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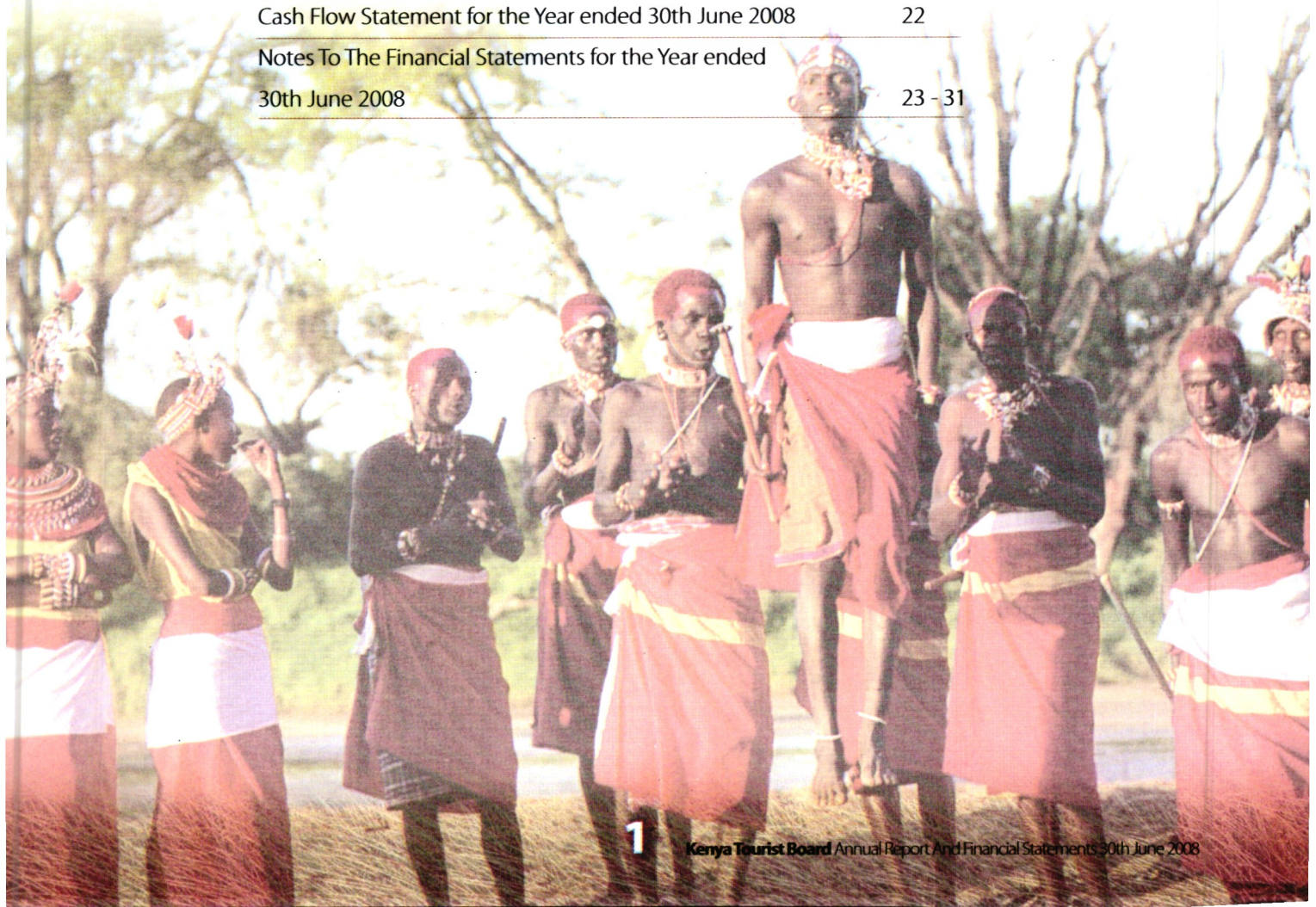
Kenya Tourist Board

Annual Report and Financial Statements

30th June 2008



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BOARD INFORMATION

Established: 1997

Board of Directors:

The Directors who served during the year and to the date of this report are:-

1. Mr. Jake Grieves-Cook, MBS - Chairman
2. Dr. Ongong'a Achieng' - Managing Director
3. Mr. Cyrus Gituai (retired 28th April 2008) Alternate Mr. Mutea Iringo
4. Mr. Francis Kimemia, CBS (appointed 28th April 2008) Alternate Mr. Peter Okwanyo
5. Ms. Rebecca Nabutola, CBS – Alternate Ms. Wanjiru Munene
6. Mr. Joseph K. Kinyua, CBS – Alternate Mr. James Tuamwari
7. Mr. Peter Karanja (retired 1st December 2007)
8. Mr. Obondo Kajumbi (retired 1st December 2007)
9. Mr. Allan Dickson (retired 1st December 2007)
10. Mr. Julius Kipngetch
11. Mr. Khalid Shapi
12. Mr. Titus Naikuni
13. Mr. Duncan Muriuki
14. Ms. Lucy Karume
15. Mr. Jaideep S. Vohra (appointed 18th July 2008)
16. Mr. Wilfred ole Kina (appointed 18th July 2008)
17. Ms. Tasneem Adamji (appointed 18th July 2008)
18. Ms. Betty Radier (appointed 18th July 2008)
19. Mr. Abdul Samji (appointed 18th July 2008)

Company Secretary and Legal Counsel

Mr. Allan Njoroge

Principal Officers

- | | |
|-------------------------|-----------------------------|
| Ms. Jennifer Opondo | - Ag. Director of Marketing |
| Mrs. Julie T. Njeru | - Head of Administration |
| Mrs. Veronica C. Birgen | - Head of Human Resources |
| Mr. James M. Kilonzo | - Head of Finance |

By order of the Board



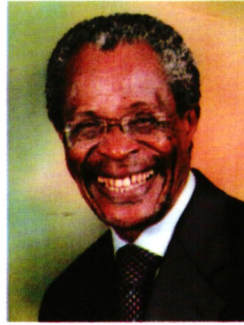
Ag. Managing Director

Board of Directors:

