REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE CONTROLLER
AND AUDITOR GENERAL

ON

THE FINANCIAL STATEMENTS OF KTDC-UTALII INVESTMENTS LIMITED FOR THE YEAR ENDED 30 JUNE 2007

KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

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KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

BOARD OF DIRECTORS AS AT 30 JUNE 2007

Mr. Obondo Kajumbi	-Chairman
Mrs Rebecca M. Nabutola	-The Permanent Secretary, Ministry of Tourism and Wildlife
Mr. Joseph Kinyua	-The Permanent Secretary, Ministry of Finance
Mr. Hassan M. Kiage	-Member

COMPANY SECRETARY

Mrs. Jane Ikiunga Kyaka

REGISTERED OFFICE

Utalii House
Uhuru Highway
P.O Box 42013
NAIROBI

AUDITORS

Controller and Auditor General,
P.O Box 30084-00100
NAIROBI

BANKERS

Kenya Commercial Bank Limited
P.O Box 7206
NAIROBI

KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

REPORT OF THE DIRECTORS

1. The Directors have pleasure in submitting their Report and Audited Accounts for the year ended 30 June 2007.

2. **Principal Activity**

   The Principal Activity of the Company is to carry out business of an investment Company.

3. **Dividend**

   The Directors do not recommend payment of any dividend.

BY ORDER OF THE BOARD

Mrs. Jane Ikiunga Kyaka
COMPANY SECRETARY

Date 17/9/2007

KTDC UTALII INVESTMENTS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30TH JUNE 2007

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 the Company as at the end of the financial year and its operating results for that year. It also requires the Directors to ensure that the Company keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept the responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with the 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 operating results. The Directors further accept the responsibility for the maintenance of accounting records that may be relied upon in preparation of the 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 twelve months from the date of this statement.

Director.. Date...18/9/2007...

Director.. Date...18/9/2007...

REPUBLIC OF KENYA

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HARAMBEE

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KTDC-UTALII INVESTMENTS LIMITED FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Kenya Tourist Development Corporation – Utalii Investments Limited set out on pages 5 to 12 which comprise the balance sheet as at 30 June 2007, the trading, profit and loss account, cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Directors Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the corporation's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes; designing, implementing and maintaining internal controls 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.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining 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 controls relevant to the entity's preparation and fair representation 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Advances from privatization proceeds

In the previous years' reports, concern was raised over the use of privatization proceeds of Kshs.10,214,358 to finance house loans to two senior staff (now retired) of the parent company. Similarly an amount of Kshs.23,837,581 was paid to Kenya Tourist Development Corporation being the holding company and treated as a debtor without explanation. In both cases, the amounts were advanced without approval of the Board in contravention of Treasury Circular No.351/03 of 26 April 1993. As at 30 June 2007, the two officers had outstanding balances of Kshs.667,290 and Kshs.5,958,922 respectively while the amount paid to Kenya Tourist Development Corporation without explanation stood at Kshs.23,837,581 as disclosed in note 3 to the financial statements.

2. Corporation Tax

The Current Liabilities as at 30 June 2007 show corporation tax of Kshs.2,999,024 which, according to note 7 to the financial statements, represent balance brought forward of Kshs.2,899,784 plus provision for taxation for the year of Kshs.113,448 less withholding and corporation taxes paid of Kshs.14,208. However no provision has been made in these financial statements for penalties and interest which may be levied by the Kenya Revenue Authority. Consequently it is not possible to confirm the accuracy and completeness of the total provision of Kshs.2,999,024.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Company as at 30 June 2007 and of its profit and cash flows for the year then ended and comply with the International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion further, I draw attention to note 3 to the financial statements on the winding up of the company. Available information indicates that Treasury approval for the winding up was given during the financial year 2006/2007. The financial statements have, however, been prepared on a

going concern basis which assumes that the winding up process will not be completed within 12 months from the balance sheet date.

P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

26 November 2007

KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

BALANCE SHEET AS AT 30 JUNE 2007

	Note	2007 KShs	2006 KShs
ASSETS			
Non-Current Assets			
Investments at Cost	2	446,711	446,711
		446,711	446,711
Current Assets			
Debtors	3	30,602,787	30,329,928
Cash and cash Equivalents	4	105,154	40,884
		30,707,941	30,370,812
TOTAL ASSETS		**31,154,652**	**30,817,523**
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	5	2,000,000	2,000,000
Profit and Loss Account		26,124,153	25,859,439
		28,124,153	27,859,439
Current Liabilities			
Creditors and Provisions	6	31,475	58,300
Corporation Tax	7	2,999,024	2,899,784
		3,030,499	2,958,084
TOTAL EQUITY AND LIABILITIES		**31,154,652**	**30,817,523**

The accounts on Pages 5 to 12 have been signed on behalf of the Board of Directors by:

OBONDO KAJUMBI.. CHAIRMAN DATE 18/9/2007

JANE IKIUNGA KYAKA.. COMPANY SECRETARY DATE 17/9/2007

Statement of Directors' Responsibilities is on Page 3.
Report of the Auditors is on Page 4.

