

REPUBLIC OF KENYA

20 JUL 2015



PARLIAMENT
OF KENYA
GENERAL

OFFICE OF THE AUDITOR-GENERAL

*Paper laid by the
Majority Whip on
20/7/2016 (pm) (R)*

REPORT

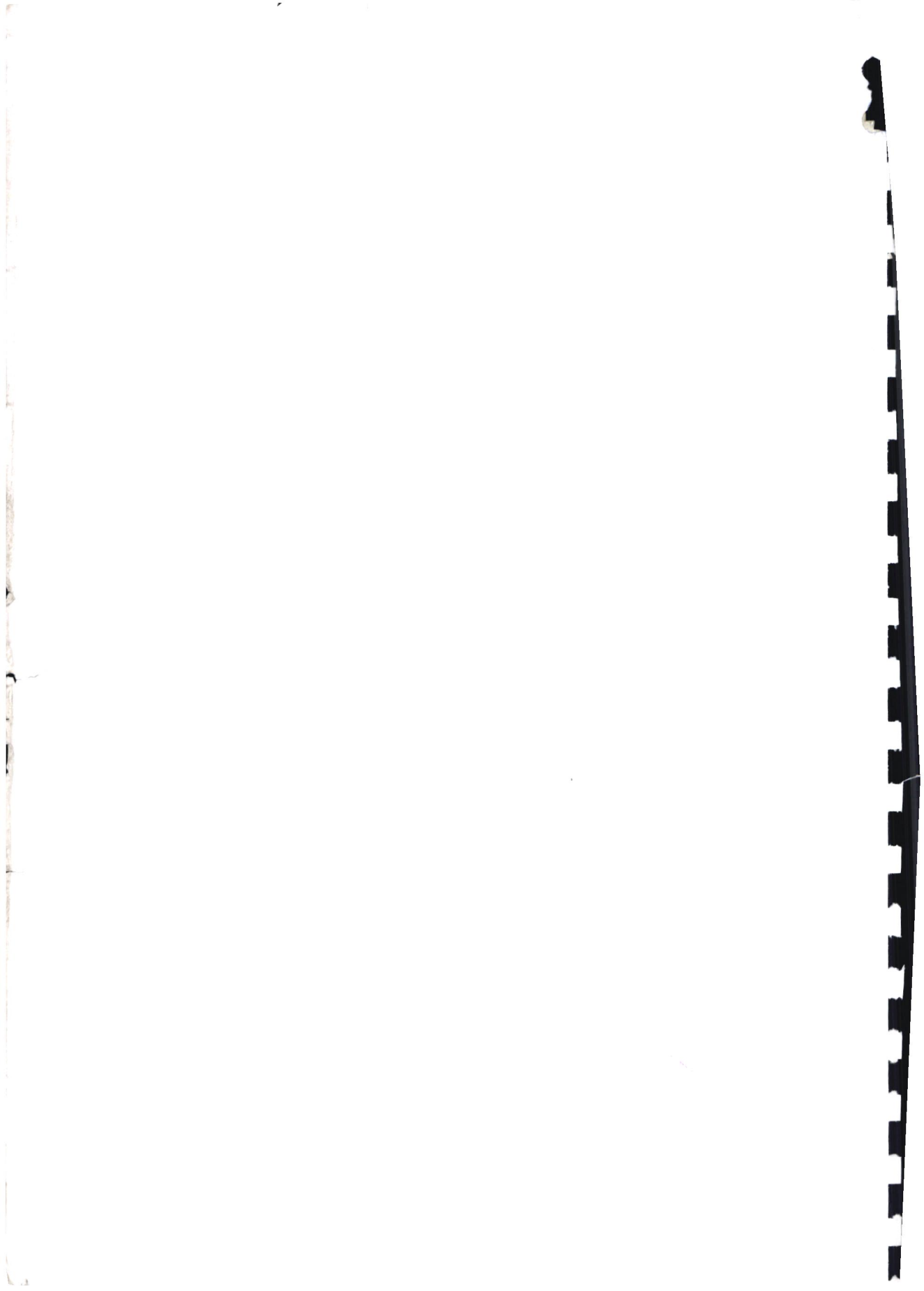
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA FERRY SERVICES LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015



2015

KENYA FERRY SERVICES LTD



Annual Report and Financial

Statements June 2015



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

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KEY COMPANY INFORMATION

Background information

Kenya Ferry Services Limited (KFSL) came into being in November 1989 after the Government took over the operation of the ferry services from the defunct Kenya Bus Services Ltd, which had indicated unwillingness to continue with operations.

The Government then mandated Kenya Ports Authority to run the services on its behalf. Kenya Ports Authority in turn changed one of its subsidiary companies (Bunty Estates Ltd) into Kenya Ferry Services Ltd and commenced operations on 1st November, 1989.

In 1998, the Government through National Assembly Sessional Paper No. 3 formalized the ownership of the Company by transforming the contributions of both the Government and Kenya Ports Authority into equity. Share capital increased from the initial Kshs. 2 million to Kshs.500 million. Today the Company is 80% owned by the Government of Kenya and 20% by Kenya Ports Authority.

The management of the company is governed by the Companies Act of Kenya, the State Corporations Act among other relevant Acts. Kenya Ferry Services Ltd has a board of directors which is charged with the overall mandate of the company.

Principal Activities

The principal activity of the company is provision of ferry services to motorists and pedestrians at the Likoni and Mtongwe channels.

Directors

The Directors who served the company during the year/period were as follows:

Mr. James Fondo	Chairman	Appointed on 6/11/2012
Mr. Musa Hassan Musa	Managing Director	Retired on 23/4/2016
Mr. Khamis S. Khamis	Director	Retired on 15/4/2015
Mrs. Mariam N. Mahero	Director	Retired on 15/4/2015
Mr. Nelson C Mwanzanje	Director	Appointed on 6/11/2012
MS. Eunice Wanja Njeru	Director	Appointed on 11/10/2012

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KEY COMPANY INFORMATION (Continued)

Mr. Gichiri Ndua	Director (Managing Director KPA)	Appointed on 2/8/2010
Mr. Mshenga Ruga	Director	Appointed on 17/04/2015
Bwanahamad Bwana	Director	Appointed on 17/04/2015
Mr. Henry Rotich	CS National Treasury (Alternate Mr. Festus King'ori)	Appointed on 15/5/2013
Mr. Nduva Muli	PS Ministry for Transport & Infrastructure (Alternate Mrs. Consolata Muruiki)	Appointed on 25/6/2013

Corporate Secretary

Mr. Elijah Kitur

P.O Box 96242- 80110

Likoni

Registered office

Peleleza - Likoni

P. O. Box 96242 - 80110

Likoni, Mombasa

Corporate Headquarters

P. O. Box 96242 – 80110

Kenya Ferry Services HQ

Gaza Street - Peleleza

Likoni, Mombasa

Corporate contacts

Telephone: (254) 0723664000

E-mail: info@kenyaferry.co.ke



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KEY COMPANY INFORMATION (Continued)

Website: www.kenyaferry.co.ke

Corporate bankers

National Bank (K) Ltd

Portway House Branch

P.O. Box 87770 – 80100

Mombasa- Kenya

Independent auditors

Auditor General

Kenya National Audit Office

Anniversary Tower, University Way

P. O. Box 30084 –

GPO 00100

Nairobi, Kenya

Principal Legal Advisors

1. The Attorney General

State Law Office

Harambee Avenue

P.O Box 4112

City Square 00200

Nairobi, Kenya

2. Company Secretary, (Elijah Kitur)

Kenya Ferry Services Ltd

Peleeza Likoni

P. O. Box 96242 – 80110 Likoni, Mombasa



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THE BOARD OF DIRECTORS



Chairman

James was born on the 23rd November 1950 and is happily married. Mr. James Kitsao Fondo holds a bachelor's degree in Commerce (Accounting option) from the University of Nairobi earned in 1977. Has extensive experience as a Professional Accountant in large Corporations having worked for Kenya Power & Lighting Company Ltd and Kenya Seed Company Ltd rising through the ranks to become Group Financial Accountant.



Managing Director

Mr. Musa Hassan Musa was born on 23rd July 1970. He holds a bachelor degree in Education in Technology (Electrical Option) from Moi University, and he has a Master of Science degree in Marine Education and Training (Marine Engineering) from world Maritime University (Sweden) and Executive Master's degree in Business Administration from Jomo Kenyatta University.

He is a member of the Institute of Engineering and Technology (MIET) and the Institute of Marine Engineering Science and Technology (MIMAREST). He has sixteen years' experience in marine sector and quality management systems.






Director

Mr. Nduva Muli was born on 29th November 1969. He is the Principal Secretary of the State Department for Transport in the Ministry of Transport and Infrastructure. He holds an Executive Master of Business Administration in Global Strategic Marketing from Moi University and a Bachelor of Land Economics from University of Aberdeen in Scotland. Prior to becoming the Managing Director of Kenya Railways, he served as the General Manager Corporate Planning and Business development at the same organization from 2006 to 2007. He was also a Communication & Fund raising manager in AMREF from 2004 to 2006, Manager of E-Business & Distribution in Kenya Airways from 2001 to 2004. He has been bestowed with the honor of Elder of the Burning Spear (EBS).