The Directors who served during the year and to the date of this report (25th September 2008) are:-



Jake Grieves - Cook
Chairman



Dr. Ongong'a Achieng'
Managing Director



Rebecca Nabutola
PS- Ministry of Tourism



Joseph Kinyua
PS- Treasury



Francis Kimemia
PS- Office of The President



Titus Naikuni



Jaideep S. Vohra



Khalid Shapi



Abdul Samji



Julius Kipngetich



Wilfred Ole Kina



Tasneem Adamji



Betty Radier



Lucy Karume



Duncan Muriuki

PRINCIPAL PLACE OF BUSINESS

Kenya Re Towers, 7th Floor,
Ragati Road, Upper Hill,
P.O Box 30630 – 00100
NAIROBI

SERVICE DELIVERY CENTRES

NAIROBI

Jomo Kenyatta International Airport, NAIROBI
Tel: 822111 – ext 5299/341728

MOMBASA

Mombasa International Airport, MOMBASA
020 204 73 70

Marketing Development Representatives (MDRs)

GERMANY:

(Germany, Switzerland and Austria)
Gabi Romberg
Managing Director
Travel Marketing Romberg TMR GmbH
Schwazbachstrasse 32, 40822 Mettmann near
Dusseldorf, Germany

FRANCE:

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Kenya Tourist Board
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11 bis rue Blance
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NORTH AMERICA:

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Vice President
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Minneapolis, MN 55459-8257

FAR EAST:

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Commissioner
Kenya Tourist Board – Far East
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Office – 852 2861 0300
852 2520 1600

BANKERS

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Moi Avenue Branch
P.O Box 484 – 00100
NAIROBI

Commercial Bank of Africa
Wabera Street
P.O Box 30437 – 00100
NAIROBI

SOLICITORS

Kaplan & Stratton
Williamson House, 9th Floor
P.O Box 40111 – 00100
NAIROBI

AUDITORS

Controller and Auditor General
Kenya National Audit Office
Kencom House
PO Box 30084 – 00100
NAIROBI

CORPORATE GOVERNANCE

Introduction

Corporate governance is the process by which companies are directed and controlled. The concept of corporate governance has gained prominence and enshrined in codes of best practice developed by Organization for Economic Co-operation and Development (OECD), Commonwealth Association of Corporate Governance (CACG) and the Centre for Corporate Governance in Kenya.

The directors recognize the need to conduct the business and operations of the Board with integrity and in accordance with generally accepted corporate practice and endorse internationally developed principles of corporate governance. The directors will continue to focus their attention on maintaining the highest standards of corporate governance and business ethics in the Board's operations

Board of Directors

The members of the Board are shown on page 2. The Board is chaired by a non executive chairman (Mr. Jake Grieves-Cook, MBS) appointed by the President. All members of the Board have extensive business and administrative experience in private and/or public sectors that is applied in the management of the Board. Directors' allowances, honoraria and related transactions are disclosed in note 17 to these financial statements. Board meetings are held regularly to review the Board's performance against set targets and business plans as well as to formulate and implement strategy. Various committees whose chairpersons report to the Board supplement the functions of the Board.

Board Finance and Establishment Committee

The Board Finance and Establishment committee is chaired by a non executive director (Mr. Abdul Samji) and meets at least on quarterly basis. The other members are Mr. Julius Kipnetich, Mr. J. K. Kinyua, CBS, Ms. Rebecca Nabutola, CBS, Mr. F. Kimemia, Mr. J. S Vohra, and the Managing Director. The committee's responsibilities are ensuring overall sound financial reporting, internal system of controls, business plans and budgets, establishment and staff affairs.

Board Audit Committee

The Audit Committee is chaired by a non executive director (Ms Lucy Karume) and meets at least on quarterly basis. Other members who are non executive directors are Mr. Titus Naikuni, Mr. James Tuamwari, Mr. Wilfred Ole Kina, Ms Betty Radier and an independent Head of Internal Audit (Ms. Mary Maina). The responsibilities of the committee are to review the financial information of the board, monitoring the effectiveness of management information and internal control systems, deliberate on significant findings arising from both internal and external audits, and review the overall risks facing the board.

Board Marketing Committee

The Marketing Committee is chaired by a non executive director (Mr. Duncan Muriuki) and meets at least on quarterly basis. Other members are Ms Tasneem Adamji, Mr. Wilfred Ole Kina, Mr. Khalid Shapi, Ms Betty Radier, Mr. J.S Vohra, Julius Kipngetich, Ms. Rebecca Nabutola, CBS and the Managing Director. The committee's responsibilities are to provide marketing strategies direction of the board and approve marketing plans, activities and budgets. The committee also constitutes the technical team on behalf of the Board in the event of extraordinary circumstances such as crisis.

Delegation of Responsibilities

The preparation of KTB's financial statements is a role that has been delegated to management. These financial statements have been prepared in accordance with internationally accepted accounting practice based on appropriate accounting policies which have been consistently applied and supported by reasonable judgment and estimates.

Management ensures that adequate internal financial control systems are developed to provide reasonable certainty in respect of:

- The completeness and accuracy of accounting records
- The integrity and reliability of the board's annual financial statements and
- The safeguarding of the Board's assets

The responsibility for the integrity, reliability and objectivity of the Board's financial statement lies with the Board of Directors.

The external auditors are responsible for independently examining and expressing an opinion on the reasonableness of the financial statements based on their audit. The auditors' report is set out on page 14.

Corporate Social Responsibility

Amongst the initiatives and endeavors that we participate in include the support of charities.

During the year, we made donations to various charitable institutions for the betterment of the welfare of the many people that they support.

We were able to contribute towards assisting the Internally Displaced Persons as a result of the Post-Election Violence, by donating basic commodities and money to the Red Cross.