The balance sheet, profit and loss account and cash flow statement are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 12.

KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs	2006 KShs
TURNOVER	8 & 9	418,737	270,179
Net Profit after taxation		264,714	174,825
Retained Profit For the Year		264 714	174,825

STATEMENT OF RETAINED PROFITS

01 July as stated	25.859,439	25,684,614
Retained Profit for the year	264,714	174,825
Carried forward on 30 June	26.124,153	25,859,439

KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs	2006 KShs
TURNOVER		418,737	270,179
INCOME			
Dividend Income	8	284,152	66,528
Other Income	9	134,585	203,651
TOTAL INCOME		**418,737**	**270,179**
EXPENSES			
Printing & Stationery	10	16,125	(2,470)
Audit fees	11	20,000	20,000
Bank charges	12	4,450	2,900
TOTAL EXPENSES		**40,575**	**20,430**
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		378,162	249,749
Less: Provision for Taxation		113,448	74,924
RETAINED PROFIT FOR THE YEAR		**264,714**	**174,825**

KTDC UTALII INVESTMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs	2006 KShs
Cash flows from operating activities:			
Profit for the year before taxation		378,162	249,749
Adjustments:			
Investment Income (Dividend)		(284,152)	(66,528)
Operating Profit/(Loss) before Working Capital Changes		**94,010**	**183,221**
(Increase)/Decrease in Debtors		(272,859)	(203,651)
Increase/(Decrease) in Creditors		(26,825)	(64,970)
Cash generated from operations		(205,674)	(85,400)
Income Tax paid	7	(14,208)	(3,326)
Net Cash inflow/(outflow) from Operating Activities		**(219,882)**	**(88,726)**
Cash flows from Investing Activities			
Dividends received		284,152	66,528
Net Cash inflow/(Outflow) from Investing Activities		**284,152**	**66,528**
Net Increase/(Decrease) in Cash and Cash Equivalents		64,270	(22,198)
Cash and Cash Equivalents at beginning of the period		40,884	63,082
Cash and Cash Equivalents at end of the period		**105,154**	**40,884**

Note

Cash & Cash Equivalents

Cash at Bank and in Hand	105,154	40,884
Cash and Cash Equivalents at end of the period	**105,154**	**40,884**

KTDC UTALII INVESTMENT LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

1. **ACCOUNTING POLICIES**

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

(a) **BASIS OF ACCOUNTING**

The financial statements have been prepared in accordance to and in Compliance with the International Accounting Standards. They are prepared under the historical cost convention.

(b) **INCOME RECOGNITION**

Income is obtained from dividends from investments in ordinary shares and also interest charged to house loans.These are accounted for on an accrual basis and recorgnised in the period in which they are declared in case dividends and period in which they are earned in case of interest.

(c) **INVESTMENTS**

Investment in Ordinary shares is stated at actual balances at cost.

(d) **CASH AND CASH EQUIVALENTS**

These comprise cash at bank and in hand. As at 30 June 2007 there was no cash in hand. These are net of bank overdrafts where applicable.

KTDC UTALII INVESTMENT LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

2. SCHEDULE OF INVESTMENTS AT COST

	No. of Shares	2007 Kshs Cost paid Kshs	2006 Kshs Cost paid Kshs
1. Express (K) Limited	363,880	418,268	418,268
2. CFC Bank Limited	79,200	28,443	28,443
	443,080	446,711	446,711

Express Kenya Ltd issued Bonus shares to its existing shareholders during the current year. Subsequently,KTDC Utalii Investments Ltd which held 330,800 shares got new 33,080 bonus shares which brought total shareholding to 363,880 as at 30 June 2007.

3. DEBTORS

These Comprise:

	2007 Kshs	2006 Kshs
Robert Kiattu House Loan	667,290	1,198,825
Patrick Mutemi House Loan	5,958,922	5,958,922
KTDC	23,837,581	23,171,461
KCB University Way	720	720
Express Kenya Limited	138,274	-
	30,602,787	30,329,928

Amount due from KTDC, the parent Company, refer to payments made by this company to KTDC ahead of its winding up per Board approval after which all its assets including cash will revert to KTDC. A Stock Broker, Dyer and Blair Investments, was appointed in June 2004 to handle the sale of shares held in Express Kenya and in CFC Bank. Duly executed Board minutes, sale transfer forms and share certificates for the two companies were delivered to the Broker during the year 2004/2005. As at 30th June 2007, the sale of these shares had not been effected though Treasury approval to sell them was given within the current year 2006/2007.

Amount due from KCB University way refer to a Cheque book requested once but Bank charged twice and Bank was requested to reverse this second entry.This reversal had not been done as at 30 June 2007.

No House Loan repayment by Patrick Mutemi was made during the current year 2006/2007.Repayment in the previous year 2005/2006 was irregular but had,however,realized KShs 72,000.
Interest accrual has been suspended as indicated in note 9.