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Reports and financial statements for the year ended 30th June 2015

THE BOARD OF DIRECTORS (Continued)

	<p>Director</p> <p>Mr. Henry K. Rotich was born in 1969. He is the Cabinet Secretary, The National Treasury and holds a Master's degree in Public Administration (MPA) from Harvard University USA, Master's degree in Economics and a Bachelor's degree in Economics both from University of Nairobi, Kenya. Prior to his elevation as Cabinet Secretary, Mr. Rotich was Head of Macroeconomics at the Ministry of Finance since March 2006. He also worked at Research Department of Central Bank of Kenya since 2004. Besides, Mr. Rotich has served in as director of several boards of state corporations such as Insurance Regulatory Authority, Industrial Development Bank, Communications Authority of Kenya and Kenya National Bureau of Statistics.</p>
	<p>Director</p> <p>Mr. Gichiri Ndua is the Managing Director of Kenya Ports Authority. He holds a Master of Arts in Economics from the University of Nairobi. He is also a Board of Director of Kenya Railways, IAPH, Cruise Indian Ocean Association (CIOA) and Port Management Association of Eastern and Southern Africa (PMAESA) and a Trustee, Kenya Ports Authority Pension Fund.</p> <p>He has a wide experience in Management of Institutions acquired since 1984 when he joined Kenya Ports Authority.</p>
	<p>Director</p> <p>Mariam was born on the 18th August 1950 and is married. She has O level of education and a trained primary school teacher. Mrs. Mariam Mahero, a retired Teacher by Profession, has more than 30 years' experience as a teacher. She also has vast experience in Public Administration, Chairing Committee Meetings and in Community projects. She is also actively engaged in Christian Charity work. She retired from the board on 15th April 2015</p>

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	<p>Director Nelson was born in April 1954 and is happily married. Mr. Nelson C. Mwanjanje holds a diploma in Radio Telecommunications and other technical courses in Telecommunication from RTTI, Mbagathi. He has extensive Managerial experience in Technical areas and rose through the ranks to become a Regional Manager with Telkom Kenya Ltd. He joined the board on the 6th November 2012</p>
	<p>Director Khamis was born on the 5th December 1951. He holds O level certificate of education and a certificate from Utalii College in Front Office Management. He trained as a Food and beverage Controller in Germany. Mr. Khamis S. Khamis has extensive experience and training in the hospitality industry having worked as Hotel Manager at Castle Hotel Mombasa and a food and beverage controller at Alliance Hotels in South Coast. He has wide experience in politics after serving as a Councilor with the then Municipal Council of Mombasa for two terms</p>
	<p>Director Eunice was born in 22nd August 1966. She is a holder of LLB from University of Nairobi and a diploma from the school of law Nairobi. She is a corporate lawyer for over 20 years. She is the current Chair of the Audit and Risk Committee of the company. She joined the board on the 11th October 2012</p>

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THE BOARD OF DIRECTORS (Continued)

	<p>Director Hon. Mshenga Ruga Holds a Diploma in County Governance. He has over 15 years Experienced Public Administrator having served as Councilor and Mayor for defunct Kwale County Council. He joined the board on the 17th April 2015</p>
	<p>Director Bwanahamad Bwana Is a former Board member at Transport Licensing Board. Has extensive experience in the Shipping Sector where he worked in various capacities. He holds O level qualifications. He joined the board on the 17th April 2015</p>

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Reports and financial statements for the year ended 30th June 2015

MANAGEMENT TEAM

	<p>Managing Director</p> <p>Mr. Musa Hassan Musa holds a bachelor degree in Education in Technology (Electrical Option) from Moi University, and he has a Master of Science degree in Marine Education and Training (Marine Engineering) from world Maritime University (Sweden) and Executive Master's degree in Business Administration from Jomo Kenyatta University.</p> <p>He is a member of the Institute of Engineering and Technology (MIET) and the institute of Marine Engineering Science and Technology (MIMAREST). He has sixteen years' experience in marine sector and quality management systems.</p>
	<p>Human resources and development manager</p> <p>Mr. Paniel Nyaga holds a master degree of Business Administration, has fellowship in Certified Public Secretary. He is a member of CPS (K) and MKIN. He has twenty one years' experience, seventeen as head of a department. He retired from the company in January 2015.</p>
	<p>Thomas Tuva Kenga has joined Kenya Ferry Services Limited from Technical University of Mombasa on the 4th May 2015 where he was the Head of Human Resources Department for over five years. An alumni of Moi University, University of Nairobi and Mombasa Polytechnic, Mr. Kenga's highest qualification is a Master's degree specializing in Human Resources Management. He is a full member of the Institute of Human Resource Management, Kenya.</p>
	<p>Company secretary and head of legal services</p> <p>Mr. Elijah Kitur holds an LLB (Hons), is an advocate and a certified public secretary CPS (K). He has eighteen years' experience and is a member of the Law society of Kenya and Institute of Certified public Secretaries of Kenya.</p>
	<p>Operations manager</p> <p>Mr. Antony Doshu Madzungu holds a Bachelor of Arts in Sociology and Geography; advanced management course offered by Kenya Institute of Management, he has twenty two years of experience and thirteen years as a head of department</p>

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	<p>Finance manager</p> <p>Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has ten years' experience in financial management.</p>
	<p>Chief engineer</p> <p>Major (rtd) George Amos Nyadero holds higher diploma in Mechanical engineering (Kenya), diploma in Marine Survey (UK), diploma in Marine engineering. He also holds bachelor of science in mechanical Engineering (USA) and masters in marine surveying (UK). He is a member of IACS (International Association of Class Surveyors) and IMAREST (Institute of Engineering, Science and Technology). He has thirty seven years working experience in marine environment</p>
	<p>Procurement and supplies manager</p> <p>MS Jennifer Cirindi holds a Bachelor degree in Education. She is a qualified procurement professional with MCIPS(UK) and holds a post graduate diploma in CIPS. She is a member of KISM and is currently pursuing MBA at Nairobi University in Operations Management. She has over 10 years experience in supply chain management</p>

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CHAIRMAN'S STATEMENT

I am pleased to present the annual report and financial statements for the company for the year ended 30th June 2015. The company registered a deficit of Kshs 43million against a deficit of Kshs 91million realized in the previous year 2013/2014. This is a significant improvement and it is in line with our aspirations as an organization to post surpluses in the near future. The main contributing factors to this improved position was an increase of 3% total revenue from Kshs 949 million in 2013/2014 to Kshs 973 million in 2014/2015. The company's overall expenditure reduced by 7% from Kshs 1,042 million in 2013/2014 to Kshs 986 million in 2014/2015. On the other hand the asset base of the company improved from Kshs 2.8 billion in the year 2012/2013 to Kshs 3.1 billion in 2013/2014 financial period and to Kshs 3.5 billion in current year.

The government has a commitment to provide for ferry services to pedestrians accessing the company facilities. This comes in the form of grants and its level (how much is allocated) affects the company's performance. During the year the government allocated Kshs 376 million to supplement the recurrent budget, however only Kshs 338 million was received leaving a balance of kshs 38 million.

Strategic issues

The company is on course in implementation of its strategic plan. Ferry landing facilities (ramps) on the mainland side of the Likoni Channel were completed and those on the Island side are 80% complete. The ferry maintenance Jetty at Peleleza is now ready and available for both maintenance of ferries and mooring services. These facilities were undertaken courtesy of the government at a total cost of over 800 million. To enhance security situation, the company through the support of the government installed scanners for both pedestrians and luggage and this has enable petty offenders to be nabbed. The government has also assisted KFS to establish a police post that specifically takes care of the minimum security for ferry operations.

The company seems to have a brighter future. Two ferries whose contract was signed will be acquired from Turkey at a total cost of Kshs 1.9 billion. This will boost the fleet of ferry crafts and thereby geared towards improving ferry services. The company is keen on improving self sustainance. Plans are underway to introduce cable car services as a way to enhance revenue base of the company. This project will be implemented through public, private partnership arrangement. Once complete this project will provide alternative mode of crossing the Likoni Channel, boost tourism since it is expected to be one of its kind in East Africa. Further to this the company is planning to develop a ferry terminus on the island side of the channel. This will assist in the flow of pedestrians and motor vehicles that use ferry services. In addition the

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Reports and financial statements for the year ended 30th June 2015

terminus will provide ample space for various commercial, hotel and other social amenities to ferry users.

There are however challenges being experienced in this very noble exercise key of which include inadequate financing of some of the earmarked projects.

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REPORT OF THE MANAGING DIRECTOR

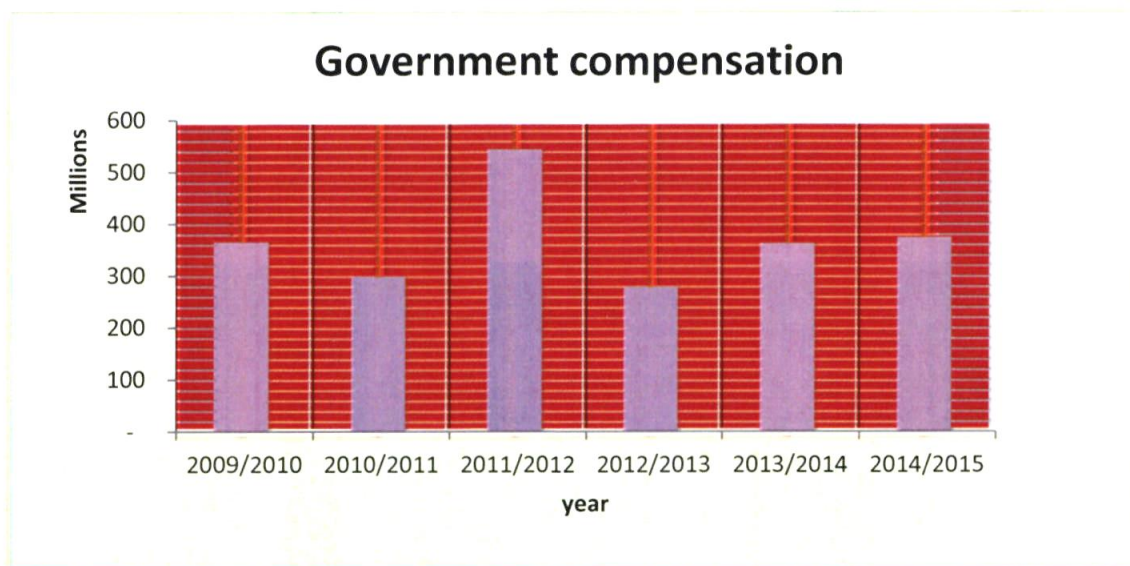
Financial Performance for the year

The company realized a deficit of Kshs 43 million in the current year compared to a deficit of Kshs 91 million in the year 2013/2014 and Kshs 117 million in the year 2012/2013. The company's capital base improved from equity of Kshs 3.1 billion in the year 2013/2014 to a figure of Kshs 3.5 billion in the current year. This is attributed to improved deferred income in the form of capital grants received at a total of Kshs 600 million from the government.

KFSL depends on two streams of financing to manage its business – its own internally generated revenue, encompassing both ferry and non-ferry components and government subventions. Ferry operation revenue has been on the increase as shown below

Year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Revenue(Kshs)	271,164,750	301,077,139	341,031,343	411,045,388	441,441,984

The National Government disburses funds in two forms i.e. development funds for capital projects and compensation for free passage of pedestrians (recurrent funds). Unlike internally generated income, government grants seem not to be following the same trend. It has always been unpredictable over the years and this has been an impediment to the planning process by the company. Below is a summary of the same for the last five years.

