

REPUBLIC OF KENYA



16 OCT 2018

OFFICE OF THE AUDITOR-GENERAL

*Paper Laid on the
Table of the House
by the Leader of
the Majority Party
on Tuesday
16th October 2018.*

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA NATIONAL SHIPPING
LINE LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2017**

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KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

I. KEY COMPANY INFORMATION

Background information

The *company* was established under the Companies Act (Cap 486) on 2nd November 1987. At cabinet level, the *company* is represented by the Cabinet Secretary for Ministry of Transport, Infrastructure, Housing and Urban Development who is responsible for the general policy and strategic direction of the *company*.

Principal Activities

The principal activity of the *company* is shipping.

Directors

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

- | | | | |
|-----|----------------------------|---|---------------------------|
| 1. | Mr. Edward Karani, HSC | - Chairman | - Appointed on 10.03.2016 |
| 2. | Mr. Joseph Juma | - Ag. Managing Director | - Appointed on 17.07.2013 |
| 3. | Mrs. Nancy Karigithu, EBS | - PS, State Department of Shipping & Maritime Affairs | |
| 4. | Dr. Kamau Thuge | - PS, The National Treasury | |
| 5. | Mrs. Catherine Mturi-Wairi | - MD, Kenya Ports Authority | |
| 6. | Mr. Farid Ahmed Swaleh | - Director | - Appointed on 02.10.2015 |
| 7. | Mr. Jacob Mwarua | - Director | - Appointed on 02.10.2015 |
| 8. | Ms. Poline Kanyora | - Director | - Appointed on 02.10.2015 |
| 9. | Capt. G Cuomo * | - Director | |
| 10. | Peter Reschke ** | - Director | |

* Italian ** German

Corporate Secretary

Ms. Addraya Dena – KPA Corporate Secretary
Certified Public Secretary (Kenya)
P.O. Box 88206 - GPO 80100
MOMBASA

Corporate Headquarters

1st Floor, Cannon Towers II
MSA/BLOCK XXI/435, 436 & 437
Moi Avenue
P.O. Box 88206 - 80100
MOMBASA, KENYA

I. KEY COMPANY INFORMATION (continued)

Corporate Contacts

Telephone: (020) 2300015/17, (+254) 700 510592

E-mail: admin@knsl.co.ke

Website: www.knsl.co.ke

Corporate Bankers

1. Kenya Commercial Bank Limited
P.O. Box 90254 - GPO 80100
MOMBASA
2. Barclays Bank of Kenya Limited
P.O. Box 90182 - GPO 80100
MOMBASA

Principal Auditor

The Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 - 00100







NAIROBI, KENYA

Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya
2. Omondi Waweru & Company Advocates
P.O. Box 1606
MOMBASA








REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

II. THE BOARD OF DIRECTORS

<p>1. Mr. Edward Karani, HSC. Chairman, Board of Directors.</p>	<p>Business person</p>	
<p>2. Dr. Kamau Thuge, EBS. Principal Secretary, The National Treasury.</p>	<p>Doctor of Philosophy (PhD) degree in Economics, Master's degree in Economics, Bachelor of Arts (Economics) degree.</p>	
<p>3. Mrs. Nancy Karigithu, CBS. Principal Secretary, State Department of Shipping & Maritime Affairs.</p>	<p>Principal Secretary</p>	
<p>4. Mrs. Catherine Mturi-Wairi. Managing Director, Kenya Ports Authority.</p>	<p>Master of Business Administration, Bachelor of Science in Finance, CPA (K), CPS (K).</p>	
<p>5. Mr. Farid Ahmed Swaleh. Director.</p>	<p>Business person</p>	
<p>6. Ms. Poline Kanyora. Director.</p>	<p>Business person</p>	

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

II THE BOARD OF DIRECTORS (continued)

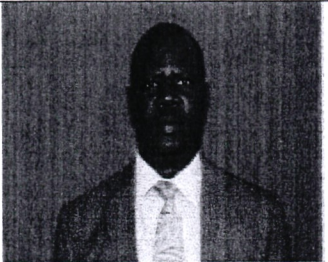



7.	Mr. Jacob Mwarua. Director.	Business person	
8.	Capt. G. Cuomo. Director.	Business person	
9.	Mr. Peter Reschke. Director.	Business person	
10.	Mr. Joseph Juma. Acting Managing Director.	MBA, PGD, CPA (K), CPS (K).	
11.	Mr. Tom Mokaya Alternate Director, The National Treasury.		
12.	Ms. Addraya Dena Company Secretary	Bachelor of Law (Hons) Degree and Diploma in Law from the Kenya School of Law. Certified Public Secretary (Kenya).	
13.	Mr. Stephen Kyandih Company Secretary Representative	Bachelor of Law (Hons) Degree and Diploma in Law from the Kenya School of Law.	