CHAIRMAN'S REPORT

Economic Review International Scene

According to the 2008 Economic Survey Report, the world economy grew by 5.2 per cent in 2007 compared to 5.4 per cent in 2006. There was a downward revision to growth in the United States and in countries with close financial and trade connections with the United States. The Euro area, which is also one of our key source markets, slowed in 2007 while major emerging markets have become leading contributors to global growth. The world economic growth is expected to slow in 2008/9 to 4.8 per cent due to the recent turbulence in financial market and high oil prices.

Domestic Economy

Kenya's gross domestic product (GDP) growth is estimated to have expanded by 7.0 per cent in 2007 compared to 6.4 per cent in 2006. The upward expansion in 2007 has mainly been on account of the economy's resilience, improved business confidence and stable macro-economic environment.

Tourism Sector

The tourism sector performed impressively in 2007 helped by increased international flight capacity from key markets combined with diversification and improvement of Kenya's range of marketable tourism products. The country earned an estimated Kshs 65.4 billion in 2007 representing a 16.4% increase over 56.2 billion in 2006. This made tourism not only a socio-economic driver, but also one of the largest categories of international trade. The volume of international arrivals grew by 13.5 per cent from 1,600,000 in 2006 to 1,816,800 in 2007.

Tourism was identified as a leading sector in moving the economy forward in the Vision 2030. The vision for the tourism sector is to "become a top long-haul tourist destination in the world that offers a high value, diverse and distinctive visitor experience". Under the vision, the government in partnership with the private sector and other stakeholders will develop four key tourism products namely: The coast product, the Safari product, niche product and conference and business tourism product.

The goals for 2012 include increasing international visitors to 3 million by 2012; doubling the number of bed-nights at the coast; exploiting the under-utilized parks by increasing safari bed-nights by at least 50%; trebling the number of bed nights in nascent niche markets; and doubling the number of bed-nights for business and conference tourism. In addition, attempts will be made to increase the average spending per visitor through improving the up-market safari and niche products to double yields and improving quality of tourism facilities and the diversity of the attractions offered to visitors.

The board's challenge now is to come up with sustainable competitive strategies to recover the lost tourism business following the December 2007 disputed elections and violence. The target for 2008/9 is to recover the number of tourist arrivals to 50% of 2007 by June 2009.

Concluding remarks.

The major challenge in the year ahead is for the board to revise its business strategy to recover and sustain tourist arrivals and revenue towards the achievement of the Vision 2030 goals.

The board will need to mobilize sufficient resources and maintain an effective and high-profile presence in the key source markets.

In conclusion, I wish to express my gratitude to my fellow directors for their commitment, support and guidance throughout the past year. My sincere thanks are also extended to management and staff for their hard work, loyalty and professionalism.

Finally, I also take this opportunity to convey my appreciation to the Government, the private sector and all our visitors for supporting the tourism sector during some of the most trying moments of our nation's history.



Jake Grieves-Cook, MBS

Chairman.

MANAGING DIRECTOR'S REPORT

Boards' Performance

In 2007/8 financial year, Kenya Tourist Board achieved mixed performance on its performance targets. Tourist arrivals are estimated to have approached the 2 million mark in 2007 while tourism earning hit Kshs 65 billion in the same period. However, as a result of the announcement of the December 2007 disputed presidential elections, the 1st quarter of 2008 registered a decline of about 50% in tourist arrival and in tourism earning compared to the same period the same year.

The second quarter of 2008 registered a decline of 31% which is a slight improvement compared to the 1st quarter's performance. The overall decline by June 2008 is 41%. It is projected that by the end of 2009 the tourism market will have recovered fully if all the recovery strategies and plans are implemented successfully.

Recovery Initiatives

Right at the beginning of 2008, the tourism sector together with the private sector members took initiatives to intervene to get the disputing parties to resolve the issues and bring the country back to normalcy. Kenya Tourist Board worked closely with the tourism sector, the ministry and other Government departments to come up with a recovery strategy focusing on the initial phase of damage control and PR. So far the board with the assistance of the government and the European Commission has executed the following initiatives:-

- 1) The balance of the government funded tourism market sustainability programme was converted into a tactical recovery plan geared towards changing the perception of the international media and trade on the destination. The Plan was executed successfully, with the highlight being the global media and travel agent educational visits.
- 2) A further Kshs 220,000,000 Government funded recovery strategy was executed between May and June 2008 mainly targeting Tour Operator Partnership (TOPs). This programme has also been implemented successfully.
- 3) An EU funded Euro 3.1 million Tourism market Recovery Programme 2008 Phase1 on Global consumer Advertising campaign is being executed. The focus of this programme is to shift global perception about Kenya and therefore limited to advertising, specifically on CNN and other foreign media houses.
- 4) A further EU funded Euro 3 million Tourism Market Recovery Programme (TMRP) 2008 Phase II is underway. This TMRP focuses on broad based advertising strategy in specific markets. The necessary protocols and tendering documentation are under presentation.
- 5) The Government funded Annual Work Plan of Kshs 437 million is also being implemented. This plan is targeting traditional source markets with the potential for a quick turn around, but also addresses developing and emerging markets to some extent in order to keep a presence in these markets.
- 6) The Board, through the Ministry of Tourism is pursuing another government pledge for support and a strategy is in preparation. This plan will address developing on the recovery momentum already gained in the last eight months, long term and emerging markets at a higher level to ensure sustainability besides keeping the recovery momentum. Clearly, the government and the development partners have gone an extra mile in supporting the Board and the Tourism sector to recover lost business.

Future outlook

The Government of Kenya has pledged financial support. This initiative plus the measures already put in place by KTB Management & MDRs will hopefully see an early recovery of the Tourism Sector by end of winter season of 2009/2010. The assumption is that the funds pledged will be released on time and that the political environment will continue to be stable.

Concluding remarks

I take this opportunity to sincerely thank the Minister for Tourism, the Permanent Secretary, Board members, the management team and all the stakeholders for their relentless support without which the marketing efforts would have collapsed. We look forward to a bright future for the Board and the tourism sector as a whole.