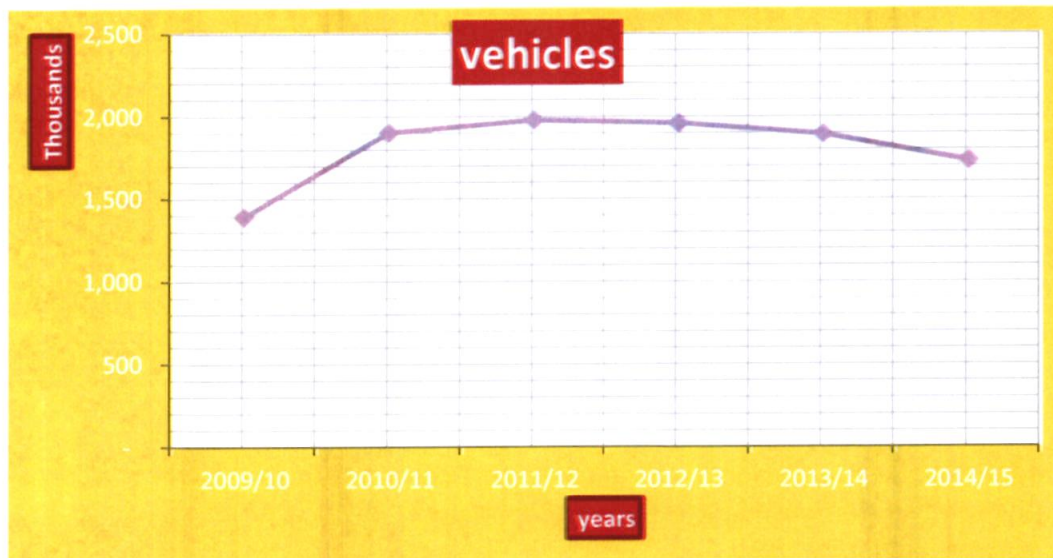


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Ferry operations

Below is a summary of the vehicles crossed for the last six years of services



Information Communication Technology

As a way to implement and achieve the goals of its ICT Strategic Plan, the company implemented several activities which include installation of CCTV Surveillance system at its operation areas. The company invested and operationalized a CCTV surveillance system. The system can be accessed both through a mobile device and through the LAN. The company is finalizing on a broadband connection through fibre optic to enable simultaneous access through the LAN. The system is utilized both to monitor operations and for security checks. Several petty offenders have been nabbed because of its use.

The company has also acquired Computers, Laptops and other accessories. The company awarded a contract for supply of Computers, Laptops, printers and other accessories whose delivery is expected by the end of August 2015. This is in line with its target of achieving a ratio of 1:1 computer for office staff and 1:10 for other staff as outlined in our ICT Strategy. It is also in readiness for the implementation of the ERP which is to start early next year.

The company developed and implemented an intranet to facilitate internal communication. The intranet is hosted online and can be accessed anytime and anywhere with internet connection. It is expected that once fully operationalized, access to company information by staff will be faster and cross cutting.

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At the same time the company plans to undertake various ICT projects in the next financial year. These include acquisition of an Enterprise Resource Planning (ERP) System. During the current year, the company finalized the procurement process. ERP is an integrated system that will automate all the business processes through a single database. The developer has been identified and will commence the implementation of the system in August 2015. The system is envisaged to be operational by end of 3rd quarter. Among the key features are to automate ticketing and adopt a cashless billing solution that combines chip based cards, mpesa services, and other visa cards. This will enhance efficiency in collection of revenue.

The company has in place trunked network connection. During next financial year the company intends to offer wireless connectivity to its staff at both the HQ and the island office. This will enhance access to company resource such as the intranet and internet.

Customer service delivery

The corporate services section is mandated to take a strategic position in the way the company interacts with its publics (ferry users), staff and stakeholders at large.

The specific responsibilities include;

- Managing the reputation of the organization.
- Developing, implementing and evaluating communication strategies.
- Handling of customer complaints.

During the year 2014/15 under review the following activities were realized;

Complaint handling

In 2014/ 2015, 42 written complaints were received, recorded and addressed. 80% of the complaints touched on customers' dissatisfaction level on ferry delays, inadequate security, and ferry cleanliness. Accordingly to the independent customer satisfaction survey conducted in 2014 reflected 64% satisfaction level index and the management has addressed 30 of the 57 recommendations. Quarterly reports to commission on administrative justice continue being effected as per requirements.

Media relations

The section managed to coordinate directly with media houses to maximize positive coverage of the company. The total media content analysis conducted by the section established balanced coverage in both print and electronic media which all carried balanced stories about the organization and its operations. The MD was also interviewed live in KTN, KBC, and local FM stations.

Education visits/tours to KFS

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During the year 2014/15 under review the company received 630 students drawn from different institutions both lower and higher institutions of learning, we conducted educational tours of our company and thus leveraged on good corporate image as the visitors become our ambassadors wherever they go. During the year the company hosted Cabinet secretary Eng. Kamau, PS Nduva Muli, PS Eng. John Musonik and parliamentary committee on Energy , Road and Transport led by Hon. Maina Kamanda .

Corporate Social Responsibility (CSR)

The company spent Kshs 400, 000 on donations to support various social initiatives. It is worth noting that the company has maintained its flagship CSR activity (eye screening) to ferry users every last Saturday of every month in conjunction with Kwale Eye Clinic. This has gained popularity and is an event which our ferry users look up to. This is explained by the high turnout of people during the function. The greatest challenge has been the shortage of ample time. The year 2014/2015 recorded 1615 patients screened on eye related ailment of which some have been referred for surgeries. The company has been active in engaging and supporting local initiative Community Based Organizations such as Hatua Likoni in promotion of education to the youth with less privileged families.



Collaboration between KFSL and Kwale District Eye Clinic

Stakeholders/ customer week / ASK show Mombasa.

In order to engage customers and stakeholders on the issues related to service delivery company held a stakeholders meeting on 29th April, 2015 where 150 customers acc information about the company service. Issues raised during the meeting have been add by the management. The department championed a successful exhibition at the ASK Mr show in August, 2014 recording over 1300 show goers visiting our stand including parti beach safety and awareness during Easter holidays in support of Kenya Maritime Authc

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Reports and financial statements for the year ended 30th June 2015

Projects implementation progress

During the financial year the company managed to implement the security project that is geared towards securing the company premises and facilities. The 4th quarter of the year witnessed tremendous improvement on pedestrian screening when the X-ray luggage scanners and Walk-through metal detectors recently installed came into use on the 27th April 2015. The response from the users has been largely positive with minor challenges experienced especially on excessively bulky luggage which cannot go through the machines. Disorderly conduct is the most frequent incident. It is mostly prevalent during peak times (morning and evening) perpetrated by pedestrians who become unruly and uncontrollable especially when there are some operational delays. It has also been observed that in many instances, such disorderly conduct is experienced on the island side than on the mainland.

On the Island side of the channel the ferry landing facility construction is ongoing and is expected to be completed by the end of the first quarter of the 2015/2016 financial year. A similar project was done on the mainland side in the previous year. The projects were meant to facilitate and expand the facility to accommodate simultaneous safe landing of two ferries. in response to the ever increasing demand of ferry services especially by the pedestrians.

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KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the principles, processes and practices by which a company is operated, regulated and controlled so that it can set and fulfill its goals and objectives in a manner that adds value for the benefit of all stakeholders and is sustainable. It is concerned with systems and practices and procedures that govern the company. Good corporate governance entails provision of structures that establish relationships among company's board, shareholders, management and other stakeholders to ensure the company business remains viable and sustainable.

The Company regards good corporate governance as crucial to the success of the business and is steadfastly committed to practice it so that the Company remains a sustainable and viable business of global stature. This Statement sets out the main corporate governance practices and structures in the Company.

Corporate governance guidelines

The following Corporate governance guidelines and principles are applied in the Company to govern directors and staff: (i) the Provisions of the Companies Act on Duties of Directors; (ii) specified best corporate governance principles adopted from other jurisdictions as contained in the Company's Board Manual, Charter and Code of Conduct that the company ascribes to; and (iii) the Public Officer Ethics Act, 2003 that applies to public officers.

Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in the Board Manual which clearly spells out important governance arrangements covering: (i) appointment of directors; (ii) articulation of and commitment to respect the rights of shareholders; (iii) respective roles and functions of the Board, the Chairman, Managing Director and Company Secretary; (iv) conduct of Board meetings; (v) directors' induction and development; (vi) directors' duties, liabilities and code of conduct; (vii) terms of reference for all Board Committees; and (viii) disclosure of material information to the public.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company; exercise duty with care and diligence; avoidance and

KENYA FERRY SERVICES LTD

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CORPORATE GOVERNANCE STATEMENT (Continued)

management of conflict of interest; maintain confidentiality of information about the Company; show commitment to and attend to Company business; and respect to fellow directors.

Composition of the board of directors

The composition of the board of directors is as outlined to the key company information on page 3 to 4 and 6 to 8 of this report.

Role and responsibilities of the board

The Board provides leadership and strategic direction to the Company. The main responsibilities of the Board are: (i) establishing the short and long-term goals of the Company and strategic plans to achieve those goals; (ii) ensuring preparation of the annual financial statements; (iii) approval and review of the annual budgets; (iv) setting and periodically reviewing key performance indicators and management performance; (v) ensuring that the Company has adequate systems of internal controls; and (vi) ensuring that the Company has adequate risk management plans for business continuity.

The Board of Directors has full access to the advice and services of the Company Secretary. They are also empowered to seek independent professional advice from the Attorney General of the Republic of Kenya where necessary.

Role of Chairman of the Board of Directors

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

Managing Director & Chief Executive Officer

The Managing Director is the chief executive of the company responsible for the day to day management of the Company.

Directors' training and development

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

CORPORATE GOVERNANCE STATEMENT (Continued)

During the year, the Board members attended training programmes, seminars and conferences locally

Board work plan and meetings

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed before the meetings.

