REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

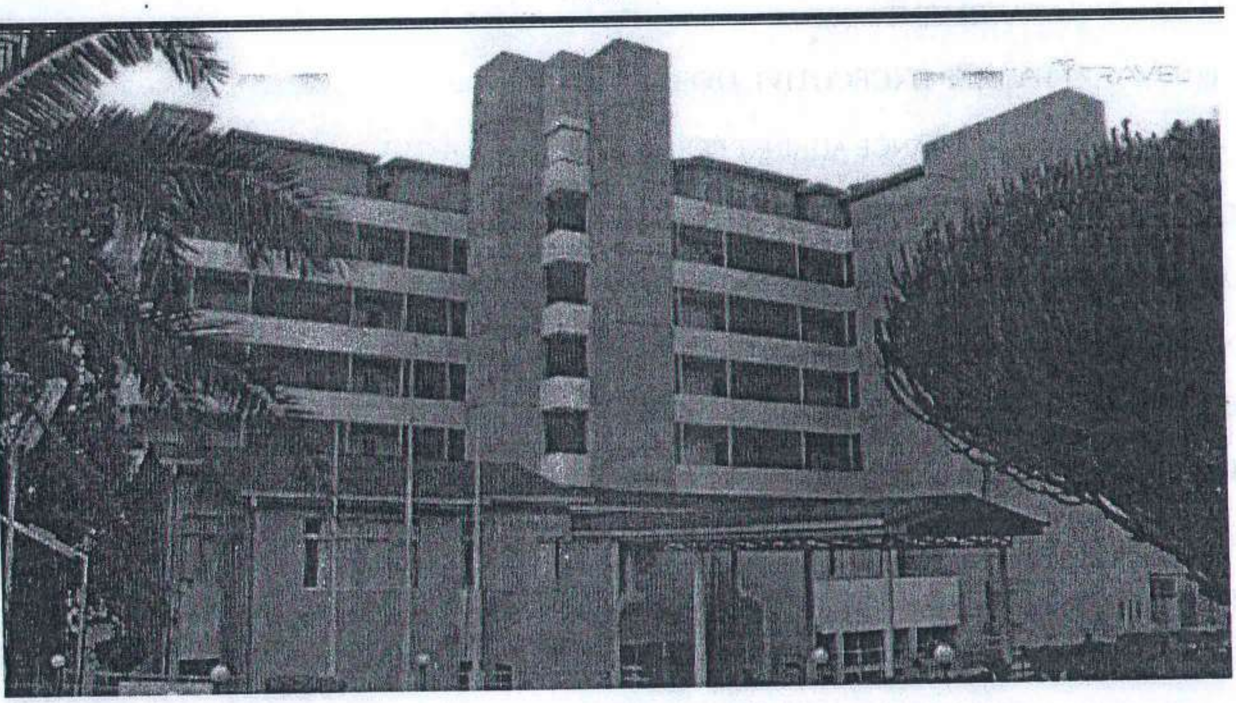
THE AUDITOR-GENERAL

ON

SUNSET HOTEL LIMITED

FOR THE YEAR ENDED 30 JUNE, 2022

SUNSET HOTEL LIMITED



REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2022

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

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KEY COMPANY INFORMATION

Sunset Hotel Limited ("SHL", "The Company") was incorporated under the Kenya Companies Act (Cap 486) in 1976 with shareholders of SHL being Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC) and Kisumu County (formerly Kisumu Municipal Council). TFC is the majority shareholder in SHL with a direct controlling stake of 95.4% shares with Kisumu County shareholding of 4.6%. TFC shareholding has since been transferred to Kenya Development Corporation (KDC) effective 2nd July 2021 vial Legal Notice No.113 pursuant to the Kenya Development Corporation Limited vesting order, 2021 published by the Cabinet Secretary for National Planning. From the management perspective, SHL is classified as a Commercial State Corporation by virtue of being a subsidiary of KDC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Hotel.

Principal Activities
The principal activity of the Company is operation of the hotel facility mainly focusing on provision of accommodation and conference facilities.

Our Vision
To be the preferred choice for customers positioned to providing personalized, diversified and exceptional service.

Our Mission
To continuously create value in every encounter with customers, owners and associates as we provide a choice of excellent hospitality products that offer good value for money while assuring a good return to shareholders and inspiration to employees through sustainable use of environmental resources and corporate social responsibility.

Directors

1.	Mr.Christopher Huka	Director	Chairperson
2.	Ms. Judith Omachar	Director	Appointed August 2021
3.	Mr. Edward Gitau	Director	Appointed August 2021
4.	Mr. George Okongo	Director	CECM, Tourism, Arts, Culture & Sports, Kisumu County
5.	Ms. Lucy Achieng Alai	Director	CECM, Finance and Planning, Kisumu County

Corporate secretary
Mr. John Karia
Kenya Development Corporation Ltd
Uchumi House, 17th Floor
P O Box 12665-00100
Nairobi
Email: info@kdc.go.ke

Registered Office
Sunset Hotel Limited Aput lane,
Impala walk
P. O. Box 215 – 40100
Kisumu Kenya
Tel. (254)057-2023482, 2021490
Email: info@sunsethotel.co.ke
Website: www.sunsethotel.co.ke

Corporate Headquarters
Kenya Development Corporation
Uchumi House, 17th Floor
Agha Khan Walk
P O Box 12665-00100
Nairobi

Corporate Contacts
Telephone: +254 20 2229213
E-Mail: info@kdc.go.ke
Website: www.kdc.go.ke

Corporate Bankers

1. National Bank of Kenya Limited
   Oginga Odinga Street
   P.O Box 1152-40100
   Kisumu

2. Kenya Commercial Bank
   Oginga Odinga Street
   P.O Box 17-40100
   Kisumu

Independent Auditors
Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

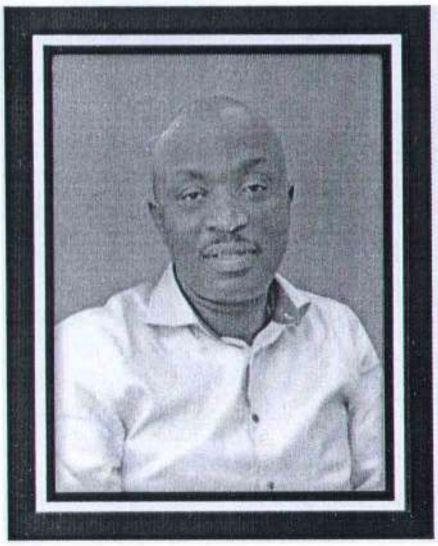
Principal Legal Advisers

1. The Attorney General
   State Law Office
   Harambee Avenue
   P.O Box 40112
   City Square 00200
   Nairobi, Kenya

THE BOARD OF DIRECTORS

DIRECTOR	KEY PROFESSIONAL/ ACADEMIC QUALIFICATIONS	WORK EXPERIENCE
 **Christopher Huka (Chairperson)**	Mr. Huka holds a Master of Business Administration degree in Human Resources Management from the University of Nairobi, Bachelor of Education degree from Moi University, Diploma in Executive Coaching; Academy of Executive Coaching – UK, Higher National Diploma: HRM from Institute of Human Resource Management, Kenya and advanced Certificate in Strategic HR Management, Cornell University – USA.	Mr. Huka, is the Interim Director General of Kenya Development Corporation (KDC) and a Board Member. He was appointed on 17th May, 2021. With a long career in the private and public sectors, working at senior executive level Mr Huka has an extensive work experience of over 25 years in Banking, Oil & Gas sectors. Presently, he is the Interim Director General at KDC mandated to manage the merger and transition of TFC, IDB Capital and ICDC into a single development finance institution entity. Previously he has held senior executive positions both in the public and private sector. Prior to this appointment he served as the Senior Technical Advisor to the Cabinet Secretary, National Treasury and Planning of the Republic of Kenya. He has served at Dubai Islamic Bank UAE, as Human Resource & Administration Director and Senior Business Partner at Barclays Bank of Kenya. Before joining Barclays, he worked in three senior managerial positions as Country Human Resources at Chevron (K) Ltd, (formerly Caltex), Human Resources Officer at Shell (K)Ltd and Senior Human Resources Officer at Post Bank.

 **Judith Omachar**	Mrs Omachar holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA-K) and is a member of ICPAK.	Mrs. Judith Omachar is the Deputy Director Business Development and Advisory. She has over 20 years' experience in investments including deal origination, appraisal and portfolio management gained at IDB Capital Limited where she was working as the Manager Credit.
 Edward Gitau	He holds a bachelor's degree in Economics and Statistics from the University of Nairobi. He is a certified investments and finance analyst (CIFA).	Investment Manager - Agro-processing, Energy and Education division since July 2017. He held the position of Credit Manager from May 2014. He has 25 years' experience in finance analysis, investment appraisal, enterprise valuations and investment monitoring.

 **Ms. Achie Ojany- Alai**	She holds an MA in Marketing Management from Kingston Business University, London.	CECM, Tourism, Arts, Culture & Sports, Kisumu County. She has spent the last 23 years working in Europe and the Middle East. Prior to joining the County of Kisumu. She is also serves as the National Caucus Chair bringing together all the 47 Tourism and Wildlife County Ministers under the patronage of Council of Governors. Achie Ojany - Alai has also been appointed to the planning committee for upcoming Africities Global Summit to be hosted in Kisumu, Kenya in April 2022. A seasoned marketer having worked in top advertising agencies worldwide- McCann Erickson Kenya and London, Gillette International, London. Conference moderator-World Urban Forum, Poland in June 2022.
 **Mr. George Okongo**	He holds a Masters Degree in Development Studies (IDS), University of Sussex and Bachelor's degree in Economics from the University of Dar es Salaam. He is also a graduate of the Oxford Leadership Development Programme, Said Business School, University of Oxford and holds a postgraduate certificate in Public Policy Analysis from the London School of Economics (LSE).	George is the CECM, Finance and Economic Planning, County Government of Kisumu. Prior to Joining the County Government, Mr Okongo served in various senior policy analysis and programme management roles in international research and development organizations. He was Development Manager at the African Population and Health Research Centre (APHRC) and Senior Progrmamme Manager at the International Institute for Democracy and Electoral Assistance (International IDEA).

	Mr. John holds a Master degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi.	He is the Company Secretary. John is an Advocate of the High Court of Kenya and a Certified Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and an Associate Member of the Chartered Institute of Arbitrators (Kenya Branch). John is a seasoned legal and governance professional with wide and varied experience gained in the financial services industry and has previously worked for Kenindia Assurance Co. Ltd and the Laptrust/CPF Group where he was the Legal Services Manager.