II THE BOARD OF DIRECTORS (continued)

Board Committees

Name of the Committee	Members
Finance and General Purpose Committee	<ol style="list-style-type: none">1. Mr. Issa Muslim2. Mr. Tom Mokaya3. Mr. Farid Swaleh4. Mr. Jacob Mwarua
Audit and Risk Committee	<ol style="list-style-type: none">1. Mrs. Nancy Karigithu2. Mrs. Catherine Mturi-Wairi3. Ms. Poline Kanyora

III. MANAGEMENT TEAM

1.	Mr. Joseph Juma Acting Managing Director/ Chief Accountant	MBA, PGD, CPA(K), CPS(K)	
2.	Mr. Gerald Kamau Cost Controller / Administration Manager	Bachelor of Arts - Economics, CPA(K)	
3.	Mr. Joseph Kinyua Container Control Manager	Higher Diploma - Shipping Management	
4.	Mrs. Rollyn Chebosi Management Accountant	Bachelor of Business Administration - Accounting, CPA (K)	

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

IV. CHAIRMAN'S STATEMENT

The Chairman wish to present the estimates of financial statements for the year ended June 30, 2017.

The company registered an estimated loss of Kshs 46.16 million and Kshs 37.22 million for the year ending 30 June 2017 and year ending 30 June 2016 respectively. The Company performance was affected by lack of service provision.

The Government is committed to restructure the Company under the Blue Economy sector, a process which is undergoing. The Directors and Management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include revival of the company, partnering with a service provider, resolving shareholding structure and implementing a five year Strategic Plan 2016 - 2021.

The short-term objectives of the Company are:

- (i) To position KNSL as a preferred Company in leveraging our national status to attract new market opportunities.
- (ii) To develop business models that will sustain the company.
- (iii) To build high performing organization and improve work environment.
- (iv) Provide our customers with competitive, efficient and consistent global shipping service.

KNSL Board is committed to upholding high standards of corporate governance. The day-to-day running of the business of the company's system of internal control is bestowed on the Managing Director.

There were no governance issues among the Board or member of the Board and top management including conflict of interest


Mr. Edward Karani, HSC
Chairman, Board of Directors

V. REPORT OF THE MANAGING DIRECTOR

KNSL was formed in 1987 under the Company's Act and is the National Carrier of the Kenya Government. At the time, the Shareholders included the Kenya Government through Kenya Ports Authority (KPA) with majority shares together with two foreign investors DEG and UNIMAR. Later on in 1997 the company's shareholding was re-organized to bring into the fold a strategic partner Mediterranean Shipping Company (MSC) through Heywood Shipping Co. Ltd (formerly UAL) as an additional shareholder.

The company is based in Mombasa with a branch office in Nairobi and operates as a Non-Vessel Owning Common Carrier (NVOCC) which charters slot from Mediterranean Shipping Company (MSC). Also, KNSL uses other shipping lines for cargo destined to various ports of the world. Aside from the direct shipping business, KNSL offers Agency and inland haulage services. KNSL is a Principal to various Agents spread in greater parts of Europe, Mediterranean region and East Africa.

The company ships containerised cargo through MSC mainly to European ports such as Felixstowe, Barcelona, Antwerp, Hamburg, Bremen, Rotterdam, Le Havre, Lisbon and Lexoies. KNSL also calls to other ports in the world through other shipping lines though in a limited way.

The company reported an estimated loss of Kshs 46.16 million and Kshs 37.22 million for the year ending 30 June 2017 and 30 June 2016 respectively.

The overall indication given by the financial position statement as at 30 June 2017 is that of negative net current assets. This implies that the company cannot meet, at least in the short term, its current obligations from the existing current assets.

In the year 2016/17, the Company performed poorly due to below challenges:

- (i) Withdrawal of service provision.
- (ii) Lack of own equipments.
- (iii) Lack of supportive policies and friendly legal regime.
- (iv) Lack of business support from Government.
- (v) Narrow ports of call.
- (vi) Outstanding debts.