The Board and its Committees held the following meetings during the year, which were well attended as detailed below:

Types of meetings	Main board	Finance and establishment Committee	Audit and risk Committee	Ad hoc/ Special Board
Board members				
Mr. James K. Fondo	4			2
Mr. Nelson Mwanzanje	4	4		2
Mr. Khamis S. Khamis	3		3	1
Mrs. Eunice Wanja Kibe	4		4	
The PS for Transport	4	4	4	
Mr. Gichiri Ndua	2	3	2	
The Cabinet Secretary, The National Treasury	3	3	3	2
Mrs. Mariam N. Mahero	3	4		1
Mr. Musa H. Musa	4	4		
Mr. Mshenga Ruga	1			1
Mr. Bwanamadi Bwana				1
No. of Meetings	4	4	4	2

In addition to the above meetings the board conducted a workshop to review its various company policies. It also held a board evaluation session and attended an annual general meeting.

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

To enhance corporate communication the corporate services was able to actively participate in publicity events geared towards positioning our company image. This was done at the Mombasa ASK Show, beach safety awareness campaign in conjunction with Kenya Maritime Authority to enlighten residents on safety measures at the beach and sea.

Stakeholder's engagement which elicits customer feedback was held by Kenya Ferry Services in the 4th Quarter to provide information on the upcoming projects i.e. cable car and the multilevel bus terminal at the Island ramp approach and the procurement of two new ferries with the view of improving service delivery.



KFS participation in Mombasa ASK show in August, 2014.



KFS in partnership with Kenya Maritime Authority offering beach safety awareness.

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Reports and financial statements for the year ended 30th June 2015

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONT...)



KFS engaging stakeholders during stakeholders meeting

The company in an effort to reach out to the community and her stakeholders , conducted a free eye check-up clinic to ferry users at the Island women waiting shade three times in each quarter as a platform of disseminating its policies to the public and taking care of their welfare. A total number of 1282 patients were screened. Further to the above stated exercise, the company was able to give donations to the needy situations worth kshs 260,000.00 such as beyond zero campaigns spearheaded by the First Lady Margaret Kenyatta in which a donation of kshs 100,000.00 was made. A kind donation in form of a ferry pass worth ksh 144,000.00 was donated to Hatua Likoni as a raffle prize in aid of Likoni student's bursary kitty.



KFS partnering with Kwale District Eye Centre in eye screening clinic

KENYA FERRY SERVICES LTD

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RISK MANAGEMENT

The board recognizes risk management as an important tool to safe guard the interest of the organization business. To manage risk effectively the board has in place an approved risk management policy. The following risk categories have been high - lighted and corresponding strategies formulated for implementation;

Strategic risk

These are risks whose occurrence would significantly reduce the ability of the company to realize its mandate and affect the business as a whole. They include among others strategic plan implementation and the Dongo Kundu bypass as briefly explained below;

Strategic plan implementation

As stated in the chairman's statement the company has a new strategic plan for the five years 2014-2019. The implementation of the document requires an estimated budget of kshs.3.2 billion spread over the five years. Among the forecast risk on this item is delayed disbursement and underfunding.

The company to a large extent depends on the government to fund its development projects. Key to the strategic plan is the acquisition of two new ferries, rehabilitation and expansion of the mooring and landing facilities, extension of the ferry services to the larger Mombasa, Lamu and Kisumu regions.

The landing and mooring projects is part of the investment associated with the strategic plan. The company is in the process of procuring two additional ferries as a way to enhance efficiency and deal with the ever increasing demand of ferry services

Dongo Kundu bypass

Dongo Kundu bypass is a road that will be constructed to connect south coast to the Mombasa west mainland. The purpose of the bypass is to provide a quicker route and also help decongest the Likoni Ferry channel as well as the Mombasa island for motorist heading to south coast from Mombasa west mainland and vice versa. When completed it is envisaged that most of the tourists and to a big extent the long distance haulers may opt to use the bypass instead of the Likoni channel to cross to and from Mombasa. It is projected that the company may lose business for saloon cars and station wagon, pick up, and kombis and trailers at least at a rate of 20%,20% and 80% respectively. This will definitely deplete the revenue base of the company and may affect sustainability of its operations.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

On this regard the company is planning to extend the ferry operations to the larger Mombasa, Lake Victoria and Lamu. The strategic plan provides for diversification into property management to supplement the revenue generation. Already proposals are being developed for the island plots and consultations with the parent Ministry and Treasury is ongoing.

Operation risks

The Kilindini harbor is serving the Northern transport corridor covering Uganda, Rwanda, Burundi, Congo and Southern Sudan. The operation of the harbor lies at the centre of the Likoni and Mtongwe ferry operations that handles heavy vehicular and pedestrian traffic. The numerous inbound and outbound ships pose high collision risks save for the effective communication systems in place between the ferry operators and the harbor master control rooms. Ship to ship, ferry to ferry and ferry to ship collisions are as well as possible hence endangering lives and loss of property. To enhance on safety, ferries are required to give way to all inbound and outbound ships and this causes delays on our operations. This trend is expected to worsen as port operations increase especially with the ongoing dredging of the channel and plans to accommodate bigger capacity vessels at the port.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the company's affairs.

Principal activities

The principal activity of the company is offering ferry services to motorists and pedestrians at the Likoni and Mtongwe Channels

Results

The results of the company for the year ended June 30, 2015 are set out on page 26 to this document

Dividends

The company is a non- commercial state corporation

Directors

The members of the Board of Directors who served during the year are as shown on page 3. In accordance with the State corporations Act and Regulations of the company's articles of Association, two of the directors retired during the period.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with section 11(2) (c) Of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Elijah Kitur

Corporate Secretary

Mombasa

Date

STATEMENT OF DIRECTORS RESPONSIBILITIES

Section 81(1) of the Public Finance Management Act, 2012 and section 14(1-2) of the State Corporations Act, require the Directors to prepare financial statements in respect of that *company*, which give a true and fair view of the state of affairs of the *company* at the end of the financial year/period and the operating results of the *company* for that year/period. The Directors are also required to ensure that the *company* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *company*. The Directors are also responsible for safeguarding the assets of the *company*.

The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the *company* for and as at the end of the financial year (period) ended on June 30, 2015. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *company's* financial statements give a true and fair view of the state of *company's* transactions during the financial year ended June 30, 2015, and of the *company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *company*, which have been relied upon in the preparation of the *company'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 *company* will not remain a going concern for at least the next twelve months from the date of this statement.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

STATEMENT OF DIRECTORS RESPONSIBILITIES (continued)

Approval of the financial statements

The *company's* financial statements were approved by the Board on 26th August 2015 and signed on its behalf by:

Mshenga Ruga Vuyaa

Chairman



Bakari Hamisi Gowa

Ag. Managing Director



REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 30 to 67, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity, statement of cash flows 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

Kenya Ferry Services Limited – Reports and Financial Statements for the year ended 30 June 2015

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Financial Performance

The statement of comprehensive income for the year ended 30 June 2015 indicated that the Company recorded a net loss of Kshs.43,332,000 (2013/2014 Kshs.90,637,000) resulting to accumulated deficits of Kshs.770,086,000 as at 30 June 2015. Under the circumstance, the financial performance of the Company is precarious and if strategies are not put in place to reverse the trend, the company may not be able to meet its future financial obligations as and when the same fall due.

2. Government Grants

The statement of comprehensive income for the year ended 30 June 2015 indicates that the Company received Kshs.338,000,000 as Government compensation. However records maintained in the State Department of Transport for the year ended 2014/2015, reflected grants disbursed to the Company as Kshs.375,984,000 resulting to unexplained nor reconciled variance of Kshs.37,984,000.

Consequently, the accuracy and completeness of government compensation balance of kshs.338,000,000 for the year ended 30 June 2015 could not be confirmed.

3. Advances - Kenya Ports Authority

As reported in previous years, the statement of financial position as at 30 June 2015 reflects a balance of Kshs.336,010,000 described as advances - KPA. The advances were from Kenya Ports Authority for the Kenya Ferry Services operations in their initial years. It is still not clear how the amount will be cleared from the books of accounts.

4. Trade and Other Receivables

4.1 Long Outstanding Debtors

Included in trade and other receivables balance of Kshs.102,112,000 is trade receivables of Kshs.63,733,000 which includes three debtors; Lustman & Co (1990) Ltd - Kshs.4,362,496, Nova Media Ltd – Kshs.22,123,322 and White Hall Holdings Ltd. – Kshs.2,667,221, which have been long outstanding since financial year

2008/2009. However, the management has not provided documentary evidence of the efforts being made to have the debts settled or why the Company credit policy has not been adhered to.

4.2 Staff Car Loans

Information availed for audit review indicated that staff receivables of Kshs.20,531,000 under Note 16 to the financial statements include Kshs.1,800,000 being car loan advanced to the Company Secretary. However registration documents for the vehicle availed for audit reflected that the vehicle was not jointly registered between the staff and the Company as required by the Company policy.

Under the circumstance, it has not been possible to confirm the authenticity and accuracy of trade and other receivables balance of Kshs.102,112,000 as at 30 June 2015.

5. Bank Overdraft

The statement of financial position reflects a bank overdraft balance of Kshs.3,472,000, under current liabilities. However, no evidence was availed for audit review to indicate that the bank overdraft had been approved by the Board of Directors and the parent Ministry in line with Government circulars.

Consequently, regularity of the bank overdraft of Kshs.3,471,930 as at 30 June 2015 could not be confirmed.

6. Irregular investment of Surplus Funds

Included in the statement of financial position is cash and bank balances of Kshs.658,165,000 whereby information availed for audit indicated that surplus funds amounted to Kshs.658,165,000 was invested in fixed deposits in commercial banks contrary to the National Treasury circular No. 10 of 1992 which states that all investment should be approved by the board and by the Treasury and that surplus funds should be invested in Treasury bills and bonds. Consequently, the management is in breach of the Law.

7. Upgrading of Mtongwe Gangways and pontoons

As previously reported, the Company repaired and upgraded Mtongwe gangways and pontoons at a cost of Kshs.336,512,000. Physical verification established that the project was complete. However, the project was not in use for lack of ferry vessels to operate in the area. Failure to use this facility has led to deterioration of the same.

