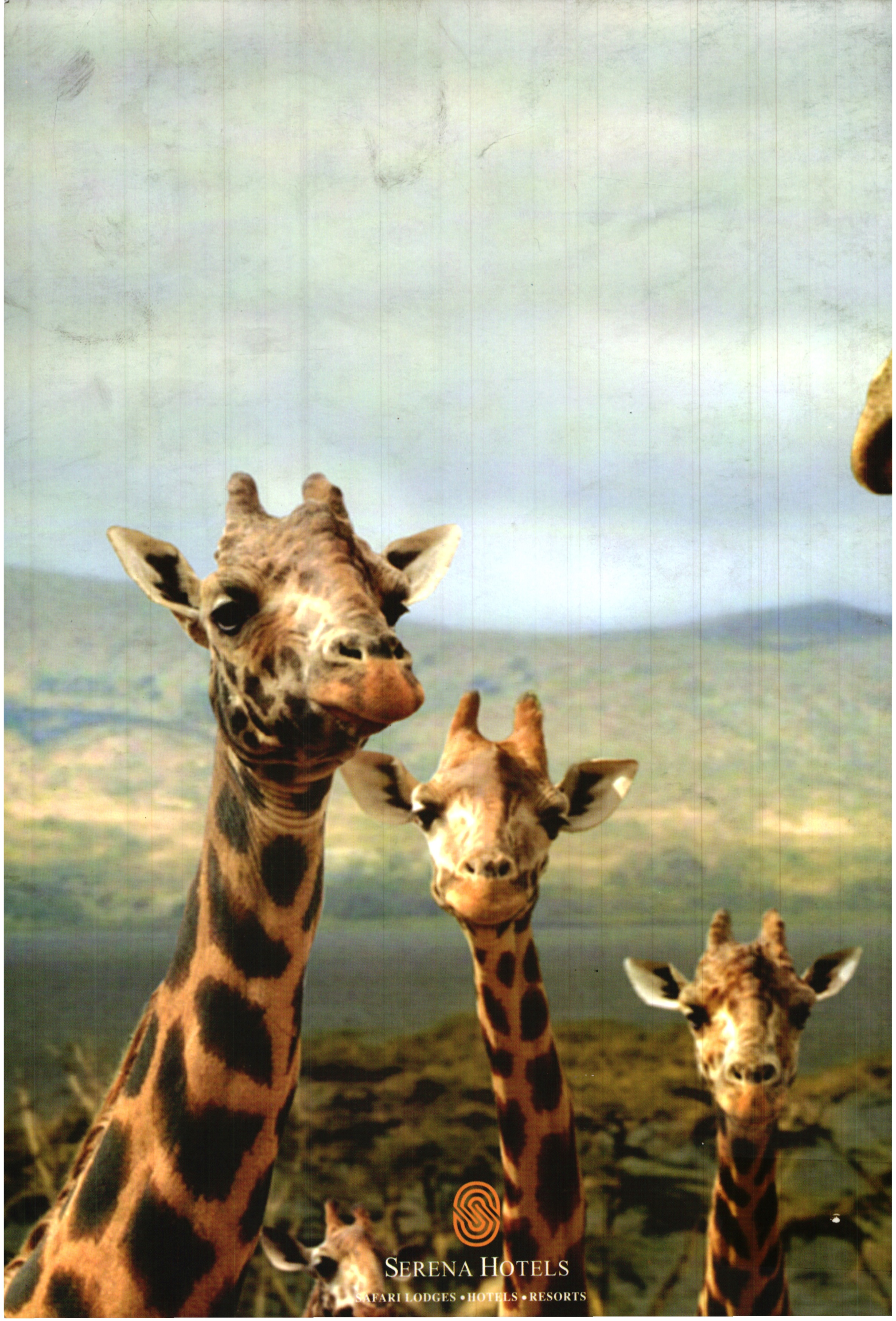
FOLD 1

TPS

Please affix
Stamp here

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

FOLD 2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