MANAGEMENT TEAM

Accountant

Holds a Bachelor of Commerce (B.COM) Finance, CPA(K) & Diploma in Accounting

Over 16 years' experience

Risper Chichole

CHAIRMAN'S STATEMENT

On behalf of my fellow Board Members, the Management and myself I hereby present to you Financial Statements of Sunset Hotel Ltd for the Financial Year 2021/2022.

I am pleased to report that despite the turbulence witnessed in the industry during the year as a result of the Covid-19 pandemic and inflation, the hotel defied all odds and posted a relatively impressive performance for the second time in a row. For a number of years, the performance of the Hotel has been wanting; with the poor performance being attributable to a number of factors inter alia the downturn of the tourism sector in the country, the state of the facility and the increase in the number of high-end facilities within Kisumu County that provided stiff competition for the hotel.

In the Year under review the hotel posted a profit of Kshs. 9.19 Million against the expected Profit of Kshs. 4.33 Million; thus further reducing the accumulated losses to Kshs. 163.78 Million.

Despite the evident improvement, it is not lost to the board the need to strategically reposition the hotel. The hotel's improvement on the backdrop of the harsh environment under which it operated during the period serves to underscore the huge potential that this iconic hotel possesses. With continued concerted efforts, the hotel should be able to become self-sufficient as we continue to explore means and ways of putting it back on track and forestalling the accumulation of further losses and safeguarding the investment of the shareholders.

The current Board has shown a lot of goodwill and I believe this will go a long way in assisting the hotel in making the revolutionary change required to salvage it as it can already be seen. I would like to record my sincere gratitude to the Board for their invaluable support, commitment and dedication which has helped steer the hotel's strategic thinking to new altitudes.

Finally, on behalf of the Board of Directors, Management & Staff I would like to express my sincere gratitude to our customers for their patronage over the Years and look forward to their continued support in future.

Christopher Huka
Chairman

REPORT OF THE GENERAL MANAGER

On behalf of management of Sunset Hotel Limited, I am pleased to present to you the Annual Report and Financial Statements of the company for the year ended 30th June 2022.

The upsurge of new hotels in the county of Kisumu has created a serious scramble for clients resulting in serious competition that is certainly good for the industry.
On the flipside, this entry of new hotels has 'disadvantaged' the old hotels and has created a challenge that the old hotels must quickly address and deal with in order to remain competitive and relevant; Sunset Hotel being no exception.
Alive to that fact, the management set out to leverage on its key strengths to make up for the main weakness which remains the dilapidated state of the hotel.

The hotel's key strength being the brand name built over the years. Sunset is undoubtedly a house hold name in the region and industry at large. The hotel's strategic location also gives it an edge over the competitors. The hotel mainly focused/focuses on quality service delivery.

During the year 2022, the hotel achieved a net turnover of Kshs 59 million (2021: Kshs 51 million) representing an increase of 14 % and a profit of Kshs. 9.19 million (2021: Kshs 10.08 million) thus 9% decrease. The drop being mainly occasioned by the high cost of goods and most specifically the cost of sales during the period under review. The worldwide economic turmoil did not spare the hotel.

The management remains focused on the refurbishment agenda and it remains hopeful that the agenda will be actualized sooner than later. It is envisaged that more efforts will be directed towards increasing operational efficiency and implementing strategies such as increasing accommodation capacity, marketing, advertising and promotions that are directed towards securing more business.

Finally, on behalf of management and staff of Sunset Hotel Ltd, I wish to express our sincere appreciation to the Board of directors for their committed support during the year ended 30th June 2022. I equally wish to express my gratitude to the shareholders; National Government and the County Government of Kisumu, customers and other valuable stakeholders for their support. The future looks brighter.

Risper Chichole
Ag. General Manager

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022

Sunset Hotel has four main strategic issues within the current Strategic Plan for the FY 2019- FY 2023. These strategic issues are as follows:

1. Reinforcement of trust and recognition for Sunset Hotel in the industry
2. Increasing sales revenue.
3. Reinvestment and payment of dividends to shareholders
4. Human Resource Development and Management

Sunset Hotel develops its annual work plans based on the above four Issues. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The hotel partly achieved its performance targets set for the FY 2021/2022 period for its strategic issues, as indicated in below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Reinforcement of trust and recognition for Sunset Hotel in the industry	To reinforce the hotel's position in the market as a recognized and trusted hotel	Customer loyalty and maximized profits	• Renovation and refurbishing of hotel rooms to modern standards. • Rebranding the hotel. • Implement use of ICT in hotel recognition and image improvement.	Process of sourcing for refurbishment funds initiated and in progress with remarkable improvements already having been done with internally generated funds.
Increasing sales revenue.	To achieve a 20% growth rate in sales for the next 5 years in order to enhance and sustain financial resources for Sunset Hotel.	Increased sales and patronage	• Diversification of services and products. • Focus on conference tourism to attain average space occupancy of 75%. • Investment in cottages and tents • Implement proper financial control	Revenue target surpassed by 14% while profit was over and above the budget by 112%.

			systems • Continual improvement of services, products and environment • Pay debts on time • Mobilize resources from external sources • Improve efficiency and effectiveness of resource utilization.	
Reinvestment and payment of dividends to shareholders	To achieve a 20% growth rate in the levels of profits sufficient to yield returns to shareholders	Declaration of dividends and plough backs	i) Renovation and refurbishment of the property ii) Diversification of services and products iii) Reduction of operating costs iv) Focus on quality service and customers satisfaction	Projects to improve the hotel from internally generated have been implemented as outsourced funds are awaited for major areas. Profitability was also achieved.
Human Resource Development and Management	To attract, develop and retain competent and motivated staff	Improved Customer service, Increased productivity	i) Developing a Human Resource Manual ii) Upgrading skills in the workforce iii) Improving the work environment iv) Rationalizing staff capacity	HR instruments developed and approved; for implementation in a phased manner. Work environment generally improved.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which the company is directed and controlled. It also provides the framework for attaining the company's objectives. The Board of Directors has embraced Governance as the mode of engagement and interaction between the Corporation's Board, Management, Stakeholders and Regulators for the sustainable benefit of the hotel.

Sunset Hotel Ltd is committed to realizing profits and growth while complying with all legal Requirements and maintaining business ethics. The above are realized through:

a) Board of Directors

The Board provides leadership of the Company with the framework that upholds the core values underpinning good Corporate Governance.

The board's duties and responsibilities include;

- Setting the Strategic Direction of the hotel and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the hotel's overall systems of planning, accounting and internal controls that facilitate prudent risk management;
- Setting policy guidelines for management and ensuring competent management of the business including selection, supervision, and remuneration of Senior Management
- Ensuring the business of the hotel is conducted in compliance with relevant laws and regulations
- Monitoring the hotel's performance and reporting this to the shareholders.

There exists a formal procedure to the appointment of directors. Key elements such a conflict of interests and multiple directorships are considered during this exercise. Towards the end, the company has consistently formulated successive 5 years strategic plan.

b) Board Composition

The Board believes that to achieve good corporate governance, there is need for strong presence of the non- executive directors in the Board. During the year under review, the Board had five Directors of all whom were non-executive Directors. The General Manager attended the Board meetings in his capacity as General Manager.

The Board Chairman has the overall responsibility of leading the Board. He oversees the operations and effectiveness of the Board and ensures that the Boards' discussions are conducted in a manner that promotes open participation.

The Directors who held office during the year under review is as listed under the Board of Directors; afore section in this report.

The Corporation Secretary being the custodian of corporate governance within the entity works closely with the Board and the Hotels Management. In this regard, the Corporation Secretary facilitates all Directors to have full and timely access to all relevant information, ensures that the correct board procedures are followed and advises the Board on all Corporate Governance matters and prevailing statutory requirements.

c) Board Meetings

The Board schedule of meetings is prepared annually in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary.

During the year, the board held a total of four (4) meetings; all of which were regular board meetings.

The time, date, venue and Agenda of the meeting are communicated in advance. Attendance of the Board Members to full Board meeting, Special Board meeting over the year is set as below:

	Name	Details	Regular Meeting	Special Meeting	Total Meetings
1	Achie Alai	Alternate to the Governor	3	-	3
2	John Karia	Company Secretary	4	-	4
3	Christopher Huka	Director General-KDC	4	-	4
4	Edward Gitau	Director	4	-	4
5	George Okongo	Alternate to the Governor	2	-	2
6	Judith Omachar	Director	4	-	4

d) Company Policy on Directors Remuneration

Company Directors are entitled to sitting allowances for each Board Meeting. Directors are entitled to transport and meal allowance when attending Board Meetings outside their regular areas of residence.

These are payable at the following rates:-

itle	Directors Sitting Allowance Per Sitting	Lunch Allowance Per Sitting	Air ticket per director	Subsistence Claim
Board Chairman	20,000	2,000		18,200
Directors	20,000	2,000	As per travel	18,200

e) General Terms of Service

Directors serve a 3 years term service from the date they are appointed into office. They are eligible for re-appointment for one second term of 3 years.

f) Conflict of Interest

The Board Members are required to make disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The day to day running of the business of Sunset Hotel Ltd is delegated by the Board to the Hotel General manager who implements Board decisions in a manner that adds value to the hotel.

a) **Revenue/Profitability**
During the year under review, the hotel achieved a net turnover of Kshs 59 million against a budget of Kshs 52 million. This represented a favorable variance of 14%. Net profit stood at Kshs. 9.19 million against the projected profit of Kshs.4.33 million as shown below. The target for the year under review was therefore achieved.