Under the circumstances, it has not been possible to confirm that the Company received value for money spent in upgrading the Gangways and Pontoons.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Ferry Services Limited as at 30 June 2015, 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, Cap 486 of the Laws of Kenya.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue Budget

During the year under review, Kenya Ferry Services Limited had a budget of Kshs.1,871,394,000 as shown below;

Item	Budgeted allocation	Actual 2014/2015	Under collection	%
Recurrent Revenue	955,768,000	973,075,000	17,307,000	1.8%
Capital Grants	915,626,000	6000,000,000	315,626,000	34%
Total	1,871,394,000	1,573,075,000	298,319,000	100%

However, it was noted that the Company had a total revenue budget of Kshs.1,871,394,000 against the total actual revenue of Kshs.1,573,075,000 resulting to a budget shortfall of Kshs.298,319,000 or 16%. No explanation was provided for this shortfall.

1.2 Budget Utilization

During the year under review, the Company's approved expenditure budget was Kshs.1,957,946,000 against actual expenditure of Kshs.1,763,407,000 resulting to underutilization of Kshs.194,539,000 as shown below:

Item	Budgeted allocation	Actual 2014/2015	Under absorption	%
Recurrent Expenditure	1,042,320,000	986,686,000	55,634,000	53%
Capital Expenditure	915,626,000	776,721,000	138,905,000	15%
Total	1,957,946,000	1,763,407,000	194,539,000	10%

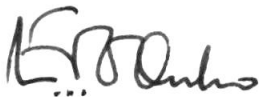
The management have not explained the failure to fully utilize the budget allocation. This denied the public full provision of goods and services as expected hence deterioration of transport services at the Likoni Ferry crossing channel.

My opinion is not qualified in respect of this matter.

REPORT OF OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 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, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of accounts.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

7 June 2016

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2015.

	Notes	2014/20 15	2013/2014
		Kshs 000	Kshs 000
REVENUE			
Income from operations	1	441,442	411,045
Government compensation	2	338,000	364,000
Other income	3	33,864	57,133
Transferred from deferred income	4	121,769	116,614
TOTAL REVENUE		935,400	948,793
OPERATING EXPENSES			
Staff costs	5	459,678	452,475
Administration costs	6	106,598	133,824
Operation costs	7	184,964	193,722
Board costs	8	13,748	9,631
Repairs and maintenance costs	9	76,000	130,119
Depreciation	12&13	145,365	122,691
Amortization	14	333	333
TOTAL OPERATING EXPENSES		986,686	1,042,796
OPERATING SURPLUS/DEFICIT		(13,611)	(94,003)
Finance Income	11	7,954	3,366
Surplus/(Deficit)		(43,332)	(90,637)

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2015

	Notes	2014/2015	2013/2014
		Kshs 000	Kshs 000
ASSETS			
Non -current Assets			
Property, plant & equipment	12	2,246,584	2,225,990
Investment property	13	346,233	354,102
Prepaid operating lease	14	3,391	3,725
Total Non-current assets		2,596,208	2,583,816
Current Assets			
Inventories	15	87,274	74,415
Trade & other receivables	16	102,112	137,768
Bank & cash balances	17	658,165	286,170
Total current assets		847,551	498,354
TOTAL ASSETS		3,443,759	3,082,169
EQUITY & LIABILITIES			
Capital and Reserves			
Ordinary share capital	18	499,904	499,904
Revaluation reserves	19	542,280	547,874
Accumulated deficits	20	(770,086)	(732,621)
Deferred income	21	2,715,590	2,237,359
Total Capital and Reserves		2,987,688	2,552,516
Non -current liabilities			
Advances -KPA	22	336,010	336,010
Current Liabilities			
Trade & other payables	23	116,589	193,644
Bank overdraft		3,472	
		119,981	193,644
Total equity & liabilities		3,443,759	3,082,169

The financial statements on pages 30 to 63 were approved by the board of directors on the 26th A 2015 were signed on its behalf by

Mshenga Ruga Vuyaa

Chairman

Bakari Hamisi Gowa

Ag. Managing Director

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2015

	Ordinary share capital	Revaluation reserves	Revenue Reserves	Deferred income	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Changes in Equity for 2013/2014					
As at 1st July 2013	499,904	636,265	(648,887)	1,877,973	2,365,255
Addition to deferred income				476,000	476,000
Transfer to income statement				(116,614)	(116,614)
Surplus/Deficit for the year			(90,637)		(90,637)
Additions to revaluation reserve		(81,487)			(81,487)
Disposal on revaluated assets		(6,904)	6,904		
at 30th June 2014	499,904	547,874	(732,621)	2,237,359	2,552,516
Balance as at 1st July 2014	499,904	547,874	(732,621)	2,237,359	2,552,516
Addition to deferred income				600,000	600,000
Transfer to income statement				(121,769)	(121,769)
Surplus/Deficit for the year			(43,331)	-	(43,331)
Depreciation on assets			273		
Disposal on revaluated assets		(5,594)	5,594		
2015	499,904	542,280	(770,085)	2,715,590	2,987,688

August

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2014/2015	2013/2014
OPERATING ACTIVITIES		Kshs 000	Kshs 000
Cash used for operating activities	24(a)	(78,220)	141,832
Interest received		7,954	3,366
Obsolete stock(provision)		-	(38,611)
Bad & doubtful debts (provision)		-	(40,903)
		(70,265)	65,684
INVESTMENT ACTIVITIES			
Purchase of property, plant & equipment	12	(157,740)	(530,144)
Proceeds from disposal of assets			7,912
Net cash used in investing activities		(157,740)	(522,232)
		-	-
FINANCING ACTIVITIES			
Government funds	21	600,000	476,000
Net cash from financing activities		600,000	476,000
		-	-
Increase in cash and cash equivalent		371,994	19,452
Cash and cash equivalent at the start of the year		286,170	266,719
Cash and cash equivalent at the end of the year	24(b)	658,165	286,170

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30TH JUNE 2015

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurements at re-valued amounts of certain items of property, plants and equipment's, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at the 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 *company's* accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company and all the values are rounded to the nearest thousands (Kshs'000).

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

2. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the *company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *company's* activities as described below.

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

ii). **Grants from National Government** are recognized in the year in which the company actually receives such grants. Grants for development projects are treated as deferred income as per IAS 20.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii). **Finance Income** comprises interest receivable from the bank deposits and investments in securities, and is recognized in the profit and loss on a time proportion basis using the effectiveness interest rate method.

iv). **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

v). **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.

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

In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in a money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

3. 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 revaluation 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 values.

Increases in the carrying amounts of assets arising from revaluation 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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. 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 on-going but incomplete works on building 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. The annual rates in use are:

Building and civil works	40 years or the unexpired lease period	2%
Plant and machinery	10 years	12.5%
Motor vehicle including motorcycles	4 years	25%
Computers and related equipment	3 years	30%
Office equipment, furniture and fittings	8 years	12.5%
Ferry crafts	20 years	5%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of assets disposal.

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.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Investment property

Buildings or part of building (freehold or held under finance lease) and land (freehold or held under operating lease) held for long term rentals yields and or capital appreciation and which are not occupied by the entity , are classified as investment property.

The company adopts the cost model for accounting for its investment property

6. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first in first-out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

7. Finance and operating leases

Leases which confer substantially all the risks and ownership to the *company* are classified as finance leases. Upon initial recognition, the leased assets is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is substantially accounted for in accordance with the accounting policy applicable to the assets.

All other leases (including prepaid operating lease) are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease Amortization of prepaid operating lease rentals is charged to the statement of comprehensive income on a straight line basis over the lease term of 33 years. Lease incentives are recognized as an integral part of the total lease expense over the term of the lease.

8. Trade and other payables

Trade and other payable are non-interest bearing and are carried at amortised cost, 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 company or not, less ant payments made to the suppliers.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Retirement benefit obligation

The Company operates a defined contribution scheme for all its employees. The scheme is determined by Insurance Company of East Africa and is funded by both the Company and the employees. Company contribution is charged to the income and expenditure statement in the year in which it relates.

The company also contributes to a defined scheme, the National Social Security Fund (NSSF). Contributions are determined by the legal statute and are currently at kshs. 200 per month. The company contributions are charged to the income and expenditure statement in the year in which it relates.

10. Provision for staff leaves pay

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

11. 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 central bank of Kenya and at various commercial banks in Kenya at the end of the financial year. For the purposes of these financial statements, cash and cash equivalent also include short term cash impress and advances to

12. Exchange rates differences

The accounting records are maintained in the functional currency of the primary economic environment in which the company 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 transaction 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 recognised in profit or loss.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Financial Instruments-Recognition and measurement

Financial assets are initially recognized at fair value. The company's financial assets which include cash and cash equivalents and receivables fall into the following categories:

Cash and cash equivalents: For the purposes of the statement of cash flows, cash and cash equivalents

Comprise cash in hand and short term marketable securities.

Receivables: Receivables are carried at original invoiced amount less an estimate made for impairment based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified. Subsequent recoveries of amounts previously written off are credited to income in the year of their recovery.

Financial liabilities

Financial liabilities including trade and other payables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest rate method.

14. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required change in presentation.

15. Financial Risk Management

The Kenya Ferry Services Ltd.'s activities expose it to a variety of financial risks including credit, liquidity and market risks. Risk management is carried out by the respective departments. The policies focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Kenya Ferry Services Ltd's performance by setting acceptable levels of risk.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding receivables. Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilization of the credit limits and the credit period is monitored by management on a monthly basis.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet obligations as they fall due. The management ensures that adequate cash reserves are maintained to pay off liabilities as they crystallize.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

iv) Interest rate risk

Kenya Ferry Services Ltd.'s interest rate risk arises from short term bank deposits because of changes in market interest rates.

v) Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency. The Kenya Ferry Services Ltd has no trade receivables, nor trade payables, nor borrowings which are denominated in foreign currency as at the reporting date.

16. Effective IFRS Disclosures

Kenya Ferry Services Ltd has no disclosures on new standards and amendments to published standards effective as at the end of reporting period, neither are new and revised standards and interpretations in issue but not yet effective in the period ended or impact of new and revised standards and interpretation on the financial statements for the year ended and future annual periods.

17. Deferred Income

All forms of capital grants from the Government of Kenya whose primary condition is that the Kenya Ferry Services Ltd should purchase, construct or otherwise acquire non-current assets the useful lives of the related assets (for acquisition of non-current assets) are recognized in the statement of comprehensive income on a systematic basis over the period that the company enjoys the economic benefit for use of the asset usually equal to the depreciation rate/useful life of the asset.

18. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015

1. Income from operation

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Toll collections	418,151	393,556
Ferry passes	23,291	17,490
Total	441,442	411,046

This is the main source of internally generated revenue the company collects. It is made up of toll charges levied to motorists as they access the services of the company. In addition to the toll charges, the company operates ferry passes which allows its customers to prepay for ferry services either in the form of priority pass holders or concession pass holders. The former allows customers (motorists) to queue jump and board the available ferry on the ramp. The other pass category entails the holder to use the ferry services as many times as may be necessary but without queue jumping.

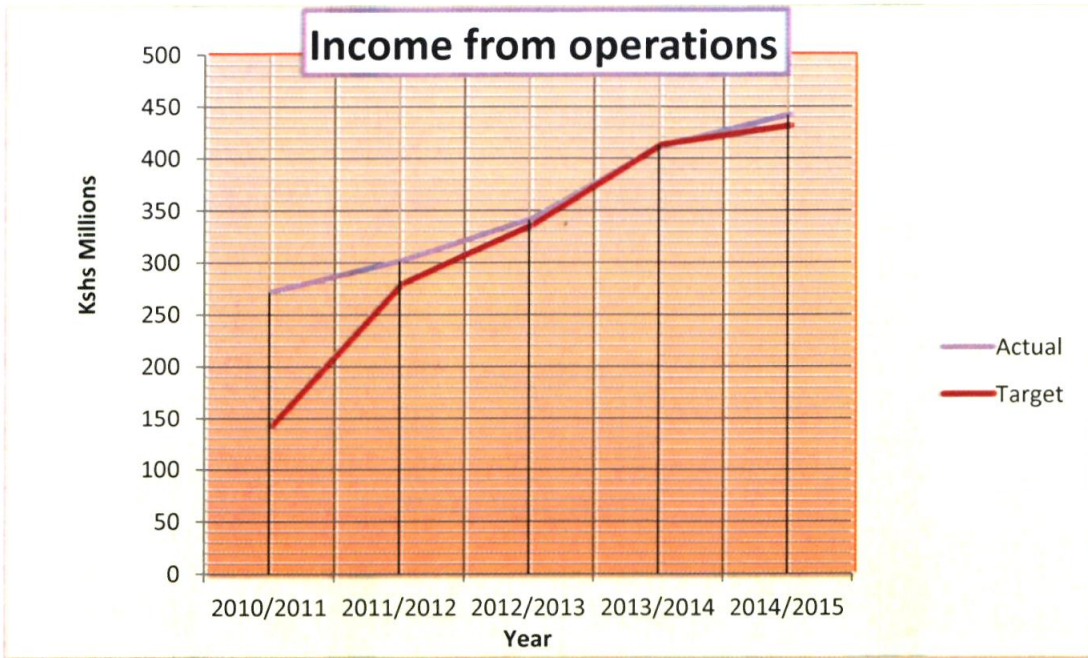
The company's income for the year was Kshs 441 million which represents an increase of 7% compared to the year 2013/2014 earnings of Kshs 411 million. In general, earnings from internally generated source have been registering a positive trend for the last five years as shown below. The increase during the year is attributed to enhanced controls on revenue collection and implementation of toll tariff review.

The company has introduced a CCTV system to enhance controls and minimize toll leakages. In the next financial year the company will introduce a cashless collection system (this will be part of the large computerization programme to be under taken in the company)

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)



2. Government compensation

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Recurrent grants received	338,000	364,000

The company receives recurrent grants from the government each financial year in lieu of charging pedestrians. This form of compensation was estimated at ratio of 65:35 whereas the pedestrian usage was at 65% and vehicular usage at 35% of the ferry services offered.

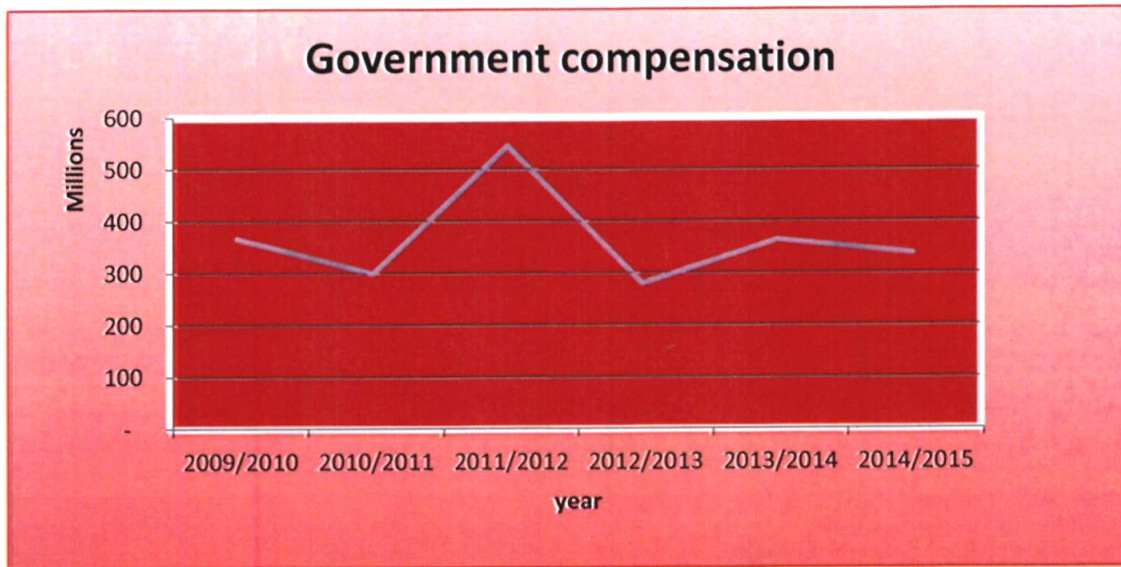
During the year that ended the company received a total of Kshs 338 million. This was a decrease of 7% compared to what the company earned in the previous year of Kshs 364 million and this greatly affected the smooth operations of the company. Further, the existing financing arrangement is not sustainable in that whereas the company's revenue generation has steadily increased over the years, the government subventions are quite erratic and unpredictable.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

Below is summary of the amount of funds the company received from the government for the last five years.



3. Other income

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Infrastructure rent income	10,938	15,876
Commercial adverts	18,870	18,870
Sale of tender documents	1,544	1,544
Used oil, insurance commission	2,293	1,069
Hire of ferries	220	17,362
Gain on disposal	0	2,412
Total	33,864	57,133

This category of income encompasses all non-ferry related sources. It includes rental income from mainland ferry terminus and facilities, commercial advertising, and sale of tender documents and disposal of company assets.

The company earned Kshs 34 million during the year as opposed to a figure of Kshs 57 million earned in the previous year and a target of Kshs 37 million during the year. As highlighted above, other income decreased by Kshs 23 million or by 41% compared to last financial year.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

The biggest contributor to this decrease was hire of ferries where Kshs 17 million was collected (a one off rip) in 2013/2014 as opposed to a collection of Kshs 220,000 in the current year.

Infrastructure (rental) income earnings were below target as the facility was to rehabilitated before being availed to the new lessee (My Space Ltd)

4. Deferred income

Deferred income was earned from the use of the following assets whose costs were financed by funds received from the Government in the form of grants. The following is the amount of benefit apportioned from various assets in the financial year

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Ferry crafts	63,867	63,867
Infrastructure Buildings	7,869	7,869
Office Building	1,235	1,235
Car Shade	9	9
Dry docking	9,081	30,385
Ferry Generators	698	698
Ferry Engines	2,735	2,735
Safety equipment	9,816	9,816
Mainland ramp	1,558	
Mtongwe pontoon	6,093	
Peleleza jetty	5,742	
Security Project	10,263	
Schottel steering system MV Nyayo	2,803	
Total	121,769	116,614

New completed projects came in force during the year. This included mainland ramp, Mtongwe pontoon, the jetty at Peleleza, the security project and the schottel steering system for MV Nyayo at a cost 774 million.

5. Staff expenses

Staff cost include all forms of remunerations paid to employees for services rendered to the company. Total Staff incurred during the year was Kshs 460 million against a budgetary provision of Kshs 462 million. In the previous financial year (2013/2014) total cost incurred was

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

Kshs 452 million. Staff welfare includes staff medical cover service pay and token of appreciation that may be paid.

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Salaries and allowances of employees	397,819	388,476
NSSF	691	702
Pension and provident	16,432	14,889
Gratuity	6,793	6,400
Staff Welfare	37,944	42,008
Total	459,678	452,475

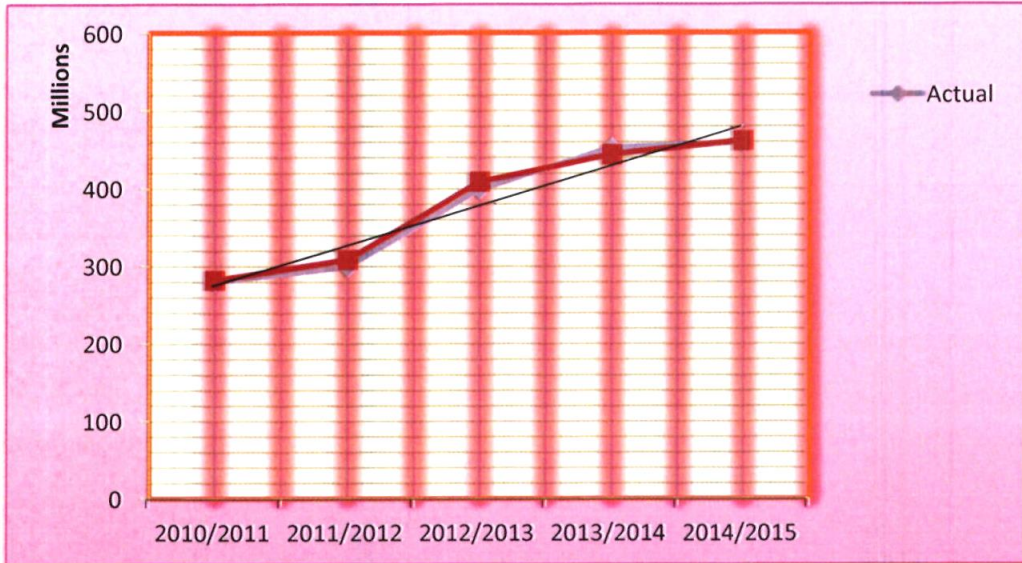
The company registered a deadlock with the Dock Workers Union on certain terms and conditions of service for non-management staff during the CBA negotiations for the year 2013/14 to 2014/15. The matter was finally referred to the Industrial Court when conciliation efforts failed. The Industrial Court in its judgment delivered on 22nd May 2015 ordered the company to revise the unionisable staff basic salaries by 17.5% for the two years in dispute. This is one of the major causes of the increase on staff costs. Further to this several allowances of the union staff were required by the court to be revised.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

Below is a graph that shows total earnings paid to staff over the last five years



Staff increased by 170 million for the five year period. At the moment it accounts for 47% of the total operating costs

The average number of employees at the end of the year was

	2014/2015	2013/2014
	Number	Number
Permanent employees – management	115	116
Permanent employees - unionisable	122	123
Temporary and contract employees	51	51
Total	288	290

There were two management and one non- management staff retired from the service of the company having attained the mandatory retirement age of 60 years while another employee tendered her resignation. Four management employees were engaged to fill vacant positions in the company establishment.