Mrs. Veronica Birgen

Ag. Managing Director.



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30TH JUNE 2008

The Directors submit their report together with the audited financial statements for the year ended 30th June 2008, which show the state of the Board's affairs.

1. PRINCIPAL ACTIVITIES

Kenya Tourist Board was formed as a State Corporation, through Legal Notice No. 14 (Kenya Tourist Board Order, 1997) published in the Kenya Gazette of 7th February 1997.

VISION

To be the premier Tourism Destination marketing organization in the world

MISSION

To support and serve the tourism industry through marketing Kenya's unique physical and non-physical attractions with diligence, dedication and professionalism for the benefit of all stakeholders.

QUALITY POLICY

Kenya Tourist Board is committed to supporting and serving the tourist industry through marketing Kenya's unique physical and non-physical attractions with diligence, dedication and professionalism for the benefit of all stakeholders.

In pursuit of this commitment, quality objectives that have been established and communicated to all employees are being implemented and monitored. Further, they shall be reviewed regularly in compliance with ISO 9001 while continuously seeking to understand the needs and requirements of our customers, business stakeholders and partners.

The mandate of Kenya Tourist Board as per the Legal Notice:-

- (a) To promote and market Kenya as a tourist destination locally and internationally.
- (b) To establish public relations services to address issues concerning the image of the tourism industry in Kenya and facilitate the resolutions of conflicts within the industry.
- (c) To work in partnership with national, regional and International organizations, and local authorities in order to improve the tourism environment.
- (d) To monitor the quality and standards of facilities available to both local and international tourists and advise the private and government agencies on how to improve the facilities for the targeted markets.
- (e) To develop and maintain professional personnel to deal with issues that adversely affects the targeted markets.
- (f) To initiate education and awareness programmes on tourism locally and abroad.



KTB EMPLOYEES

KTB employees exhibit the highest levels of integrity and professionalism. In meeting the service needs of our customers, our employees “get it right the first time, every time”.

Customer Focus

We are a customer driven organization that views every customer contact as an opportunity to add value and enhance our relationship.

We listen to our customers, learn and understand their needs thereby enabling us to anticipate and pro-actively offer attractive solutions.

We continuously strive to offer the best services for our customers.

Communication

We offer open, honest and constructive communication throughout the organization by supporting healthy debate and personal participation on issues affecting our business.

We communicate with our customers in a fresh and informative way.

Service

We optimize the use of relevant technology to deliver attractive customer solutions, increase efficiency and minimize cost base.

We offer reliable service delivery channels that provide a comfortable, secure and user-friendly environment for both customers and employees alike.

We constantly seek ways to improve the delivery of service to our customers.

RESULTS

The results together with the notes for the year are shown from page 16 to 31.



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE KENYA TOURIST BOARD FOR THE YEAR ENDED 30 JUNE 2008

I have audited the financial statements of the Kenya Tourist Board (KTB) set out on pages 16 to 31 which comprise the balance sheet as at 30 June 2008 and the income statement, statement of changes in fund balances and the 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 state of the affairs of the Board 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 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 Board's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Bank Account

Included in the bank account figure of Kshs.114,688,344 as at 30 June 2008 are outstanding reconciling debits of Kshs.1,472,248 and credits of Kshs.1,650,238. The matter remains unresolved even though it was included in the reports on the financial statements for 2005/2006 and 2006/2007. In view of the unexplained long outstanding items in the bank statements, it has not been possible to confirm the accuracy of the bank account balance of Kshs.114,688,344 as at balance sheet date.

2. Income from Catering and Tourism Development Levy Trustees (CTDLT)

Included in the Income statement for the year ended 30 June 2008 is an amount of Kshs.144,028,542 which differs by Kshs.38,007,173 from the Kshs.182,035,715 reflected in the books of Catering and Tourism Development Levy Trustees. The Board attributes the difference to direct payments by the Trustees to third parties for undisclosed purposes. Further, information provided by the Board indicate that direct payments amounted to Kshs.43,925,444. There is, therefore, a further unexplained variance of Kshs.5,918,271. In addition, these direct payments were not approved by the Board.

In the absence of the Board's approval for the direct payments, supporting documents and reconciliation between the Board and the Trustees records, it has not been possible to confirm the propriety of the direct payments of Kshs.43,925,444 on behalf of the Board and the accuracy of the income amounting to Kshs. 144,028,542.

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 financial position of the Board as at 30 June 2008 and of its surplus and cash flows for the year then ended in accordance with the International, Financial Reporting Standards and the Kenya Tourist Board Order, 1997.