Particulars	Budgeted	Actuals	Variance	% age Variance	Remark
	2021-2022	2021-2022	2021-2022	2021-2022	
Revenue	Kshs	Kshs	Kshs	Kshs	
Sales	52,189,889	59,308,372	7,118,483	14%	F
Other Income	-	-	-	-	
Total Revenues	**52,189,889**	**59,308,372**	**7,118,483**	14%	F
Cost of sales	8,836,968	15,773,129	-6,936,161	-78%	U
Gross Profit	**43,352,921**	**43,535,243**	**182,322**	**0%**	**F**
EXPENSES					
Administration Costs	28,325,322	26,020,476	2,304,846	8%	F
Selling and distribution Costs	908,747	423,182	485,565	53%	F
Depreciation Costs	3,230,477	2,197,378	1,033,099	32%	F
Total Operating expenses	**32,464,546**	**28,641,036**	**3,465,071**	**14%**	**F**
Operating Profit/(Loss)	**10,888,375**	**14,894,207**	**4,005,832**	**37%**	**F**
Finance Costs	6,556,296	5,699,076	857,220	13%	F
Profit/(Loss) before taxation	**4,332,079**	**9,195,131**	**4,863,052**	**112%**	**F**
Income tax expenses (credit)	-	-	-	-	-
Net Profit /(Loss) after taxation	**4,332,079**	**9,195,131**	**4,863,052**	**112%**	**F**

Revenue center's performance:

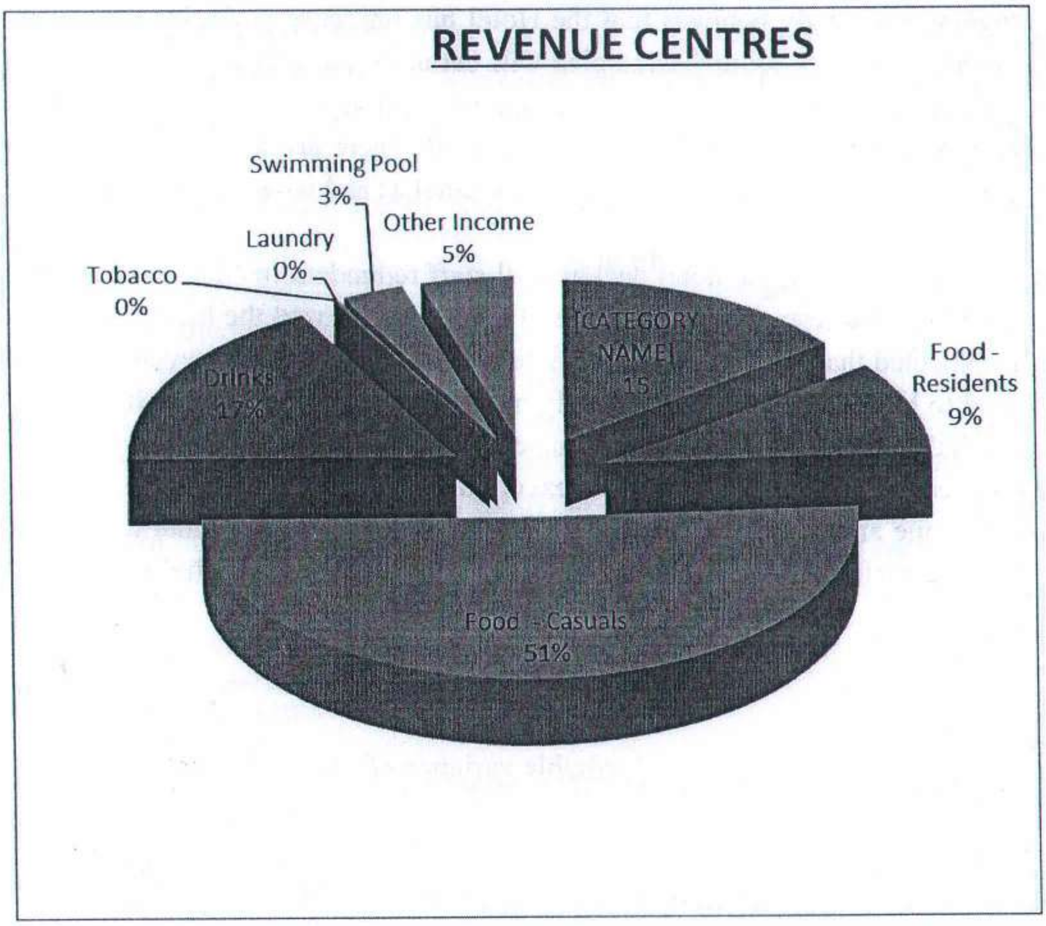
The Hotel's current amenities include; 50 standard rooms with 100 bed capacity, restaurant, lounge bar, pool bar, swimming pool and conference facilities. The respective centers performed as below:

Revenue Centre	Amount
Accommodation	8,776,680
Food - Residents	5,509,407
Food - Casuals	30,153,297
Drinks	10,272,542
Tobacco	19,660
Laundry	65,754
Swimming Pool	1,816,532
Other Income	2,694,500
Total	**59,308,372**

1) Food Residents -Food sales from resident/in-house guests

2)Food Casuals-Food sales from seminars and walk-in clients

3)Other Income-This includes revenue from hall hire, stationery, video/photo session, ground hire etc



Room and bed occupancy for the period was as below:

Particulars				Budget
	Actual	Budgeted	Full Capacity	Achieved
Room Occupancy %	37%	41%	100%	90%
Bed Occupancy %	23%	22%	100%	105%
Number of Rooms Occupied	5,583	7,337	9125	76%
Number of Beds Occupied (Guests)	6,800	7,992	18,250	85%
Average Rate - Room	1,572	2,053	4,000	77%
Average Rate - Bed	1,291	1,884	2,000	69%

The Hotel's key strength is its strategic location and ownership structure with the major challenges being its poor state of facility, high cost of operations and increased competition. The visible decline in sales over the years is due to stiff competition which has hit the Hotel hard thus calling for tough decisions to be made for the hotel to remain a float.

However, the management strongly believes that the Hotel has immense potential which if tapped through carefully thought out turn around strategies will certainly reclaim the Hotel's fast fading glory; this is already underway with discussions between the management, the directors/shareholders regarding the same having commenced. There are also deliberate efforts to use the internally generated funds to uplift the status of the hotel as and where possible.

As one of the turnaround strategies, the hotel declared all staff redundant in May 2019 and paid off their dues with funds borrowed from the shareholders. This certainly eased the burden of salaries on the hotel and it was expected that going forward the hotel would be able to breakeven. The hotel has since then endeavored to build on the gains previously made to continually improve its performance despite a myriad of challenges. The hotel's performance has for the last two years been relatively impressive with the year under review being no exception. in the year under review the hotel surpassed both the revenue and profit targets. This is on the backdrop of perennial loss making by the hotel in the past. The performance clearly points to the overall hotel's potential in the event of a facelift.

b) Administration Costs

The overall vote was within the budget with a favorable variance of 8%.

c) Finance Costs

This relates to Interest on loans disbursed to the hotel by TFC at an interest rate of 11%.

d) Depreciation

Most of the Hotel's assets are fully depreciated. It had been hoped that some of them would be replaced in the current financial year. However, that is yet to be effected thus the variance.

e) Liquidity Position

As a result of the above adverse revenue variance and general dismal performance over time, the Hotel has continued to default on meeting its obligations as and when they fall due. However, with the restructuring measures having been put in place, the liquidity position of the hotel has improved and the hotel is now able to meet its current obligations while offsetting the previous outstanding liabilities.

f) Compliance with Statutory Requirements

Sunset Hotel is fully compliant with all the relevant statutory requirements. The required returns are filed as and when due. However, the hotel has in the past faced serious financial constraints which made the hotel to lag behind on making remittances to the relevant organs e.g KRA and NSSF. The hotel has since cleared the NSSF principal arrears save for the penalty for which they have come up with an agreed payment plan. The hotel has also engaged KRA and agreed on a payment plan for the tax arrears.

g) Key Projects and Investment Decisions Implemented by the Entity

Save for the capital expenditure outlined in the cashflow, due to the current financial situation, the hotel has no major projects but hopes to initiate when the cash flows allow.

h) Financial Probity and Serious Governance

There is no major financial improbity reported by internal audit, external audit or other national government agencies providing oversight, neither are there serious governance issues among the board or member of the board and top management including conflict of interest.

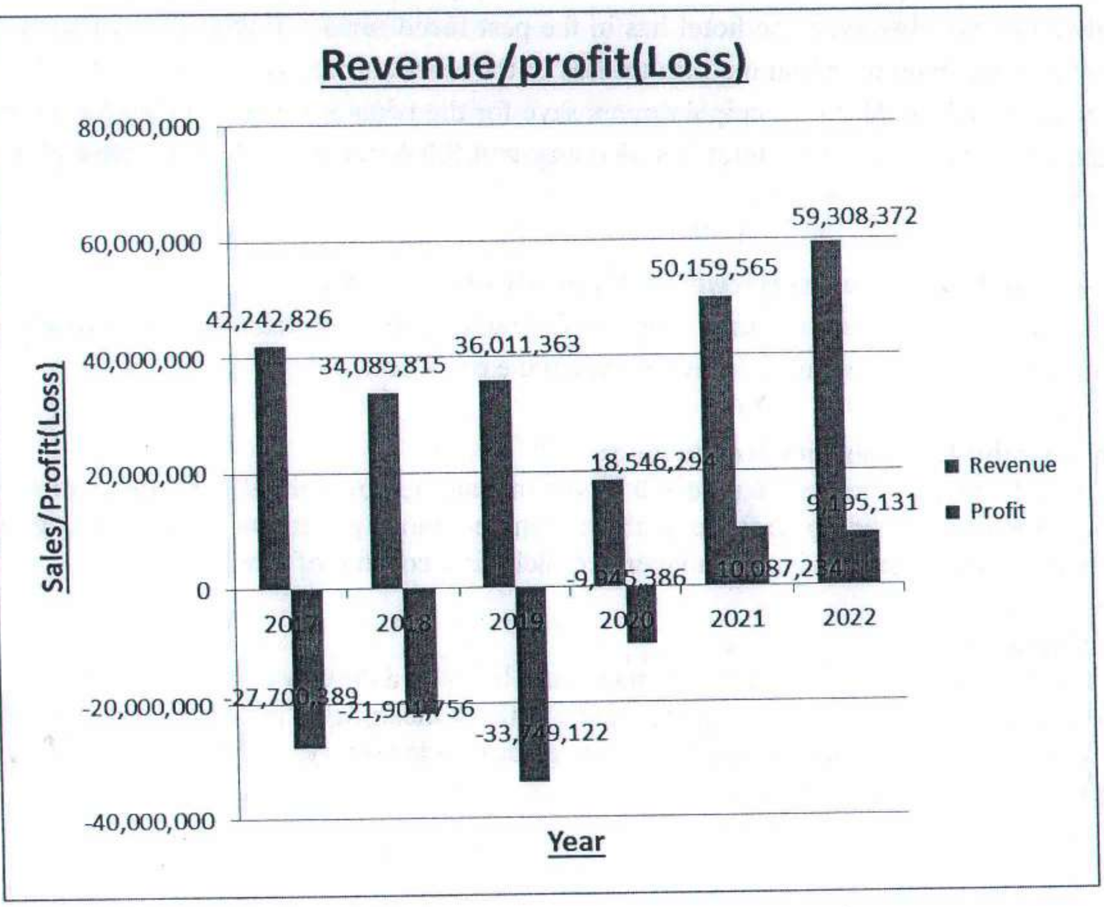
i) Five-year performance

Save for the last two years, the hotel's performance has been on a downward trend due to its dilapidated state, having been built 40 years ago and with no meaningful refurbishment in between. The hotel is in dire need of a facelift in order to bring back its lost glory. As aforementioned, the hotel's potential cannot be underestimated.