Employment contract for twenty four (24) union staff expired at the end of the financial year under review. Management intended to consider them for permanent appointment.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Administration expenses

Administration costs are all forms of expenses which the company incurs in order to run its business other than staff, operating and repairs as well as maintenance cost. During the year the company spent a total of Kshs 107 million on administration costs which accounted for about 10% of the total operating costs. Total administrative costs decreased by 20% in the current year compared to last financial year's decrease of 3% largely due to the provision for bad and doubtful debts of Kshs 40 million made by then.

There was a general increase in most line items of the administration costs which was necessary to take care of the increased activity levels of the company. This notwithstanding the company spent within its approved budget for all the items of Kshs 134 million. Increased bank charges was occasioned by the high interest income earned during the year.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

Below is a summary of administration costs for the year

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Electricity and Sewerage charges	10,699	8,942
Telephone, Facsimile and mobile phone	4,552	3,809
Accommodation(Domestic and Foreign)	12,103	7,516
Printing, Advertising and Information Supplies	6,244	3,957
Subscriptions to Newspaper, Magazines	748	710
Trade Shows and Exhibitions	1,462	1,885
Sports and Recreation	5,808	4,948
Rent and Rates	1,550	742
Training Expenses	12,883	9,184
Hospitality Supplies and Services	1,443	366
IT Implementation and Training	4,884	2,737
Gifts, Food and Drinks	3,734	2,267
Staff uniforms and clothing	7,525	4,950
Office and General Supplies and Services	4,648	4,714
General Office Supplies	1,770	1,500
Sanitary and Cleaning Materials	1,407	879
General insurances	6,673	7,071
Legal , Arbitration and Compensation	5,855	12,000
Contracted Professional Services	7,850	11,202
HIV & AIDS gender mainstreaming	3,002	1,361
Bad & doubtful debts	-	40,903
Transport for funeral	-	216
Fungicides, Insecticides & sprays	423	441
Loss on disposal	-	900
Bank charges	1,334	624
Total	106,598	133,825

The company had reorganize its administrative expenses in line with the remitted government subventions

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Ferry operating costs

Operating costs are all forms of costs associated with the core business of the company which ensures provision of ferry services. Total cost incurred during the year was Kshs 185 million equal to 19% of the total operating costs. This compared to last year's figure of Kshs 194 million incurred represents a decrease of 5%. The company realized a substantial amount of cost savings on fuel due to a fall on the pump rates of diesel.

Operating costs were lower than budget for by 14% attributed to low pump fuel prices. Another contributing factor is on security services where the National Youth services were not brought on board after the security services was rationalized

	2014/2015	2013/2014 (restated)
	Kshs 000	Kshs 000
Fuel Oil and Lubricants (ferry vessels)	76,448	89,208
Ferry vessels insurances	56,588	59,490
Planning Research and Development	-	2,140
Security Services	51,928	42,884
Total	184,964	193,722

Comparative figures on security services were restated. This line item was merged with money in transit. Original expenses for money in transit services was Kshs 1,298 million and security services was Kshs 41,586 million(these two combined give the current line item on security services of Kshs 42,884 million)

8. Board costs

These are expenses incurred to carter for all forms of board activities ranging from sitting allowances, duty travel and accommodation. There are several activities which contributed to the increase of board expenses by 43% including a review of company policies and a board appraisal.

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Board allowances, & seminars	13,748	9,631
Total		

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Repairs and maintenance

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Ferries	54,468	54,172
Vehicles	568	678
Ferry dry docking	10,163	35,553
Safety equipment	10,801	1,105
Provision for obsolete stock	-	38,611
Total	76,000	130,119

This a class of costs that takes care of repairs and maintenance of all company assets including ferry crafts, motor vehicles, furniture and equipment. Cost of repairs and maintenance incurred during the year was Kshs 76 million (representing a 42% decrease compared to a cost of Kshs 130 million incurred in the last financial year). This is attributed to a high provision for dry docking (Kshs 36 million) experienced in 2013/2014 as opposed to a figure of 10 million in the current financial year. A provision for obsolete stock on voith and Gardner (spare parts for MV Pwani and MV Mvita ferry crafts) is also the partly the cause.

Repairs for ferries (Workshop tools and spares cost for ferries) increased by 1% due to constant repairs on breakdown on the three old ferries (MV Nyayo, MV Kilindini and MV Harambee) especially in the third quarter. These are already past their useful period after they were acquired in 1990. The company is in the process of acquiring two new ferries in the next financial year.

10. Operating surplus/(deficit)

Depreciation of property, plant and equipment has gone up due to charges made against ferry infrastructure including mooring, and landing facilities. At the same time the overall charge decreased from Kshs 176 million to Kshs 160 million mainly because of the provision for bad debt of Kshs 41 million made in the previous year.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

The operating surplus/(deficit) is arrived at after charging/(crediting)

	2014/2015	2013/2014 restated
	Kshs 000	Kshs 000
Depreciation of property, plant and equipment	145,169	122,691
Amortization of intangible assets	333	333
Provision for bad debts	-	40,903
Directors emoluments –fees	13,748	2,449
- others		6,245
Auditors fees- current years	500	500
- prior year under provision		
Loss on disposal of property, plant and equipment	-	900
Gain on disposal of property, plant and equipment		2,412
Total	159,750	176,433

Comparative figures have been restated to include a line item of provision for bad and doubtful debts of Kshs 40.903 million; original figure was Kshs 135.53 million

11. Finance income

This is income earned from investment on short term deposits with National Bank of Kenya Ltd (the company banker). Total interest earned was Kshs 8 million during the year. an amount of Kshs 3 million was earned in 2013/2014

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Interest income	7,954	3,366

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Property plant and equipment

	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Compute rs & LED Screens	Mo Vehicles	Crane, CCTV & Equipmen t	Bo Garden		
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
COST										
As at 1, July 2014	1,584,635	16,537	67,320	7,366	119,589	16,250	350,909	69,079	735,427	2,770,132
Additions	-	-	-	-	368	-	188	2,097	155,088	157,633
Transfers	22,426	-	672,194	-	-	-	82,100	-	(776,721)	-
Disposal/impairment	-	-	-	-	-	154	-	-	-	154
Total	1,607,061	16,537	739,514	7,366	119,957	16,404	433,197	71,175	113,795	3,125,007
DEPRECIATION										
As at 1, July 2014	297,104	-	12,552	7,366	117,513	10,019	247,751	48,817	-	741,122
Charge for the period	80,353	-	14,790	-	1,210	2,424	33,656	5,063	-	137,496
Disposal/impairment	-	-	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	77	(273)	-	-	(196)
Total	377,457	-	27,342	7,366	118,723	12,521	281,134	53,880	-	878,423
NET BOOK VALUE										
As at June 30, 2015	1,229,604	16,537	712,172	-	1,234	3,883	152,064	17,295	113,795	2,246,584
As at June 30, 2014	1,287,530	16,537	408,870	-	2,076	6,231	103,158	20,262	735,427	2,580,091

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Guard rails	7,366	7,366
Computers and LEDs	112,245	109,229
Office equipment, furniture and fittings	172,980	136,493
Motor vehicles		14,042
Drive ways watch towers	17,642	
Total	310,233	267,130

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

Restated	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Computers & LED Screens	Motor Vehicles	Generator, rs, Plant Tools, Crane, CCTV & Equipmen †	Driveway, Watchto wer, Sheds, Roads, Boat & Garden	Capital work in progress	Total
COST										
As at 1, July 2013	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Additions	-	-	410	-	1,400	-	35,949	8,100	484,284	530,144
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal/impairment	(227,092)	-	-	-	-	(11,935)	-	-	-	(239,027)
Total	1,584,635	16,537	460,766	7,366	119,589	16,250	350,909	69,079	735,427	3,360,558
DEPRECIATION										
As at 1, July 2013	357,077	-	42,681	7,366	114,405	18,839	224,874	43,673	-	808,915
Charge for the period	79,232	-	9,215	-	3,108	3,115	22,877	5,144	-	122,691
Disposal/impairment	(139,205)	-	-	-	-	(11,935)	-	-	-	(151,140)
Eliminated on disposal	-	-	-	-	-	-	-	-	-	-
Total	297,104	-	51,897	7,366	117,513	10,019	247,751	48,817	-	780,467
NET BOOK VALUE										
As at June 30, 2014	1,287,530	16,537	408,870	-	2,076	6,231	103,158	20,262	735,427	2,580,091
As at June 30, 2013	1,454,650	16,537	417,675	-	3,784	9,346	90,086	17,305	251,143	2,260,526

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Cost or valuation	Normal annual depreciation
	2013/2014	2012/2013
	Kshs 000	Kshs 000
Guard rails	7,366	737
Computers and LEDs	109,229	32,769
Office equipment, furniture and fittings	136,493	13,649
Motor vehicles	14,042	3,510
Total	267,130	50,665

Capital works above include Island ferry landing facility (Kshs 61 million) new ferries (Kshs 3 million), ferry workshop (Kshs 3 million and others (Kshs 47 million). These are recorded at cost (including direct costs) as they are incurred and accumulated until the project is completed and capitalized thereafter. In the meantime the funding component which is largely from Government development funds is treated as deferred income.