P. N. KOMORA, CBS.

CONTROLLER AND AUDITOR GENERAL

Nairobi

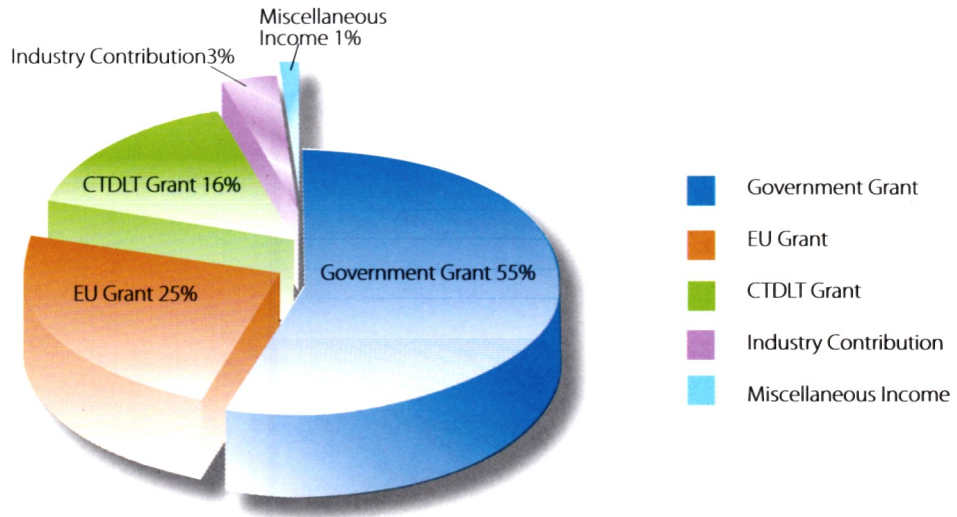
3rd January 2009

FIVE YEAR FINANCIAL SUMMARY

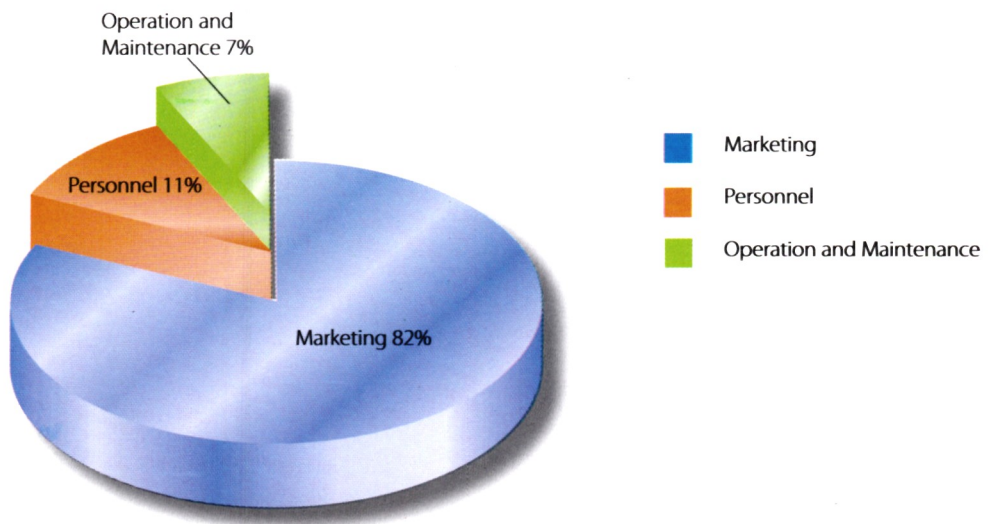
| | 2007/08 | 2006/07 | 2005/06 | 2004/05 | 2003/04 |
|--------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Income | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. |
| Government Grant | 667,202,048 | 270,000,000 | 280,110,000 | 420,000,000 | 440,000,000 |
| Eu Grant-refund | 66,525,698 | - | 134,706,548 | 243,000,000 | 209,646,411 |
| CTDLT Grant | 144,028,542 | 264,853,524 | 98,146,476 | 52,750,000 | 53,495,794 |
| Industry Contribution | 31,698,104 | 29,037,363 | 32,861,455 | 22,850,000 | 25,276,986 |
| Miscellaneous Income | 13,439,377 | 19,669,230 | 2,468,143.00 | 14,250,000 | 10,555,163 |
| Total Income | 922,893,770 | 583,560,117 | 548,292,622 | 752,850,000 | 738,974,354 |
| Expenditure | | | | | |
| Marketing | 644,973,783 | 427,638,033 | 380,152,055 | 638,377,000 | 543,819,717 |
| Personnel Emolument | 88,247,787 | 86,632,403 | 70,271,871 | 76,776,000 | 63,384,070 |
| Operation & Maintenance | 84,260,078 | 58,121,794 | 44,507,758 | 37,697,000 | 37,556,444 |
| Total Expenditure | 817,481,648 | 572,392,230 | 494,931,684 | 752,850,000 | 644,760,231 |

FINANCIAL GRAPHS: FIVE YEAR AVERAGE

INCOME SOURCE



EXPENDITURE



STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 2008

It is the responsibility of the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Board as at the end of the financial year and of its operating results for that year. It is also the Directors' responsibility to ensure that the Board keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. 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 Board and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which 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 Board will not remain a going concern for at least twelve months from the date of this statement.

Mrs. Veronica Birgen



AG. MANAGING DIRECTOR

Jake Grieves – Cook



CHAIRMAN

REPORT OF THE INDEPENDENT AUDITORS

BALANCE SHEET AS AT 30TH JUNE 2008

| | NOTES | 30-Jun-08 Kshs | 30-Jun-07 Kshs |
|-----------------------------|-------|--------------------|--------------------|
| Non-current Assets | | | |
| Property, Plant & Equipment | 3 | 23,188,808 | 18,677,539 |
| Current Assets | | | |
| Inventory | 4 | 3,954,374 | 2,086,177 |
| Receivables | 5 | 125,465,950 | 142,750,294 |
| Prepayment | 6 | 5,494,243 | 1,845,526 |
| Treasury Bills | 7 | 2,367,980 | 2,367,983 |
| Deposit On Call | 8 | 401,168,339 | - |
| Bank Account | 9 | 114,688,344 | 156,164,236 |
| Petty Cash | 10 | 39,507 | 9,336 |
| Total Assets | | 653,178,736 | 305,223,551 |
| CURRENT LIABILITIES | | | |
| Creditors And Accruals | 11 | 297,076,252 | 100,895,564 |
| Unearned Revenue | | 175,753,260 | 127,202,048 |
| Audit Fee Payable | | 350,000 | 487,500 |
| Bank Overdraft | | 8,618,548 | 449,283 |
| Total | | 481,798,060 | 229,034,395 |
| Net Current Assets | | 171,380,676 | 76,189,156 |
| Total Net Assets | | 194,569,484 | 94,866,695 |
| Financed By | | | |
| General Fund | 12 | 193,304,380 | 91,341,695 |
| Revaluation Reserve | 13 | 1,265,104 | 3,525,000 |
| Retained Funds | | 194,569,484 | 94,866,695 |

The Financial Statement were approved by the Board on 25th September 2008 and signed on its behalf by :

Ag. Managing Director: 

Chairman: 

INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE 2008

| | Note | 30-Jun-08 | 30-Jun-07 |
|-------------------------|-------------|--------------------|--------------------|
| | | Kshs | Kshs |
| Income | | | |
| Government Grant-annual | 14 | 490,000,000 | 270,000,000 |
| Catering Levy | 21 | 144,028,542 | 264,853,524 |
| Others | 15 | 288,865,228 | 48,706,593 |
| Total | | 922,893,770 | 583,560,117 |
| Expenditure | | | |
| Recurrent Expenditure | 16 | 805,655,128 | 560,992,025 |
| Directors Expenses | 17 | 3,136,813 | 4,304,681 |
| Depreciation | 3 | 8,338,520 | 6,852,863 |
| Audit Fee | 18 | 350,001 | 280,160 |
| Total | | 817,481,648 | 572,392,230 |
| Surplus | | 105,412,121 | 11,167,887 |

STATEMENT OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED 30TH JUNE 2008

| | Note | Revaluation | General | Total |
|---------------------------------|-------------|--------------------|--------------------|--------------------|
| | | Reserve | | |
| | | KShs. | KShs. | KShs. |
| As at 1st July 2007 | | 3,525,000 | 91,341,695 | 94,866,695 |
| Prior year adjustment | 19 | (1,826,146) | (3,449,436) | (5,275,582) |
| Reinstated Balance | | 1,698,854 | 87,892,259 | 89,591,113 |
| Surplus/ (Deficit) for the year | | (433,750) | 105,412,121 | 104,978,371 |
| Balance as at 30th June 2008 | | 1,265,104 | 193,304,380 | 194,569,484 |

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2008

| | 30-Jun-08 | 30-Jun-07 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Net Cash Flow From Operating Activities | | |
| Operating Surplus / (Deficit) | 105,412,121 | 11,167,887 |
| Adjustment | | |
| Depreciation | 8,339,706 | 6,852,863 |
| Amortization-EU Capital Grant | - | (10,500) |
| Unrealized Foreign Currency Gain | 4,545,516 | (3,290,073) |
| Gain/Loss On Disposal Of Assets | 44,458 | (328,803) |
| Interest Income | (9,762,937) | (1,868,773) |
| Changes In Working Capital | | |
| Unrealised Revenue | 48,551,212 | 127,202,048 |
| (Increase) / Decrease In Debtors | 12,896,876 | 4,689,168 |
| (Increase) / Decrease In Inventories | (1,868,197) | 3,279,910 |
| Increase / (Decrease) In Creditors | 196,180,688 | (23,651,090) |
| Net Cash Flow From Operating Activities | 364,339,443 | 124,042,638 |
| Investing Activities | | |
| Purchase Of Fixed Assets | (12,895,433) | (5,339,312) |
| Interest Income | 9,762,937 | 1,868,773 |
| Disposal Of Fixed Assets | 167,500 | 615,101 |
| Net Cash Flow From Investing Activities | (2,964,996) | (2,855,439) |
| Net Increase/(Decrease) In Cash & Cash Equivalents | 361,374,447 | 121,187,199 |
| Net Foreign Exchange Adjustment | (4,545,516) | 3,290,073 |
| Prior Year - Net Payments | (5,275,582) | - |
| Cash & Cash Equivalents 1st July | 158,092,272 | 33,614,999 |
| Cash & Cash Equivalent | 509,645,621 | 158,092,272 |
| Analysis Of Balances Of Cash & Cash Equivalents | | |
| Petty Cash | 39,507 | 9,336 |
| Bank Balance | 114,688,344 | 156,164,236 |
| Overdraft | (8,618,548) | (449,283) |
| Deposit On Call | 401,168,339 | - |
| Treasury Bills | 2,367,980 | 2,367,983 |
| Cash & Cash Equivalent | 509,645,621 | 158,092,272 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008

1. ACCOUNTING POLICIES FOR THE YEAR ENDED 30TH JUNE 2008

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

Basis of Accounting

The financial statements prepared under the historical cost convention basis of accounting as modified by valuation of motor vehicles.

Depreciation

Depreciation is calculated on the straight line basis at annual rates to write off the cost of assets over their estimated useful lives by equal annual installments at the following rates:-

| | |
|----------------------|--------|
| I. Motor vehicles | 25% |
| II. Office equipment | 12.5% |
| III. Furniture | 12.5 % |
| IV. Computers | 30 % |

Foreign Currency Transactions

Revenue received and expenditure incurred in foreign currencies is translated into Kshs. at the rates of exchange prevailing on the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies are translated into Kshs. at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income and expenditure statement in the year in which they arise.

Inventories

Inventories are valued at fair value using the First in First Out (FIFO) formula.

Revenue Recognition

Income recognized on accrual basis. Grants from the Government of Kenya and Catering Levy Trustees are recorded when realized. Grants from the European Union are recognized once the conditions for disbursements are met.

Retirement Benefit Costs

The Board contributes to a defined contribution pension scheme, at the rate of 15% of basic pay and to the National Social Security Fund, (NSSF). Contributions are determined by local statute and are currently limited to Kshs. 200.00 per employee per month.

The Board's contributions to the above scheme are charged to the income and expenditure account in the period to which they relate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual/reversal. Employee entitlements to gratuity are recognized when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

Cash and Cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days of maturity from the balance sheet date.

2. GENERAL INFORMATION

Kenya Tourist Board is a legal entity established by Legal Notice No. 14 of 31st January 1997 mandated to, among other duties, promote and market Kenya as a tourist destination.

3. FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2008

Fixed Assets Schedule As At 30th June 2008

| Details | Office Equipment | Computers | Furniture | Motor Vehicles | Total |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| | Kshs. | Kshs. | Kshs. | Kshs. | Kshs. |
| Cost / Valuation | | | | | |
| As at 1st July 2007 | 7,250,844 | 13,134,918 | 15,984,319 | 15,434,519 | 51,804,600 |
| Additional for the year | 1,906,739 | 1,217,675 | 4,651,630 | 5,119,389 | 12,895,433 |
| Disposals | - | (224,244) | - | - | (224,244) |
| Total as at 30th June 2008 | <u>9,157,583</u> | <u>14,128,349</u> | <u>20,635,949</u> | <u>20,553,908</u> | <u>64,475,789</u> |
| Depreciation | | | | | |
| As at 1st July 2007 | 3,158,402 | 9,724,222 | 11,557,226 | 8,687,210 | 33,127,061 |
| Charge for the year | 919,601 | 2,077,557 | 2,142,502 | 3,200,046 | 8,338,520 |
| Disposals | - | (179,786) | - | - | (179,786) |
| Total as at 30th June 2008 | <u>4,078,003</u> | <u>11,621,993</u> | <u>13,699,729</u> | <u>11,887,256</u> | <u>41,286,981</u> |
| NBV as at 30th June 2008 | <u>5,079,580</u> | <u>2,506,357</u> | <u>6,936,220</u> | <u>8,666,652</u> | <u>23,188,808</u> |
| NBV as at 30th June 2007 | <u>4,092,442</u> | <u>3,410,696</u> | <u>4,427,092</u> | <u>6,747,309</u> | <u>18,677,539</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

4. INVENTORY

The inventory comprises of stationery and promotional giveaways.

5. RECEIVABLES

| RECEIVABLES | 30-Jun-08 | 30-Jun-07 |
|----------------------------------|--------------------|--------------------|
| | KSHS. | KSHS. |
| Exhibition debtors | 4,132,622 | 7,861,732 |
| GoK | 120,000,000 | - |
| Jim Flannery | 208,284 | 208,284 |
| EU/TTF -AWP Grant- Receivable | - | 134,706,548 |
| Staff Advances | 1,177,619 | 2,118,687 |
| Imprest | 4,645,206 | 1,215,611 |
| Mediplus | 934,128 | 605,552 |
| Erroneous Bank Draft | - | 281,865 |
| Subtotal | 131,024,865 | 146,998,280 |
| Provision for bad debts-Industry | (4,262,986) | (4,247,986) |
| Provision for bad debts-Staff | (1,368,923) | - |
| Total | 125,465,950 | 142,750,294 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

6. PREPAYMENTS & DEPOSITS

| PREPAYMENTS & DEPOSITS | 30-Jun-08 KSHS. | 30-Jun-07 KSHS. |
|------------------------|--------------------|--------------------|
| Insurances | 1,538,338 | 1,484,186 |
| Others | 3,955,905 | 361,340 |
| Total | 5,494,243 | 1,845,526 |

7. TREASURY BILLS

An amount of Kshs. 2,367,980 is held as security for the staff car loan scheme as approved.

8. DEPOSIT ON CALL

| Bank | 30 June 2008 | 30 June 2007 |
|----------------------------|--------------------|--------------|
| KCB | 40,000,000 | - |
| CBA -2005/06 AWP EU REFUND | 283,526,386 | - |
| CBA-TSP | 52,069,045 | - |
| CBA-TSP | 25,572,908 | - |
| Total | 401,168,339 | - |

9. BANK ACCOUNTS

| BANK ACCOUNTS | 30 June 2008 | 30 June 2007 |
|--------------------------|--------------------|--------------------|
| Kenya Shillings Accounts | 96,116,189 | 154,497,861 |
| Euro Accounts | 12,711,682 | 1,387,552 |
| USD Accounts | 1,710,551 | 264,772 |
| GB Pounds Account | 4,149,921 | 14,051 |
| Total | 114,688,344 | 156,164,236 |

10. PETTY CASH

Petty cash is held to enable the Board pay for minor expenses of less than Kshs. 8,000.00 and where such expenses cannot be well planned for in advance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

11. CREDITORS AND ACCRUALS

| CREDITORS AND ACCRUALS | 30 June 2008 | 30 June 2007 |
|------------------------|---------------------------|---------------------------|
| | KSHS. | KSHS. |
| Creditors | 259,615,871 | 75,963,535 |
| Accruals | 26,921,268 | 15,551,081 |
| VAT | 3,289,071 | - |
| Payroll Deductions | 5,247,215 | 9,380,947 |
| GRN Suspense | 1,824,836 | - |
| Suspense-Bank | 177,990 | - |
| Total | <u>297,076,252</u> | <u>100,895,564</u> |

12. GENERAL FUND

This is composed of the accumulated surplus over the period of the Board's existence.

13. REVALUATION RESERVE

The revaluation surplus presents solely the surplus on revaluation of property, plant and Equipment (Motor vehicles) and is non-distributable.

14. GOVERNMENT GRANT-ANNUAL

Government Grant-annual Grants to the Board as voted for in the Government budget for the financial year. The expected receipts from the Government are thus well known before the start of the year and the same are released on a quarterly basis.

TOURISM SUSTAINABILITY PROGRAMME (TSP)/RECOVERY.

This represents the component of the GoK under TSP. The TSP Programme which was expected to end in March, 2008, was converted to recovery after the disruption of tourism sector during the post-election violence that occurred early in the year. Upon conversion to recovery, the funds were extended for use to June, 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

15. OTHER INCOME

| OTHER INCOME | 30 June 2008 | 30 June 2007 |
|--|---------------------------|--------------------------|
| | KSHS. | KSHS. |
| Industry Contribution | 31,698,104 | 29,037,363 |
| Interest Income | 9,762,937 | 1,868,773 |
| Tourism Sustainability Programme-(TSP) | 177,202,048 | 6,147,952 |
| Tourism Information /Statistic | - | 4,000,000 |
| Other Income | 1,668,034 | - |
| Miscellaneous Income | 1,998,602 | 7,549,322 |
| EU/TTF Interest | 9,804 | 92,684 |
| EU Grant Amortization | - | 10,500 |
| EU 2005 Extra Claim/ Refund | 66,525,698 | - |
| Total | <u>288,865,228</u> | <u>48,706,593</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