The hotel's comparative performance over the last five years is as follows:

Year	Revenue	Profit
2022	59,308,372	9,195,131
2021	50,159,565	10,087,234
2020	18,546,294	-9,945,386
2019	36,011,363	-33,749,122
2018	34,089,815	-21,901,756
2017	42,242,826	-27,700,389

The above performance is graphically shown as below:



ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Corporate Social Responsibility (CSR), Environmental Conservation and Sustainability means corporate culture for Sunset Hotel, a culture which holds the Company's responsibility not only for making profit, but also for the conditions under which profits are made. Finding a balance between financial successes, social responsibility and protecting the environment is a fundamental approach that lies at the heart of Sunset Hotel corporate culture and is reflected in our corporate values. Below is an outline of the organization's policies and activities that promote sustainability.

i) Sustainability strategy and profile

Sustainability is a key pillar of our company strategy and has always played a fundamental role within our business. We continue to strive to combine a powerful business sense and a strong sense of social responsibility towards our stakeholders which has over decades of existence been created, managed and sustained through long-term relationships, marked by mutual respect and trust.

ii) Environmental performance

From Environmental perspective, our guiding principles and approach has continued to evolve in an ethical manner through various partnerships so as to widen our footprint with an increased emphasis on quality, value addition and visible measures of impact and success within the ecosystem and communities in which we operate. The importance of an ever clean, green and healthy environment cannot be over-emphasised. The hotel collaborates with other partners e.g. Kenya Wildlife Services (KWS) who are the hotel's immediate neighbours in conserving the environment. The hotel boasts of a wide variety of indigenous trees within its premises thus playing a key role in conservation. The hotel also has a proper waste management policy in place.

Interaction with Nature at Sunset Hotel

iii) Employee welfare

The hotel has properly documented and approved Human resource instruments which guide all the HR related matters including hiring and staff relations. The HR Manual is the Primary Policy document in Management of the Sunset Hotel Human Resource. The Manual acts as a reference document for the Hotel, and forms the basis upon which the Hotel's work culture and environment develops.

It guides the Hotel and employees of the Hotel on matters of policy and practice The Manual incorporates provisions of relevant legislations which are applicable on matters of Human Resource Management and Development and is largely aligned to the Constitution and Employment Act and is periodically revised as and when necessary. The hotel is an equal opportunity employer. The hotel is fully compliant With Occupational Safety and Health Act of 2007, (OSHA)

iv) Market place practices-

a) Responsible competition practice.

The hotel embraces best commercial practices, ethical and International standards in dealing with stakeholders.
Sunset hotel ensures responsible competition practices by operating within and cultivating a corruption free environment, responsible political involvement, fair

competition and respect for competitors at all times.

b) **Responsible Supply chain and supplier relations**

The hotel ensures fairness in all the procurement processes by adhering to the relevant procurement regulations and endeavours to pay the suppliers within the stipulated time frames while maintaining clear, transparent, open communication channels and mechanisms.

c) **Responsible marketing and advertisement**

Sunset hotel at all times applies and maintains ethical marketing practices by ensuring a level playing ground and being sensitive to the competitors at all times as well as operating within healthy marketing principles.

d) **Product stewardship**

All undertakings of the hotel are geared towards customer satisfaction. The hotel maintains positive communication with both the internal and external customers and has a robust feedback mechanism in place. This ultimately safeguards consumer rights and interests in the long run.

Corporate Social Responsibility / Community Engagements

Our Sustainable approach towards sourcing and production helps us to create value for a wide group of stakeholders from farmers to community groups to customers. Sunset Hotel continues to give priority to the local communities and farmers living around our areas of operation where possible so as to ensure economic independence. The Hotel occasionally hires local performers to entertain guests through dance and music thus enhancing guest experience by exposing them to the diverse range of local cultures and ethnic groups whilst economically empowering the local people. The hotel is largely engaged in supporting education specifically by offering internships and attachment to students and allowing the students to tour the facility as a way of gaining practical experience especially for hospitality students.

Occasionally, the Hotel also supports some charitable causes and community initiatives. These take many forms: financial, supply of foodstuffs or clothing, hosting of community events. Due to financial constraints, the hotel did not make any cash donations during the year but was able to donate firewood to children's home.

REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statement for the year ended June 30, 2022 which shows the state of Sunset Hotel Ltd affairs.

Principal activities
The principal activity of the company is provision of accommodation and conferencing facilities.

Results
The results of the entity for the year ended June 30, 2022 are set out on pages 1- 43

Dividend
The directors do not recommend payment of dividend for the period.

Reserves
The Directors propose to carry forward the balance of accumulated losses amounting to **Kshs. 163,780,381.**

Directors
The members of the Board of Directors who served during the year to date of this report are set out on page iv-vii in accordance with Regulation 2(b) of the Sunset Hotel Ltd Articles of Association.

Auditors
The Auditor General is responsible for the statutory audit of the Sunset Hotel Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.The Auditor General continues in office in accordance with Section35 of the Public Audit Act 2015.

By Order of the Board

John Karia
Company Secretary
Kenya Development Corporation
P O Box 42013-00100
Nairobi
Date. 26|09|2022

EMENT OF DIRECTORS' RESPONSIBILITIES

ion 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, uire the Board to prepare financial statements in respect of Sunset Hotel Limited, which give a true and r view of the state of affairs of the Hotel at the end of the financial year/period and the operating results the Hotel for that year/period. The Companies Act 2015 requires the directors to ensure that the Hotel eps proper accounting records which disclose with reasonable accuracy the financial position of the otel. The Directors are also responsible for safeguarding the assets of the Hotel.

he Directors are responsible for the preparation and presentation of the Hotel's financial statements, which ve a true and fair view of the state of affairs of the Hotel for and as at the end of the financial year ended 1 June 30, 2022. This responsibility includes: (i) maintaining adequate financial management policies and nsuring that these continue to be effective throughout the reporting period; (ii) maintaining proper ccounting records, which disclose with reasonable accuracy at any time the financial position of the ntity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair resentation of the financial statements, and ensuring that they are free from material misstatements, hether due to error or fraud; (iv) safeguarding the assets of the Hotel; (v) selecting and applying ppropriate accounting policies; and (vi) making accounting estimates that are reasonable in the ircumstances.

he Board of Directors accept responsibility for the Hotel's financial statements, which have been prepared ising appropriate accounting policies supported by reasonable and prudent judgements and estimates, in onformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors confirm that the Hotel's financial statements give a true and fair view of the state of Hotel's transactions during the financial year ended June 30, 2022, and of the Hotel's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Hotel, which have been relied upon in the preparation of the Hotel's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

Sunset Hotel's financial statements were approved by the Board on 28 | 09 | 2022 and signed on its behalf by:

Christopher Huka	**Risper Chichole**
Chairperson of the Board	Accounting Officer

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SUNSET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Sunset Hotel Limited set out on pages 1 to 43, which comprise of the statement of financial position as at 30 June, 2022, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Sunset Hotel Limited as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Non-Disclosure of Material Uncertainty Relating to Going Concern

The statement of financial position reflects current liabilities totalling to Kshs.139,137,398 which exceeds current assets balance of Kshs.35,086,522 resulting to a negative working capital of Kshs.104,050,876 which casts significant doubt on the Hotel's ability to continue as a going concern. However, this material uncertainty to continue as a going concern has not been disclosed in the financial statements.

In the circumstances, the financial statements have been prepared on the assumption that the Hotel will continue to receive financial support from the Government and its creditors.

2. Unsupported Loans from the Tourism Finance Corporation

The statement of financial position reflects non-current liabilities balances of Kshs.54,828,994 and Kshs.2,500,000 in respect of Tourism Finance Corporation current portion of loan and advance amount respectively. In addition, the statement also reflects accrued loan principal and interest of Kshs.47,813,955 and Kshs.52,139,730 respectively all totalling to Kshs.99,953,685 and payable to Tourism Development Corporation. However, no loan agreement or application details were provided to confirm how the loans were advanced.

In the circumstances, the existence and completeness of the loan balances amounting to Kshs.157,282,679 could not be confirmed.

3. Trade and Other Receivables from Exchange Transactions

3.1 Unsupported Provision for Trade Debtors

The statement of financial position reflects an amount of Kshs.26,262,099 in respect of trade and other receivables as disclosed in Note 16(a) to the financial statements, which was net of provision for bad and doubtful debts of Kshs.4,089,349. However, Note 4(i) on summary of significant accounting policies, trade and other receivables provides that, receivables are carried at anticipated realizable value and an estimate is made for permanent staff for the last two (2) years, salaries and allowances of permanent employees increased by Kshs.3,385,987 or 242% from Kshs.1,394,640 to Kshs.4,780,627 without any supporting documents or justification.

In the circumstances, the accuracy and occurrence of the salaries and allowances of permanent employees of Kshs.4,780,627 could not be confirmed.

7. Unsupported Value of Property, Plant and Equipment

The statement of financial position and note 14 to the financial statements reflect property, plant and equipment of Kshs.439,977,470 which includes unsupported work in progress of Kshs.26,911,576 transferred to buildings and included in the revalued amount in respect of buildings.

In addition, the revaluation report had a forced sale value, market value, mortgage value and insurance value dated 5 August, 2022 and not 30 June, 2022, the date of the financial statements, all of which are different. Management did not provide a support for the basis or the valuation adopted in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Sunset Hotel Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

doubtful receivables based on a review of all outstanding amounts at year end. Further, Note 5(ii)(a) on significant judgements and sources of estimation uncertainty, provisions, states that specifically, provision for bad debts was estimated at 1.23% of the total budgeted revenue for the period and hence an expected provision for bad and doubtful debtors of Kshs.641,936 (1.23% of Kshs.52,189,889).

In the circumstances, the completeness and accuracy of the disclosed provision for bad debts in the year, amounting to Kshs.4,089,349 could not be confirmed.

3.2 Long Outstanding Trade and Other Receivables

The statement of financial position reflects an amount of Kshs.26,262,099 in respect of trade and other receivables, which as disclosed in Note 16(a) to the financial statements is net of provisions for bad and doubtful receivables of Kshs.4,089,349. Included in the balance are gross debts amounting to Kshs.27,900,211 owed by Government institutions and which have been long outstanding.

In the circumstances, existence and recoverability of trade and other receivables balance of Kshs.26,262,099 could not be confirmed.

4. Unsupported additions to Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.437,977,470, an increase of Kshs.351,945,669 from last year's balance of Kshs.86,031,801. However, amounts of Kshs.4,169,073 and 2,002,858 in respect of improvements to buildings and furniture and fittings were not supported with bills of quantities for the renovations work done and invoices for furniture and fittings respectively.

In the circumstances, the completeness and accuracy of the expenditure incurred on additions to property, plant and equipment, all amounting to Kshs.6,171,931 could not be confirmed.

5. Unsupported Share Capital

The statement of financial position reflects ordinary share capital amount of Kshs.12,000,000 which comprise of ordinary share capital for Tourism Finance Corporation and County Government of Kisumu of Kshs.11,450,000 and Kshs.550,000 respectively. However, no evidence was provided to confirm the County Government's subscription and shareholding.