13. Investment property

	2014/2015	2013/2014 Restated
	Kshs 000	Kshs 000
COST		
As at 1, July 2013	393,446	393,446
Transfers	-	-
Disposal/impairment	-	-
Total	393,446	393,446
DEPRECIATION		
As at 1, July 2013	39,345	31,476
Charge for the period	7,869	7,869
Disposal/impairment	-	-
Eliminated on disposal	-	-
Total	47,214	39,345
NET BOOK VALUE		
As at June 30, 2015	346,233	354,102
As at June 30, 2014	354,102	361,971

NOTES TO THE FINANCIAL STATEMENTS (continued)

The company owns infrastructure facilities at its mainland operation area which it leases for an income. These investment properties were in their initial years classified as buildings. They are now classified as investment properties as per IAS 40. The company uses the cost model to account for such investments

14. Prepaid operating lease rental

	Land	Buildings	Total
	Kshs 000	Kshs 000	Kshs 000
COST			
As at July 1, 2014	8,000	2,000	10,000
Additions	-	-	-
As at June 30 th , 2015	8,000	2,000	10,000
DEPRECIATION			
At July 1, 2014	4,672	1,603	6,275
Charge for the year	267	67	333
	-	-	-
As at 30th June 2015	4,939	1,670	6,609

The land and buildings on the island side of the channel were leased from KPA for 33 years. The entire facility is used by the company for its operations activities

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Cost		
Land	8,000	8,000
Buildings	2,000	2,000
Total	10,000	10,000
Depreciation/amortization		
Balance b/d down	6,275	5,942
Charge for the year	333	333
Total	6,609	6,275
Net Book Value	3,391	3,725

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Inventories

The following is a summary of inventory held by the company by the end of the financial year. Non-moving stock that were critical especially those associated with the disposed ferries which are no longer in the market were disposed of during the year.

Included in the spare parts for engineering stores are major replacement parts for the ferries which has to be on standby just in case of major breakdowns. The movement of such parts is slow but their inclusion is very critical for uninterrupted ferry service delivery. A major component of this stock is for the purpose of ferry maintenance as indicated below

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Fuel & Oil	609	1,115
Stationery	1,050	1,568
Spare parts(15 a)	85,615	71,732
Total	87,274	74,415

15(a) Ferry spare parts

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Gross Spare parts	124,227	110,343
Obsolete Stock Accumulation	(38,611)	(38,611)
Total	85,615	71,732

The above ferry stock items provided as obsolete stock of Kshs 39 million were being held for the purpose of maintaining MV Pwani and MV Mvita (ferries which have since been disposed). There entire amounts have been provided for obsolescence.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Trade and other receivables

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Trade receivables	63,733	55,955
Deposits and prepayments	27,470	72,084
VAT recoverable	34,783	35,843
Staff receivables	20,531	18,290
Gross trade and other receivables	146,517	182,172
Provision for bad and doubtful debts	(44,404)	(44,404)
Net trade and other receivables	102,112	137,768

Trade receivables include both ferry and non-ferry services. KFS outsource non-core activities such as property rent management, and commercial advertising. These debtors have in the past failed to perform as per the spirit of the contract and the matter has been handed to the Company Secretary for action.

The company advances funds to its staff to enable it cater for various personal effects including school fees for staff pursuing further education, medical expenses for those who may have exhausted their medical cover ceiling as well as for acquisition motor vehicles

The prepayments reflected above constitutes marine insurance (Kshs 2,747,398), general insurance (1,163,232), group life insurance (Kshs 666,841), and medical insurance (Kshs 22,892,050). All insurance services are prepaid; the relevant cost is subsequently apportioned over the period of the cover. Many a times this may cut across two financial years.

a) Trade receivables

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Gross trade receivables	63,733	55,955
Provision for doubtful receivables	(40,903)	(40,903)
Net trade receivables	22,830	15,052

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

Provision for bad and doubtful debts reflected above relates to amount considered uncollectible from advertisement services, infrastructure income among other suppliers

As at June 30th, the ageing analysis of the gross trade receivables was as follows

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Less than 30 days	3,325	5,626
Between 30 and 60 days	2,319	1,323
Between 61 and 90 days	2,891	3,054
Between 91 and 120days	2,340	4,635
Over 120 days	52,858	41,317
Total	63,733	55,955

b) Staff receivables

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Gross staff receivables	20,428	18,291
Provision for doubtful receivables	(3,502)	(3,502)
	16,926	14,789
Amount due within one year	8,336	7,546
Amount due after one year	11,988	10,248

Included under staff receivables is advances made to staff as well as staff imprest. Staff Imprest outstanding as at end of the financial year was Kshs 103,000 and Kshs 497,000 for 2013/2014 respectively. The company retains the same level of provisions for bad debt to take into account of advances made to staffs who have since been dismissed before full settlement had been made. The outstanding amounts due is however being pursued through the legal process to ensure full recovery.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Cash and bank

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Cash at bank	656,763	282,737
Cash in hand	1,402	3,433
Amount due after one year	658,165	286,170

The entire amount of cash at bank is held with National Bank of Kenya, the company's main bankers. Held in development account of Kshs 608 million are funds earmarked for acquisition of two ferries among other development projects. The contract for the acquisition of the ferries was awarded and construction is to commence early in 2015/2016.

Cash in hand sales for the last day of the month of Kshs 1,222,420 and Kshs 100,000 being funds being utilized for change management at the two company toll booths

18. Ordinary share capital

The company's shareholding is held by the Government of the republic of Kenya, at 80% interest and by the Kenya Ports Authority at 20%

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Authorized		
5,000,000 ordinary shares of Kshs 100 each	500,000	500,000
Issued and fully paid		
4,999,040 ordinary shares of Kshs 100 each	499,904	499,904

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Revaluation reserve

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Balance as at beginning of the year	547,874	636,265
Additions/(impairments)	-	(81,487)
Disposal of revalued assets	(5,594)	(6,904)
Balance as at end of the year	542,280	547,874

The company assets were revalued in October 1996 by Tyson's limited. A further valuation for the ferry vessels (MV Kilindini, MV Harambee and MV Nyayo) was done in July 2012 after reaching a nil book value, by Bonriz Marine Surveyors Ltd, resulting in the above revaluation surplus of 290 million above. In year 2013/2014 MV Mvita and MV Pwani were also valued at Kshs 3,599,500 and 6,400,000 respectively.

20. Accumulated deficit

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
At start of year	(732,621)	(648,887)
Revaluation reserves	5,594	6,904
Excess depreciation on generators	273	
Surplus/Deficit for the year	(43,332)	(90,637)
Total	(770,086)	(732,621)

The company recorded a deficit of 43 million during the year as compared to a deficit of Kshs 91 million in 2013/2014 and a deficit of Kshs 117 million 2012/2013 financial year.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Deferred income

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Opening balance	2,237,359	1,877,973
Additions	600,000	476,000
Transfer to income statement	(121,769)	(116,614)
Closing balance	2,715,590	2,237,359

Deferred income reflects on capital grants that the company receives from the government for its development projects. For completed projects the company apportions the respective costs over their useful life to statement of comprehensive income as deferred income.

During the year the company received capital grants from the government (Kshs 600 million) for acquisition of two ferries.

22. KPA Advances

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Balance as at beginning of the year	336,010	336,010
Balance as at June 30, 2015	336,010	336,010
Less amount due within one year		
Amount due after one year	336,010	336,010

The company received some advances from Kenya Ports Authority during the initial years of operations.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Trade and other payables

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Creditors	85,266	148,387
Other payables(payroll deductions & accruals)	31,322	45,256
Total	116,588	193,644

24. Notes to the cash flow statement

a) Reconciliation of operating surplus/(deficit) to cash generated from/(used in) operations

	2014/2015	2013/2014
	Kshs 000	Kshs 000
Operating surplus/(Deficit)	(43,331)	(90,638)
Adjustment for depreciation	145,365	122,691
Amortization	333	333
Adjustment for motor vehicles -cost	(77)	-
Transfer from deferred income	(121,769)	(116,614)
Loss on disposal of Assets	-	900
Gain on disposal	-	(2,412)
Finance Income	(7,954)	(3,366)
Obsolete Stock Expense(provision)	-	38,611
Bad & doubtful debts(provisions)	-	40,903
Operating surplus/deficit before working capital changes	(27,433)	(9,591)
Receivables	35,656	42,332
Inventories	(12,859)	49,850
Payables & change in bank overdraft	(73,583)	59,240
Cash generated from operations	(78,220)	141,832



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Analysis of cash and cash equivalents

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Cash at bank	656,763	282,737
Cash in hand	1,402	3,433
Total cash and cash equivalent	658,165	286,170

25. Related party transactions

a) Government of Kenya

The Government of Kenya owns 80% of the company's equity interest. There were related party transactions involving the Government of Kenya and KFSL as summarized below:

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Recurrent Funds	338,000	364,000
Development Funds	600,000	476,000
Total	938,000	840,000

b) Kenya Ports Authority (KPA)

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Advance received	336,010	336,010



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

KPA owns 20% of the company's equity interest. There was no other transaction that occurred with KPA during the year. KPA advanced funds to the company during its initial stages. The balance outstanding as at the end of the year was Kshs 336,010,264.

c) Employees

The company provides for all employees qualifying with development advances on terms more favorable than available in the market. The benefit obtained is subject to income tax as required under the Income Tax Act. The table below shows earnings for the company's top management during the year under review

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Total earnings paid to key managerial staff	32,015	31,615

d) National Bank of Kenya

National Bank of Kenya is the banker for the company

26. Contingent liabilities

In the year 1994 a ferry accident occurred at Mtongwe channel which caused loss of life and property both to the company and to its customers as a result of which litigation proceedings were brought against the company. A total of 257 fatal and 103 injury cases were registered. Further 3 cases were filed in 2009 and were time barred while 18 cases were never filed.

Based on the previous experience of settled cases the following provisions are made

	2014/2015	2013/2014
	Kshs	Kshs
	000	000
Estimated gross claims fatal and non-fatal	213,795	213,795
Claims paid as at	66,295	66,295
Estimated liabilities as at	147,500	147,500



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

The estimated contingent liability is composed of fatal and injury cases of Kshs 85.7 and 60 million respectively. None of these two categories have been paid for the last three years

27. Incorporation

The company is incorporated in Kenyan Companies Act and is domiciled in Kenya.

28. Taxation

Kenya Ferry Services Ltd is a non- commercial state corporation and is not eligible to pay income tax.