16. RECURRENT EXPENDITURE

| RECURRENT EXPENDITURE | 30 June 2008 | 30 June 2007 |
|--|--------------------|--------------------|
| | KSHS. | KSHS. |
| Bank charges | 1,029,063 | 1,438,332 |
| Salaries and wages | 81,841,463 | 74,725,384 |
| Leave Days Provision | (1,763,361) | - |
| Pension and NSSF Contribution | 5,503,685 | 4,945,324 |
| Gratuity | 2,666,000 | 3,534,000 |
| Staff Group Life Policy | 1,358,860 | 1,090,563 |
| Staff Medical Insurance | 2,414,210 | 1,652,464 |
| Staff Medical-Outpatient | 3,785,453 | 3,829,854 |
| Group Personal Accident | 471,278 | 684,668 |
| Donations | 213,690 | 500,339 |
| Staff Training & Recruitment | 11,499,720 | 6,660,179 |
| Staff Uniform | 3,677,588 | - |
| R & M for Motor Vehicle, | 1,777,181 | 1,883,864 |
| R&M-Office Equip. | 1,619,857 | 798,435 |
| R&M-Computers | 2,960,621 | 957,493 |
| Insurance for Motor Vehicle, Computers & Office Equip. | 720,538 | 898,918 |
| Rent | 9,121,355 | 8,908,732 |
| Postage | 591,832 | 253,516 |
| Telephone | 7,302,293 | 6,007,604 |
| Stationery | 2,834,116 | 1,900,646 |
| Entertainment | 1,073,680 | 985,513 |
| Committees, Conferences & Meetings | 40,000 | 696,362 |
| Local Traveling & Accommodation | 4,177,595 | 2,813,756 |
| Legal | 1,556,096 | 262,062 |
| Consultancy fees | 3,648,940 | 4,388,795 |
| ISO Expenses | 1,258,556 | - |
| Internal Audit-Field Visit | 242,929 | - |
| Purchase price variance-stock | - | 917,398 |
| Inventory Adjustment Account | - | (22,284) |
| Loss/gain on disposal | 44,458 | (328,803) |
| Exchange Loss/(Gain) | 4,545,516 | (3,290,073) |
| Office general expenses | 3,084,210 | 2,813,633 |
| Provision for bad debts | 1,383,923 | 3,447,320 |
| Marketing and promotion | 644,973,783 | 427,638,033 |
| Total | 805,655,128 | 560,992,025 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

17. DIRECTORS' EXPENSES

The Directors' expenses relate to sitting allowances paid to Directors and other expenses incurred in transacting Directors' activities as far as they relate to the Board.

| ITEM | AMOUNT | |
|--------------|------------------|------------------|
| | 30 June 2008 | 30 June 2007 |
| | KSHS. | KSHS. |
| Allowances | 1,980,000 | 3,862,000 |
| Arrears | 560,000 | - |
| Travel | 434,055 | 138,670 |
| Others | 162,758 | 304,011 |
| Total | 3,136,813 | 4,304,681 |

18. AUDIT FEES

This comprises of the fees expected to be paid to our Auditors for the work done in relation to the financial year.

19. PRIOR PERIOD ADJUSTMENT

During the year items not accounted for in the prior year were adjusted as follows;

(a) The amount of Kshs. 1,826,146 represents the revaluation reserve write back for the prior years.

| (b) | Item | Amount-Debit | Amount-Credit | Explanation |
|-----|--------------------|-------------------|------------------|--|
| | Mediplus | | 39,037 | Receipts Credited in Mediplus Accounts |
| | Depreciation | | 231,119 | Amount not charged in prior year accounts |
| | France | | 1,105,260 | July 07 invoice posted in June 2007 |
| | USA | | 1,802,000 | July 07 invoice posted in June 2007 |
| | UK | 3,352,622 | | June 07 invoice paid in July 07 |
| | UK | 5,305,248 | | Arrears Oct. 06 to June 07 invoiced in June 08 |
| | Marketing Invoices | 1,621,274 | | Prior year invoices paid in the current year |
| | Total | 10,279,144 | 5,003,562 | |
| | Net Amount | 5,275,582 | | |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (Continued)

20. EUROPEAN UNION GRANT – RECOVERY.

The European Union grant is meant to supplement Government budgetary allocations to the Board to support the marketing programmes. Grants from EU are recorded as current liabilities in the unearned revenue account until it is recognized as revenue when the related costs are incurred. During the year, € 1,860,000 (Kshs. 171,307,010.55) was released by the European Union to support recovery activities in 2008/09 hence being treated as unearned revenue.

21. CATERING LEVY

The revenue from the Catering Levy Trustees is a share of the Hotel Catering levy of 2% levied to the Hotel establishments. The enhanced collection is a reflection of the performance of the tourism sector.

22. CONTINGENT LIABILITIES

As at 30th June 2008, there was a contingent liability arising from a claim by a former employee representing damages for alleged wrongful dismissal (the subject of a court case). The Board has been advised by its lawyers that it is possible, but not probable, that the decision will succeed and accordingly no provision for any liability has been made in this financial statement. The estimated amount is Ksh. 27,685,923.40

23. CAPITAL GRANTS (EU)

There is no capital grants received during the financial year.

24. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior year adjustment.

25. CAPITAL COMMITMENTS

The Board is currently implementing a Management Information System (MIS) capital project.

26. TAX EXEMPTION

The Board's income is exempt from tax by the Minister for Finance under section 13(2) of the Income Tax Cap 470 vide Kenya Gazette Supplement No. 121 dated 20th Dec. 2002.

27. EMPLOYEES

The average number of employees for the Board during the period was sixty one (61) (June 2007 – 61).

28. CURRENCY RISK

The Board operates within and without Kenya and its assets and liabilities are reported in the local currency. It held no significant foreign currency exposure as at 30th June 2008.

29. CURRENCY

These financial statements are presented in Kenya Shillings (Kshs.)