In the circumstances, the ownership and accuracy of the share capital balance of Kshs.550,000 could not be confirmed.

6. Unsupported Staff Costs

The statement of profit or loss and other comprehensive income reflects Kshs.26,020,476 in respect of administration costs as disclosed in Note 7(a) to the financial statements which includes Kshs.8,869,663 relating to staff costs. Although the hotel and only one (1)

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Failure to Remit Statutory Deductions

The statement of financial position and as disclosed in Note 22 to the financial statements reflects trade and other payables amount of Kshs.39,183,713. Included in the amount is unremitted statutory deductions totalling to Kshs.26,553,086 relating to Value Added Tax (VAT), of Kshs.12,641,332, Pay As You Earn (PAYE) of Kshs.7,775,456, Withholding taxes Kshs.1,465,055, NSSF Kshs.4,568,529, NHIF Kshs.15,700, Catering Levy Kshs.65,882 and Pension deductions of Kshs.21,132. Further, as disclosed in Note 24 to the financial statements, the hotel has a contingent liability of Kshs.14,457,324 arising from Notice and Distress for outstanding tax arrears by Kenya Revenue Authority (KRA), while a contingent liability of Kshs.4,531,809 arising from penalties by NSSF in the previous year crystallized during the year.

Failure to remit taxes and other statutory deductions continue to attract heavy penalties to the hotel and worsens the precarious financial position of the Hotel.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

i. 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;

ii. in my opinion, adequate accounting records have been kept by Sunset Hotel Limited, so far as appears from the examination of those records; and,

iii. The Hotel's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Hotel's ability to continue as a going concern, disclosing, as applicable, matters related the going concern basis of accounting unless Management is aware of the intention to liquidate the Hotel or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Board of Directors is responsible for overseeing the Hotel's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Hotel's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hotel's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hotel to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hotel to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

09 June, 2023

STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Note		2022	2021
			Kshs	**Kshs**
REVENUES				
Sales/ Turnover	6	(a)	59,308,372	50,159,565
TOTAL REVENUES			**59,308,372**	**50,159,565**
Cost of Sales	6	(b)	15,773,129	10,550,904
GROSS PROFIT			**43,535,243**	**39,608,661**
OPERATING EXPENSES				
Administration Costs	7	(a)	26,020,476	18,430,948
Selling and Distribution Costs	8		423,182	207,963
Depreciation of Property, plant and equipment	14		2,197,378	2,046,329
TOTAL OPERATING EXPENSES			**28,641,036**	**20,685,240**
OPERATING PROFIT/(LOSS)			**14,894,207**	**18,923,421**
Finance Costs	10		5,699,076	8,836,187
PROFIT/(LOSS) BEFORE TAXATION	11	(b)	**9,195,131**	**10,087,234**
INCOME TAX EXPENSES/ (CREDIT)			-	-
PROFIT/(LOSS) AFTER TAXATION	11	(b)	**9,195,131**	**10,087,234**
Earnings per share – basic and diluted	12		15.33	16.81
Dividend per share	13		-	-

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note		2022	2021
			Kshs	Kshs
ASSETS				
Non-Current Assets				
Property, plant and equipment	14		437,977,470	86,031,801
Total Non-Current Assets			**437,977,470**	**86,031,801**
Current Assets				
Inventories	15		370,594	212,997
Trade and other receivables	16	(a)	26,262,099	22,741,868
Bank and cash balances	17	(a)	8,453,829	5,762,295
Total Current Assets			**35,086,522**	**28,717,160**
Total Assets			**473,063,992**	**114,748,961**
EQUITY AND LIABILITIES				
Capital and Reserves				
Ordinary share capital	18		12,000,000	12,000,000
Revaluation reserve	19		426,946,695	79,262,476
Retained earnings			(163,780,381)	(172,975,512)
Proposed dividends			-	-
Capital and Reserves			**275,166,314**	**(81,713,036)**
Non-Current Liabilities				
Shareholders loan advanced			1,431,286	1,431,286
TFC Loans Principal balance	21		54,828,994	59,769,468
Advance from TFC			2,500,000	2,500,000
Total Non-Current Liabilities			**58,760,280**	**63,700,754**
Current Liabilities				
Trade and other payables	22		39,183,713	43,447,108
Accrued Loan Principal	23	(b)	47,813,955	42,873,481
Accrued Loan interest	23	(b)	52,139,730	46,440,654
Total Current Liabilities			**139,137,398**	**132,761,243**
TOTAL EQUITY AND LIABILITIES			**473,063,992**	**114,748,961**

The financial statements were approved by the Board on 26/09 2022 and signed on its behalf by:

Ag.General Manager
Risper Chichole

Head of Finance
Risper Chichole
CPAK M/NO:8320

Chairman of the Board
Christopher Huka

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	Ordinary share capital	Revaluation reserve	Retained earnings	Total
	Kshs	**Kshs**	**Kshs**	**Kshs**
At July 1, 2020	**12,000,000**	**79,262,476**	**(183,062,746)**	**(91,800,270)**
Revaluation gain	-	-	-	-
Transfer of excess depreciation on revaluation	-		-	-
Deferred tax on excess depreciation	-	-	-	-
Capital/Development grants received during the year	-	-	-	-
Profit/(Loss) for the year	-	-	10,087,234	10,087,234
At June 30, 2021	**12,000,000**	**79,262,476**	**(172,975,512)**	**(81,713,036)**
At July 1, 2021	**12,000,000**	**79,262,476**	**(172,975,512)**	**(81,713,036)**
Revaluation gain	-	347,684,219	-	**347,684,219**
Transfer of excess depreciation on revaluation	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-
Capital/Development grants received during the year	-	-	-	-
Profit/(Loss) for the year	-	-	9,195,131	**9,195,131**
At June 30, 2022	**12,000,000**	**426,946,695**	**(163,780,381)**	**275,166,314**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

CASH FLOWS FROM OPERATING ACTIVITIES	Note		2022 Kshs	2021 Kshs
Cash generated from / (used in) operations	23	(a)	9,150,362	5,529,973
Interest received			-	-
Interest paid			-	-
Taxation paid			-	-
Net cash generated from/ (used in) operating activities	23	(a)	**9,150,362**	**5,529,973**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	14		(6,458,828)	(809,145)
Proceeds from disposal of property, plant and equipment			-	-
Net cash generated from/ (used in) investing activities			**(6,458,828)**	**(809,145)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan Proceeds & Borrowings	23	(b)	-	-
Repayment of loans & borrowings			-	-
Net cash generated from/ (used in) financing activities			-	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			**2,691,534**	**4,720,828**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23	(c)	**5,762,295**	**1,041,467**
Effects of foreign exchanges rate fluctuations			-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	(c)	**8,453,829**	**5,762,295**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2022

Particulars	Original Budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	% age Variance	Remark
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022	
Revenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
Sales	52,189,889	-	52,189,889	59,308,372	7,118,483	14%	F
Other Income	-	-	-	-	-		
Total Revenues	**52,189,889**	**-**	**52,189,889**	**59,308,372**	**7,118,483**	**14%**	
Cost of sales	8,836,968	-	8,836,968	15,773,129	-6,936,161	-78%	U
Gross Profit	**43,352,921**	**-**	**43,352,921**	**43,535,243**	**182,322**	**0%**	**F**
EXPENSES							
Administration Costs	28,325,322	-	28,325,322	26,020,476	2,304,846	8%	F
Selling and distribution Costs	908,747	-	908,747	423,182	485,565	53%	F
Depreciation Charges	3,230,477	-	3,230,477	2,197,378	1,033,099	32%	F
Total Operating expenses	**32,464,546**	**-**	**32,464,546**	**28,641,036**	**3,823,510**	**12%**	**F**
Operating Profit/(Loss)	**10,888,375**	**-**	**10,888,375**	**14,894,207**	**4,005,832**	**37%**	**F**
Finance Costs	6,556,296	-	6,556,296	5,699,076	857,220	13%	U
Profit/(Loss) before taxation	**4,332,079**	**-**	**4,332,079**	**9,195,131**	**4,863,052**	**112%**	**F**
Income tax expenses (credit)	-	-	-	-	-	-	-
Net Profit /(Loss) after taxation	**4,332,079**	**-**	**4,332,079**	**9,195,131**	**4,863,052**	**112%**	**F**

Key: U- Unfavorable
F- Favorable

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE (*continued*)

Explanatory notes: -

a) **The hotel surpassed its revenue target by 14%** against all odds. The hotel's performance has steadily been improving due to management's concerted efforts to re-position the hotel. However, the dilapidated state of the hotel remains the greatest impediment. The hotel's performance has been on a downward trend due to its poor state having been built 40 years ago and with no meaningful refurbishment since then. If given a slight facelift, the hotel will easily bring back its lost glory. It has immense potential given its very prime location.

b) **Cost of sales** had a negative variance of 78% with this being mainly due to the high cost of inputs especially food items and certainly partly due to the relatively higher sales recorded during the period as compared to what was budgeted. The period saw an unprecedented hike in the cost of most of the items yet the hotel could not pass the cost to its customers as well.

c) **Administration costs** were below the budgeted figure i.e., a positive variance of 8% due to cost control measures put in place by the hotel.

d) **Selling and distribution costs** were equally within the budgeted figure with a positive variance of 53%. It had been envisaged that the hotel would carry out a lot of publicity after refurbishment, which unfortunately did not take place during the period.

e) **There was minimal capital expenditure** in the period thus the favourable variance for depreciation. This is a provision made in the books for depreciable assets. Notably a number of assets also happen to be fully depreciated thus the reduction in depreciation. The hotel intends to revalue all its assets in the near future.

f) **Finance costs** were within the budgeted figure with a positive variance of 13%.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sunset Hotel Limited was established and derives its authority and accountability from the Kenya Companies Act (cap 486). It was established in 1976. It is 95.4% owned by the Government of Kenya through Kenya Development Corporation under the Ministry of Treasury) effective 2nd July 2021 vial Legal Notice No.113 pursuant to the Kenya Development Corporation Limited vesting order, 2021 published by the Cabinet Secretary for National Planning and 4.6% by the County Government of Kisumu. The hotel was previously owned by Tourism Finance Corporation under the Ministry of Tourism up until then. The hotel is domiciled in Kenya and its principal activity is provision of accommodation and conference facilities.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the hotel's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the hotel.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2022

Amendment/Interpretation to a standard	Impact	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for De-recognition of Financial Liabilities	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.