Robert Kiattu continued with monthly House Loan repayment of KShs 55,510 and realized KShs 666,120 during the current year as was last year and this was received by KTDC. The Company continued to earn interest from this loan at 14% compounded interest which amounted to KShs 134,585 during the year as indicated in note 9.

Express Kenya Ltd declared dividend of KShs 0.40 per share for its Financial year ending 31 December 2006. KTDC Utalii Investments Ltd was entitled to dividend for its 363,880 shares at KShs 145,552 less 5% Kenya withholding tax KShs 7,277.60 to net at KShs 138,274.40 (2006 KShs Nil). This net dividend was received in September 2007(see also note 8).

4. CASH AND CASH EQUIVALENTS

These comprise:

	2007 Kshs	2006 Kshs
Cash at Bank and In Hand	105,154	40,884
	105,154	40,884

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

5. **SHARE CAPITAL**

The share capital of the company is KShs 2,000,000 comprising 100,000 ordinary shares of shs. 20 each fully paid for by Kenya Tourist Development Corporation (KTDC).

6. **CREDITORS AND PROVISIONS**

	2007 Kshs	2006 Kshs
Audit fees	20,000	40,000
Provision for printing	11,475	18,300
	31,475	**58,300**

Provision for printing is the amount provided for the spiral binding of the Annual Report and Accounts after the audit. Binding of the accounts for 2004/2005 and 2005/2006 was done during the current year 2006/2007. Payments for the binding and for the audit fees for these two years were made in the current year, hence the reduction in creditors and provisions.
The creditors and provisions balance of KShs 31,475 is for the accrued audit fees and binding expenses for current year as indicated in notes 10 and 11.

The resulting underprovision of KShs. 4,650 for printing and stationery was added to the expense as indicated in note 10 (2006 overprovision KShs 9,970).

7. **TAXATION**

	2007 Kshs	2006 Kshs
Brought forward on 01 July	2,899,784	2,828,186
Provision for the year	113,448	74,924
	3,013,232	2,903,110
Less: Withholding & Corporation taxes paid	(14,208)	(3,326)
Carried forward on 30th June	**2,999,024**	**2,899,784**

8. **DIVIDEND INCOME**

	2007 Kshs	2006 Kshs
This was declared within the year and earned from the shares held in:		
CFC Bank Ltd-first and final on 79,200 shares @ KShs 0.84	-	66,528
CFC Bank Ltd-interim on 79,200 shares @ KShs 0.50	39,600	-
CFC Bank Ltd-final on 79,200 shares @ KShs 1.25	99,000	-
Express Kenya Ltd-first and final on 363,880 shares @ KShs 0.40	145,552	-
	284,152	**66,528**

Express Kenya Limited had not declared dividend for its financial year ended 31 December 2005 and therefore no dividend was recorgnized here during the last year 2005/2006.

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2007

9.	OTHER INCOME	2007 Kshs	2006 Kshs
	This refers to the following:		
	Interest on Robert Kiattu House Loan	134,585	203,651
		134,585	**203,651**

The accrual of interest due on Patrick Mutemi House loan was first suspended during 2003 2004 year as it was evident that it may not be realised since loan repayment was irregular then. The loan repayment continued to be irregular in subsequent years and no repayment was made during the current year. Consequently, as with the last three years, the interest charged during the current year of Ksh 1,383,099 has not been accrued (2006 Ksh 1,203,383).

However, interest is still being charged and reflected in his house loan statement sent to him and is demanded.

10.	PRINTING AND STATIONERY	2007 Kshs	2006 Kshs
	This refers to the accrual of binding of the accounts after the audit.		
	Binding provision accrued for the year	11,475	7,500
	Add/(Less): Arising Underprovision/(Overprovision) made		
	- for the year 2001/2002	-	(4,720)
	- for the year 2002/2003	-	(4,650)
	- for the year 2003/2004	-	(600)
	- for the year 2004/2005	675	
	- for the year 2005/2006	3,975	
		4,650	(9,970)
		16,125	**(2,470)**

Provision for binding accounts for the years 2001/2002, 2002/2003 and 2003/2004 had been accrued at KShs 12,220 , KShs 12,150 and KShs 8,100 respectively. However,actual payments per quotations for the three years that were made during the previous year 2005/2006 at KShs 22,500 resulting into savings of KShs 9,970 which were reversed against creditors and provisions then.

Accrual of binding of accounts for years 2004/2005 and 2005/2006 were made in these years at KShs 10,800 and Kshs 7,500 respectively. Actual binding and payment for these years were made at KShs 22,950 which resulted into an underprovision of KShs 4,650 that was expensed in the current year.

11. **AUDIT FEES**

These fees are the annual provision made in the books and are due to Kenya National Audit Office (KENAO) at rate of KShs 20,000 per annum.

12. **BANK CHARGES**

These charges were levied to the company's Bank account at Kenya Commercial Bank Ltd.,University way during the year. They comprised monthly account maintenance fees of KShs 200 or KShs 2,400 annually, charges for issuance of requested certificate of balance at end of the year of KShs 500,bank commission KShs 150 and service charge KShs 1,400. All these amounted to KShs 4,450 (2006 KShs 2,900)