Amendment/Interpretation to a standard	Impact	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their **material** accounting policy information rather than their **significant** accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of	The amendments are effective for annual reporting periods

Amendment/Interpretation to a standard	Impact	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
	'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	beginning on or after January 1, 2023. Early adoption is permitted.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

c) Early adoption of standards

The Hotel did not early – adopt any new or amended standards in year 2021/2022.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.;

i) **Revenue from the sale of goods and services** is recognized in the year in which the hotel delivers products/services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Finance income** comprises of interest receivable from bank deposits and investment in securities, and it recognized in profit and loss on a time proportion basis using effective interest rate method.

iii) **Other income** is recognized as it accrues.

b) In-kind contributions

These are donations made to the hotel in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the hotel includes such value in the statement of comprehensive income both as revenue and as expense in equal opposite amounts; otherwise, the contribution is not recorded.

c) Property Plant and Equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Land and Buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent Depreciation for Buildings.

All other property Plant and Equipment is stated at historical cost less Depreciation.
Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life as follows: -

The annual rates in use are:

a) No depreciation is charged on the Leasehold land
b) Building - 2.5%
c) Property, Plant & Machinery - 12.5%
d) Furniture, Fittings and Equipment - 12.5%
e) Motor Vehicle - 25.0%
f) Computers - 33.0 %

Depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal on pro-rata basis.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.
All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

g) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use- are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

g) Inventories

Inventory is valued at the lower of cost and net realizable value. The Cost is determined by first in, first out (FIFO) method. Inventories are held for sale as raw materials for kitchen production supplies. Specific provisions are made for obsolete, slow moving and defective inventories.

h) Turnover

Turnover represents amounts received and receivable for services provided net of government taxes and levies.

i) Trade & other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current asset. If not, they are presented as non-current assets.
Receivables are carried at anticipated realizable value. An estimate is made for doubtful Receivables based on a review of all outstanding amounts at year end. Bad debts are written

off when all reasonable steps to recover them have failed.

j) Taxation

Current Income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized officers which were not surrendered or accounted for at the end of the financial year.

l) Borrowing

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

m)Trade and other payables

Trade and other payables are non-interest bearing recognised initially at fair value and subsequently which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the hotel or not, less any payments made to the suppliers.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current Liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.
Payables are measured at amortised cost using the effective interest method. Payables are derecognised when extinguished.

n) Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1080.00 per employee per month. A contributory pension scheme is also in place with employer/employee contributions set at 10% of the employees' basic pay.

o) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

p) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

q) Budget information

The original budget for FY 2021-2022 was approved by the National Assembly on 30th June 2021. No subsequent revisions or additional appropriations were made to the approved budget. Any revisions if any are made in accordance with specific approvals from the appropriate authorities.
The hotel's budget is prepared on a different basis to the actual income and expenditure

disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.
A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

r) Comparatives

Comparative figures have been adjusted to conform to the changes in the presentation in the current year.

s) Subsequent events

Since the end of the year 2021/2022, no events have become known or have occurred that may lead to significant changes to these financial statements.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Critical accounting estimates and judgments in applying the entity's accounting policies

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

i) **Critical accounting estimates and assumptions**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a) Useful lives of property, plant and equipment

The company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The rates used are set out in (d) above.

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Hotel
  The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
  Changes in the market in relation to the asset

b) Revaluation of PPE

The company carries Land and buildings of PPE at fair value, with changes in fair value being recognised in the comprehensive income and revaluation reserves respectively.

c)Recoverability of trade and other receivables

Management has made Judgment in estimating the amounts that may not be recovered based on experience and efforts expended in the attempt to recover the outstanding balances.

ii) **Critical judgments in applying the entity's accounting policies**

In the process of applying the Company's accounting policies, management has made judgments in determining:

- The classification of assets into current and non-current
- Whether assets are impaired

a) Provisions

Provisions were raised and management determined an estimate based on the information available; specifically, provision for bad debts which was estimated at 1.23% of the total budgeted revenue for the period.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material

b) Contingent liabilities

In the course of day to day running of the company's affairs, the company is exposed to contingent liabilities including public liability and legal cases. The status of these exposures are evaluated by the management from time to time to ascertain the likelihood of the liabilities crystalizing. Provisions are subsequently made in the financial statements where an obligation has been established. Judgements are required in determining the amount of financial obligation on the company.

NOTES TO THE FINANCIAL STATEMENTS

			2022	2021
6	(a)	**SALES /TURNOVER**		
			Kshs.	**Kshs.**
		Gross sales of Services	69,983,879	58,673,733
		Less: taxes on gross sales	(10,675,507)	(8,514,168)
		(Taxes :16% VAT,2% CLT)	**59,308,372**	**50,159,565**
		Accommodation	8,776,680	10,416,715
		Food-Casuals	30,153,297	21,153,918
		Food-Residents	5,509,407	8,786,831
		Drinks	10,272,542	6,858,748
		Tobacco	19,660	28,428
		Swimming	1,816,532	1,400,629
		Laundry	65,754	39,079
		Other Income	2,694,500	1,475,217
		Total	**59,308,372**	**50,159,565**
	(b)	**Cost of sales**		
		Food	11,536,469	7,877,897
		Beverage	4,219,493	2,648,875
		Tobacco	17,167	24,132
		Total	**15,773,129**	**10,550,904**
7	(a)	**ADMINISTRATION COSTS**		
		Staff costs note(7b)	8,869,663	5,873,547
		Directors & Secretarial emoluments	432,400	800,888
		Electricity and water	5,350,689	4,468,452
		Transportation, travelling and subsistence	359,600	85,325
		Printing, stationery and photocopy	733,413	586,389
		Insurance costs	41,845	4,520
		Bank charges and commissions	64,015	59,545
		Office and general supplies and services	64,299	32,807
		Auditors' remunerations	300,000	300,000

	Legal & Consultancy fees	319,200	150,000
	Repairs and maintenance	4,068,794	1,788,595
	Provision for Bad and doubtful debts	521,892	477,294
	Other Operating Costs	4,894,667	3,803,586
	Total	**26,020,476**	**18,430,948**
(b)	**STAFF COSTS**		
	Salaries and allowances of permanent employees	4,780,627	1,394,640
	Wages of temporary employees	776,268	3,330,486
	Compulsory national social security schemes	215,785	191,145
	Terminal dues/Pension Contributions	126,792	126,792
	Leave Pay and gratuity provisions	-	-
	Staff travel and other related expenses	2,970,191	830,484
	Total	**8,869,663**	**5,873,547**
	The average number of employees:		
	Permanent employees- Management	1	1
	Permanent employees- Unionisable	nil	nil
	Temporary and contract employees	19	15
	Total	**20**	**16**
8	**SELLING AND DISTRIBUTION COSTS**		
	Advertising, marketing and promotional expenses	-	-
	Sales commission	-	-
	Sales discounts and rebates	-	-
	Other selling and distribution costs	423,182	207,963
	Total	**423,182**	**207,963**
9	**OPERATING PROFIT/(LOSS)**		
	The operating profit /(loss) is arrived at after charging /(crediting):		
	Staff cost (note7(b)	8,869,663	5,873,547
	Depreciation of property, plant and equipment	2,197,378	2,046,333
	Provision for bad doubtful debts	4,089,349	477,294
	Directors' emoluments -Allowances	340,000	560,000
	-Expenses	12,400	140,888
	Secretarial Fees	80,000	100,000
	Auditors' remuneration- current year fees	300,000	300,000
	Interest on loan	5,699,076	8,836,187
	Land rent & rates	334,032	334,032
	Total	**21,921,898**	**18,668,281**
10	**FINANCE COSTS**		

		Exchange losses on short term bank deposits	-	-
		Exchange losses on cash and bank balances	-	-
		Interest expenses on loans	5,699,076	8,836,187
		Interest expenses on bank overdrafts	-	-
		Total	**5,699,076**	**8,836,187**
11		**INCOME TAX EXPENSES / (CREDIT)**		
	(a)	**Current taxation**		
		Current taxation based on the adjusted profit for the year at 30%	-	-
		Current tax: prior year under / (over) provision	-	-
		Current year deferred tax charge	-	-
		Prior year under – provision for deferred tax	-	-
		Total	-	-
	(b)	**Reconciliation of tax expenses/ (credit) to the Expected tax based on profit**		
		Profit before taxation	9,195,131	10,087,234
		Allowable B/forward Losses	(83,209,419)	(93,296,653)
		Tax at applicable tax rate of 30%	-	-
		Prior year under-provision	-	-
		Tax effects of expenses not deductible for tax purposes	-	-
		Tax effect of income not taxable	-	-
		Tax effects of excess capital allowances over	-	-
		Deferred tax prior year over - provision	-	-
		Total	(74,014,288)	(83,209,419)

12. EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit/(loss) after tax of Kshs.9,195,131 (2021: Kshs. 10,087,234) by the average number of ordinary shares in issue during the year of 600,000 (2021: 600,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). No interim dividend was declared and/or paid during the year neither is it expected that any dividends will be declared because of the previous recurrent loses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT

2022	LEASEHOLD LAND	BUILDING	WORK IN PROGRESS	PROPERTY PLANT & EQUIPMENT	FURNITURE FITTING	MOTOR VEHICLE	TOTAL
COST OR VALUATION	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**
As at 01-07-2021	**15,000,000**	**75,000,000**	**26,911,576**	**12,204,591**	**16,595,317**	**295,000**	**146,006,484**
Additions	-	4,169,073	-	286,897	2,002,858		6,458,828
Transfers	-	26,911,576	(26,911,576)				-
Revaluation Increase	110,000,000	203,919,351					313,919,351
As at 30-06-2022	**125,000,000**	**310,000,000**	-	**12,491,488**	**18,598,175**	**295,000**	**466,384,663**
DEPRECIATION							
As at 01.07.2021		**31,875,000**	-	**11,937,596**	**15,867,087**	**295,000**	**59,974,683**
Charge for the year	-	1,889,868	-	57,157	250,353	-	2,197,378
Write off on revaluation		(33,764,868)					(33,764,868)
As at 30-06-2022	-	-	-	**11,994,753**	**16,117,440**	**295,000**	**28,407,193**
NET BOOK VALUE							
As at 30-6-2021	**15,000,000**	**43,125,000**	**26,911,576**	**266,995**	**728,230**	-	**86,031,801**
As at 30-6-2022	**125,000,000**	**310,000,000**	-	**496,735**	**2,480,735**	-	**437,977,470**

Property, plant and equipment include the following items that are fully depreciated:

	Cost or valuation	Normal annual Depreciation charge
Plant & machinery	11,923,281	1,439,725
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	15,473,652	1,896,494
	27,691,933	**3,409,969**

NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

2021	LEASEHOLD LAND	BUILDING	WORK IN PROGRESS	PROPERTY PLANT & EQUIPMENT	FURNITURE & FITTING	MOTOR VEHICLE	TOTAL
COST OR VALUATION	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**
As at 01-07-2020	**15,000,000**	**75,000,000**	**26,911,576**	**12,021,529**	**15,969,234**	**295,000**	**145,197,339**
Additions	-	-	-	183,062	626,083	-	809,145
As at 30-06-2021	**15,000,000**	**75,000,000**	**26,911,576**	**12,204,591**	**16,595,317**	**295,000**	**146,006,484**
DEPRECIATION							
As at 01.07.2020	-	**30,000,000**	-	**11,904,821**	**15,728,529**	**295,000**	**57,928,350**
Charge for the year	-	1,875,000	-	32,775	138,558	-	2,046,333
As at 30-06-2021	-	**31,875,000**	-	**11,937,596**	**15,867,087**	**295,000**	**59,974,683**
NET BOOK VALUE							
As at 30-6-2020	**15,000,000**	**45,000,000**	**26,911,576**	**116,708**	**240,705**	-	**87,268,989**
As at 30-6-2021	**15,000,000**	**43,125,000**	**26,911,576**	**266,995**	**728,230**	-	**86,031,801**

Work in progress relates to building renovation/extensions works for roof top bar and restaurant which are yet to be completed or commissioned.

Property, plant and equipment include the following items that are fully depreciated:

	Cost or valuation	Normal annual Depreciation charge
Plant & machinery	11,517,806	1,439,725
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	15,171,950	1,896,494
	26,984,756	**3,409,969**

NOTES TO THE FINANCIAL STATEMENTS (continued)

			2022	2021
			Kshs.	Kshs.
15		**INVENTORIES**		
		Food store	124,946	88,842
		Bar stock & Tobacco	245,648	124,155
		TOTAL	**370,594**	**212,997**
16	(a)	**TRADE AND OTHER RECEIVABLES**		
		Trade receivables (note b)	29,398,058	25,763,216
		Deposits and prepayments	951,390	546,109
		VAT recoverable	-	-
		Staff receivables	2,000	-
		Gross trade and other receivables	**30,351,448**	**26,309,325**
		Provisions for Bad and doubtful receivables)	(4,089,349)	(3,567,457)
		Net trade and other receivables	**26,262,099**	**22,741,868**
	(b)	**TRADE RECEIVABLES**		
		Gross trade receivables	29,398,058	25,763,216
		Other: Provisions for Bad and doubtful receivables)	(4,089,349)	(3,567,457)
		Net trade and other receivables	**25,308,709**	**22,195,759**
		At June 30, the ageing analysis of the		
		gross trade receivables were as follows:		
		Less than 30days	770,658	2,871,724
		Between 30 and 60days	1,817,908	858,086
		Between 61 and 90 days	1,346,819	1,253,245
		Between 91 and 120 days	1,110,582	-
		Over 120 days	24,352,092	20,780,161
			29,398,058	**25,763,216**

NOTES TO THE FINANCIAL STATEMENTS (continued)

			2022 Kshs.	2021 Kshs.
17	(a)	**BANK AND CASH BALANCES**		
		Cash at bank	8,332,102	5,679,805
		Cash at hand	121,727	82,490
			8,453,829	**5,762,295**
	(b)	**DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS**		
		Cash at Hand:		
		Petty cash	20,377	33,840
		Mpesa	100,950	42,150
		Credit Cards	400	6,500
			121,727	**82,490**
		Cash at Bank (Current Accounts)		
		National bank-A/c No.01020023525100	8,005,959	5,544,703
		KCB- A/c No. 1108232736	326,143	135,102
			8,332,102	**5,679,805**

The bulk of the cash was held at National bank the main banker

18. ORDINARY SHARE CAPITAL

	2021 Kshs.	2020 Kshs.
Authorized, issued and fully paid		
572,500 Ordinary Shares @ Kshs.20/= (KDC)	11,450,000	11,450,000
27,500 Ordinary Shares @ Kshs 20/=	550,000	550,000
(Kisumu County)	**12,000,000**	**12,000,000**

19. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of the leasehold land and buildings as indicated in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

i) These reserves shown in the Statement of changes in Equity arose due to valuation of the hotels building and land in the current year 2022 subsequent to the initial revaluation carried out in 2004.

ii) Land and building were initially taken at a value of Kshs. 178,013 and 10,559,511 respectively. However, on the initial revaluation, the values came to Kshs. 75,000,000 for building and 15,000,000 for leasehold land. This therefore resulted in reserves of Kshs. 64,440,489 for building and 14,821,987 for leasehold land respectively. A total of Kshs. **79,262,476.**

iii) On the current revaluation the values came to Kshs.310,000,000 for land and Kshs.125,000,000 for building with Net book values of Kshs.15,000,000 and Kshs.43,125,000 respectively. This therefore resulted in total reserves of Kshs.309,821,987 for land and Kshs.117,124,708 for building. A total of Kshs.**426,946,695.**

20. RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the hotel's shareholders. Undistributed retained earnings if any are utilized to finance the hotel's activities. However, the hotel has retained losses as at date.

21. BORROWINGS

Particulars	2022 Kshs	2021 Kshs
Balance at beginning of the year	59,769,468	64,193,108
External borrowings during the year	-	-
Domestic borrowings during the year	-	-
Repayments of external borrowings during the year	-	-
Repayments of domestic borrowings during the year	(4,940,474)	(4,423,640)
Balance at end of the year	**54,828,994**	**59,769,468**
Less: Amounts due within one year (current portion)	(4,007,888)	(4,423,640)
Amounts due after one year (non-current portion)	**50,821,106**	**55,345,828**
Accrued Loan Principal (current portion)	47,813,955	42,873,481
Accrued Loan Interest (current portion)	52,139,730	46,440,654
Total loan and Accrued Interest	**150,774,791**	**144,659,963**

NOTES TO THE FINANCIAL STATEMENTS (continued)

The above borrowing is from TFC, one of the shareholders at an interest rate of 11%, with the respective loans being as follows:

Particulars	Loan 1	Loan 2	loan 4	Loan 5	Loan 6	Loan 7	TOTAL
Balance B/Forward	14,092,760	10,004,022	1,982,732	932,586	28,086,267	4,671,101	64,193,108
Additions	-	-	-	-	-	-	-
Repayment	-	-	-	(932,586)	(4,007,888)	-	(4,940,474)
Totals	**14,092,760**	**10,004,022**	**1,982,732**	-	**24,078,379**	**4,671,101**	**54,828,994**

22. TRADE AND OTHER PAYABLES

Particulars		2022 Kshs	2021 Kshs
Trade Creditors		10,035,899	10,386,569
Value Added Tax		12,641,332	12,740,358
CLT		65,882	83,299
Deposits Payable		670,928	670,928
Payroll Control			259,568
P.A.Y.E		7,775,456	15,706,356
N.S.S.F		36,720	35,742
NSSF Arrears		4,531,809	-
N.H.I.F		15,700	11,900
Pension		21,132	21,132
Accrued Expenses-Audit Fees	1,200,000		
-Directors fees	723,800	1,923,800	2,070,172
Withholding Tax		1,465,055	1,461,084
		39,183,713	**43,447,108**

Included in Trade Creditors above is Kshs.4,736,000 being outstanding audit fee owed to the Kenya National Audit Office.

NOTES TO THE FINANCIAL STATEMENTS (continued)
23. NOTES TO THE STATEMENT OF CASHFLOWS

			2022	2021
23	(a)	**Reconciliation of operating profit/ (loss)**	**Kshs.**	**Kshs.**
		to cash generated from/ (used in) operations		
		Operating profit/(loss)	9,195,131	10,087,234
		Depreciation	2,197,378	2,046,333
		Interest Charged	5,699,076	8,836,187
		Operating profit/(loss) before working capital changes	**17,091,585**	**20,969,754**
		(Increase)/decrease in inventories	(157,597)	(126,273)
		(Increase)/decrease in trade and other receivables	(3,520,231)	(8,086,794)
		Increase/(decrease) in trade and other payables	(4,263,395)	(7,226,714)
		Cash generated from/ (used in) operations	**9,150,362**	**5,529,973**
	(b)	**Analysis of changes in loans**		
		Balance at beginning of the year	59,769,468	64,193,108
		Receipts during the year	-	-
		Repayments during the year	(4,940,474)	(4,423,640)
		Repayments of previous year's accrued interest	-	-
		Foreign exchange (gains)/losses	-	-
		Accrued interest	52,139,730	46,440,654
		Accrued Principal	47,813,955	42,873,481
		Balance at end of the year	**154,782,679**	**149,083,603**
	(c)	**Analysis of cash and cash equivalents**		
		Cash at bank	8,332,102	5,679,805
		Cash in hand	121,727	82,490
		Balance at end of the year	**8,453,829**	**5,762,295**

PROVISIONS

There were no accrued leave days as at close of the period under review thus no provision for leave.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Related party transactions

The hotel has two shareholders namely Tourism Finance Corporation (TFC) and Kisumu County Government. Tourism Finance corporation owns 95% of Sunset Hotel Limited shareholding while Kisumu County owns 5%.

Sales and Purchases

During the year, the hotel provided accommodation, conference and catering services to the Kisumu County Government while Kenya Development Corporation did not hold any business with the hotel in the financial year. However, all transactions between the parties are strictly at arm's length.

Sunset Hotel incurred Land rent & rates amounting to Kshs. 334,029 for land leased to the hotel for 99 Years by Kisumu County Government; this was fully paid by the hotel.

Transactions with related parties

	2022 Kshs	2021 Kshs
a) Loans received from the shareholders		
Loans from TFC	Nil	Nil
Loans from Kisumu County Government	Nil	Nil
Total	**Nil**	**Nil**
b) Key management compensation		
Directors' emoluments	352,400	700,888
Compensation to key management	1,919,568	1,394,640
Total	**2,271,968**	**2,095,528**

24. CONTINGENT LIABILITIES

	2022 Kshs	2021 Kshs
NSSF Penalties	-	4,531,809
KRA Penalties	14,457,324	28,980,240
Total	**14,457,324**	**33,512,049**

Explanatory notes:

At close of previous year, the hotel had NSSF arrears **totaling to Khs.2,244,940.** The hotel was

NOTES TO THE FINANCIAL STATEMENTS (continued)

able to settle the principal amount. However, this had since attracted a penalty of Kshs.4,531,809 as demanded by NSSF. Negotiations to have the penalty waived was unfortunately not successful thus crystalizing the NSSF contingency. A payment plan has since been agreed upon and effected.

The hotel has since entered into a payment agreement with KRA for the tax arrears as shown in the statements; the hotel continues to honor the payment plan and is up to date with the current taxes. However, KRA has levied penalties of the above amount as at the date of these statements. The hotel hopes to apply for waiver of the penalties once the principal is cleared. The hotel remains optimistic that the penalties will be waived in the long run.

25. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

a) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the

NOTES TO THE FINANCIAL STATEMENTS (continued)

Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total	Fully Performing	Past due	Impaired
30-Jun-22	**Kshs**	**Kshs**	**Kshs**	**Kshs**
Trade receivables	29,398,058	3,935,384	21,643,272	3,819,401
Due from related parties	-	-	-	-
Bank balances	8,453,829	8,453,829	-	-
Total	**37,851,887**	**12,389,213**	**21,643,272**	**3,819,401**

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2021 is as shown below:

	Total	Fully Performing	Past due	Impaired
30-Jun-21	**Kshs**	**Kshs**	**Kshs**	**Kshs**
Trade receivables	25,763,216	4,983,055	17,212,704	3,567,457
Due from related parties	-	-	-	-
Bank balances	5,762,295	5,762,295	-	-
Total	**31,525,511**	**10,745,350**	**17,212,704**	**3,567,457**

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from county governments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

b) *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1- 3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022:				
Trade payables	1,560,866	-	8,475,033	10,035,899
Current portion borrowings	-	-	99,953,685	99,953,685
Provisions	-	-		-
Deferred income	-	-		-
Employee benefit obligation	-	-		-
Total	**1,560,866**	-	**108,428,718**	**109,989,584**

	Less than 1 month	Between 1- 3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021:				
Trade payables	783,748	136,894	9,447,926	10,368,568
Current portion borrowings	-	-	89,314,134	89,314,134
Provisions	-	-	1,043,227	1,043,227
Deferred income	-	-		0
Employee benefit obligation	21,132	300,000		321,132
Total	**804,880**	**436,894**	**99,805,287**	**101,047,061**

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) **Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

i) Foreign exchange risk

The company does not undertake any major transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations are minimal. Any Foreign currency transactions during the year are converted into Kenya Shillings at Rates ruling at the transaction date. The resulting differences from conversion and Translation are dealt with in the Profit and Loss Statement in the year in which they arise.

ii) Interest rate risk

This is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

To mitigate this risk, the hotel tries to bank and only deal with banks/institutions that are well established and offer favorable interest rates.

Fair Value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. CURRENCY

The financial statement is presented in Kenya shillings. (Kshs.)

27. EVENTS AFTER CLOSING PERIOD

There were no material adjusting and non-adjusting events after the reporting period

28. INCORPORATION

The hotel is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the Auditor General on the previous year's statements and the management comments that were provided to the auditors. The 2020/2021 audit report had not been received as at the date of preparing these statements; the issues are therefore as per what was raised in the auditor's draft report of 2020/2021.The hotels nominated focal persons to resolve the various issues and associated time frame with which the issues are expected to be resolved.

Ref. No.	Issue/observations from Auditor General	Management comments	Focal point person to resolve the issue	Status	Time Frame
1.	**Presentation and Disclosures in the Financial Statements** It was observed that the hotel did not give a summary of its vision and mission statement and core objective under the principal activities sub heading as required. The numbering under table of contents was not consistent with what the template has provided and the Office of the Auditor General is referred to as Kenya National Audit Office.	The necessary corrections were done.	Accountant	Resolved	n/a
2.	**Undisclosed Material Uncertainty Related to Going Concern** It was stated that the statement of profit and other comprehensive income reflects a deficit totaling to Kshs.10,087,234 and had accumulated negative retained earnings totaling to Kshs.172,975,512. In	On the contrary, the hotel's performance for the year under review greatly improved against all odds with a profit of Kshs. 10,087,234 being posted and not a	Accountant/ General Manager	Partly resolved	On-going

	addition, the current liabilities totaling to Kshs.132,761,243 exceeds its current assets totaling to Kshs.28,717,160 by an amount of Kshs.104,044,083. These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the company's ability to continue as a going concern. However, this material uncertainty in relation to sustainability of service and any mitigating measures put in place by the management to reverse the undesirable precarious financial position have to be disclosed in the financial statements. Under the circumstance, the financial statements have been prepared on the assumption that the hotel will receive financial support from the Government and its creditors.	deficit as stated. The negative retained earnings of Kshs.172,975,512 is equally an improvement from negative retained earnings of Kshs. 183,062,746 previously reported. While its true that the hotel's previous performance was unimpressive, the hotel has since taken some turnaround measures with one of such strategies being declaring all staff redundant in 2019.This was to pave way for renovations but this was unfortunately slowed down by the onset of the Covid-19 pandemic. However, with the pandemic having been reasonably contained, the agenda has been revived and it's at an advanced stage. We are optimistic that the refurbishment will be done and that will certainly enable the hotel to become competitive once more given its very strategic location. The hotel's potential cannot be underestimated. Of the current liabilities of Kshs.132,761,243, Kshs.89,314,135(67%) is solely the current portion of the loans amounts			

		owed to TFC; the major shareholder. The option of having the amounts converted to equity is being considered by the shareholders and with that, the balance sheet position should be able to improve a great deal. The hotel is also undertaking revaluation of its assets mainly land and building to ascertain the current market values which if incorporated in the books will improve the hotel's financial position from what it currently is. Save for the loan related liabilities, notably the current assets continue to grow while the current liabilities are consistently reducing which is a good trend for the hotel going forward.			
3.	**Unsupported loan from Tourism Finance Corporation** It was noted that as previously reported, the statement of financial position reflects the non-current portion of loans from Tourism Finance Corporation totaling to Kshs.63,700,754. Further there is the current portion of accrued loan principal	The hotel has a couple of loans as correctly stated. All the loans are from the major shareholder with most of them not currently accruing interest after being suspended by the lender apart from loan 3 and loan 5 which are active. Plans are	General Manager	On-going	30th June 2023

	of Kshs.42,873,481 and accrued interest totaling to Kshs.46,440,654. The hotel provided loan agreement from Tourism Finance Corporation for Kshs.34,671,101(i.e Loan 6 and 7 of Kshs.30,000,000 and 4,671,101 respectively) leaving outstanding loan balance of Kshs.71,903,134 not supported by loan agreement. Also, the hotel has not been servicing the loans and hence the continued accumulation of interest. Consequently, the completeness, validity and accuracy of the loan balances due to Tourism Finance Corporation of Kshs.71,903,134 as at 30 June 2021 could not be confirmed.	underway to have the loans converted into equity so as to avoid further accumulation of interest. The management has requested for copies of the loan agreements from the lender and will avail them for verification as soon as they are gotten. Meanwhile statements for the respective loans were forwarded for auditors' review.			
4.	**Unprovided Share Certificates of Kshs.550,000** The financial Statement reflect an amount of Kshs.12,000,000 in respect of ordinary share capital for Tourism Finance Corporation (572,500 ordinary shares @Kshs.20, total Kshs.11,450,000 and Kisumu County (27,500 ordinary shares @Kshs.20, total Kshs.550,000). The share certificate for Kisumu was not provided. Consequently, the completeness, accuracy and validity of the share capital under Kisumu County of Kshs.550,000 as at 30 June 2021 could not be confirmed.	The management has since requested for the share certificate from the County Government of Kisumu and will avail it for verification as soon as its obtained.	General Manager	On-going	30th June 2023

5.	**Trade and Other payables** The statement of financial position reflects a balance of Kshs.43,447,108 under trade and other payables. However, included in the figure of Kshs.43,447,108 is Kshs.12,740,356 and Kshs.15,706,356 and Kshs.1,461,084 being unremitted Value added tax, unremitted Pay as you earn and unremitted withholding tax respectively. Non remittance of statutory deduction continued attracting penalties and fine. Further, the hotel under note 25 in the financial statements has disclosed a contingent liability of Kshs.33,512,049 arising from NSSF penalties amounting to Kshs.4,531,809 and Notice of Distress for outstanding Tax arrears by KRA of Ksh.28,980,240. The validity, accuracy and completeness of the trade and other payables balance of Kshs.43,447,108 as at 30 June could not be confirmed	The previous poor performance of the hotel coupled with huge operating costs had taken a toll on its cash flows thus making the hotel to lag behind on some of the statutory obligations. However, the hotel is now up to date with all the statutory deductions and is currently settling the old arrears. The hotel has since entered into payment agreement/plan with the respective bodies and the hotel continues to honor the payment plan. For instance, a total of Kshs.6,171,709 has since been paid to KRA towards the arrears under the plan and the hotel is tax compliant; the hotel has the relevant compliance certificate to that effect. A payment plan is also in place with NSSF The hotel intends to apply for waiver of the accumulated penalties once the principal amount is cleared; having discussed the same with KRA and with KRA giving indication of that possibility after the principal amount is settled. Its also hoped that the hotel will be renovated in the near future; this will	Accountant/ General Manager	Ongoing	On-going

		help the hotel grow its revenues and by extension the profitability thus enabling the hotel to clear the arrears in a relatively shorter period.			
6.	**Trade and Other Receivables** It was observed that as previously reported, the statement of financial position reflects trade and other receivables balance totaling to Kshs.22,741,868 which is net of provisions for bad and doubtful receivables totaling to Kshs.3,567,457. Included in receivables are debts amounting to Kshs.23,452,218 owed by Government institutions. Although a provision for bad and doubtful debts of Kshs.3,567,457 has been made, its sufficiency could not be confirmed. Consequently, the accuracy, completeness and validity of trade and other receivables balance totaling to Kshs.22,741,868 as at 30 June could not be confirmed.	The issue of non-payment by government entities especially county governments is a reality which can't be wished away. The hotel being a government entity unfortunately derives its revenue mostly from government entities who unfortunately are very poor paying masters. It's also close to impossible to get upfront payment from government entities to mitigate against the risk of non-payment as the case would be under normal circumstances. However, the support that we get from government entities cannot also be underestimated and as much as they take long to pay, they eventually pay; a few government entities also pay well and on time. The hotel just needs to find a way of balancing out and expanding its customer base; this will be done and continues to be done through targeted marketing. However, some of the amounts have been outstanding for long most of which are	Accountant/General Manager	On-going	On-going

		notably unremitted VAT; for periods before digitization of VAT payment by KRA. Currently this risk has been minimized given that payments are made via IFMIS and VAT is equally filed online thus making it easy to track from the respective entities side.			
7.	**Bank and Cash Balances** It was observed that statement of financial position reflected a balance of Kshs.5,762,295 under bank and cash balances. However, included in the balance was M-Pesa balance of Kshs.42,150 and credit card collection of Kshs.6,500 not supported by any supporting documentary evidence. Consequently, the validity, accuracy and completeness of the cash balance of Kshs.48,650 as at 30 June could not be confirmed.	The Mpesa balance of Kshs.42,150 is the amount paid to the till on 30th June of which the actual transfer to the bank was effected the following day on 1st July as is the norm. The M-Pesa till is linked directly to the bank and the day's collection usually reflects at the bank the following day. Likewise, the Credit cards amount of Kshs.6,500 is what was paid by visa on 30th June but reflected to the hotel's bank account the following day. Therefore, the cash and cash equivalent balance of Kshs.5.762,295 is complete and accurate. The relevant documentation availed for review.	Accountant	Resolved	n/a

General Manager

Date 26/09/2022

Chairman of the Board

Date 26/09/2022