V REPORT OF THE MANAGING DIRECTOR (Continued)

However, the Directors and management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include:

- (i) Restructuring of the company.
- (ii) Partnering with a service provider – the company is in the process of seeking service providers to ensure it offers global shipping services.
- (iii) Resolving shareholding structure.
- (iv) Implementing Strategic Plan (2016-2021) – a strategic plan has been prepared and will be implemented.

With the expected implementation of above strategies, the financial statements have been prepared on the going concern basis.

KNSL operates in paper free working conditions thus promotes conservation of environment. Given KNSL resource base; our Corporate Social Responsibilities activities boarder on community service, donations to institutions for the less fortunate, participating in Agricultural Show of Kenya to promote local sectors through Buy Kenya Build Kenya and contributions towards national disasters.



Joseph Juma
Ag. Managing Director

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage the business affairs of the Company in order to enhance prosperity, corporate performance and accountability. KNSL Board is committed to upholding high standards of corporate governance.

The day-to-day running of the business of the company's system of internal control is bestowed on the Managing Director,

The role of the Board includes to:

- a) Exercise leadership, integrity and sound judgement in directing KNSL to achieve continued prosperity;
- b) Review, evaluate and approve KNSL strategic business and operational plans and ensure that the company has sufficient and appropriate resources to achieve its goals;
- c) Ensure that effective processes and systems of risk management and internal controls are in place;
- d) Review, evaluate and approve the overall organizational structure, the assignment of senior management responsibilities and plans for senior management development and succession;
- e) Review, evaluate and approve the remuneration structure of the organization;
- f) Adopt, implement and monitor compliance with the organization's code of conduct and ethics;
- g) Review on a quarterly basis the attainment of targets and objectives set out in the agreed performance measurement framework with the Government of Kenya;
- h) Protect the rights of shareholders and optimize shareholder value;
- i) Enhance the organization's public image and ensure engagement with stakeholders through effective communication; and
- j) Monitor compliance with the constitution, all applicable laws, regulations and standards; and

Board Committees

The Board discharges its functions through committees. KNSL has two Board Committees:

1. Finance and General Purpose Board Committee
2. Audit and Risk Board Committee

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A: OPERATIONAL AND FINANCIAL PERFORMANCE

As at 30 June 2017, the company had an accumulated deficit of Sh 375,817,266 (2016: Sh. 329,659,378) and its current liabilities exceeded its current assets by Sh 48,996,305 (2016: Sh. 43,485,303) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2017 of Sh 46,157,888 (2016: Sh. 37,223,418).

In the year ending June 30, 2017, the company performed poorly due to lack of service provision. The company therefore relied on alternative service routes which are uncompetitive and have minimal profit margin which cannot cover fixed operation costs. This led to loss of numerous bookings with the Company managing to register a lifting of 95 Teus in the year 2016/17.

The Directors and management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include:

- (i) Restructuring of the company.
- (ii) Partnering with a service provider – the company is in the process of seeking service providers to ensure it offers global shipping services.
- (iii) Resolving shareholding structure.
- (iv) Implementing Strategic Plan (2016-2021) – a strategic plan has been prepared and will be implemented.

With the expected implementation of above strategies, the company is expected to make profit in near future.

SECTION B: COMPLIANCE WITH STATUTORY REQUIREMENTS

KNSL has been remitting its statutory deductions like PAYE, NHIF, NSSF, HELB and Pension on time as required by law.

SECTION C: KEY PROJECTS AND INVESTMENT DECISIONS

Currently the company has no projects being implemented due to limited resources. However, KNSL has included in its Strategic Plan 2016 - 2021 and Medium Term Budget 2017/18 – 2019/20 key projects which will lead to revamping of the company.

The projects include:

- (i) Vessel Acquisition and Chartering - The company will acquire and charter vessels which will lead to:
 - Increased trade along the coastal region.
 - Training of seafarers.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

VII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

- Increased jobs in maritime industry.
 - Increased revenues and profitability.
- (ii) New Containers
- Acquisition of new containers which are revenue generating asset.
 - Will increase revenue and reduce loss of bookings due to shortage of leased containers.
 - Branded and registered containers will market the Company globally.

SECTION D: MAJOR RISKS

(i) Operational Risk

The company operates as a Non-Vessel Owning Common Carrier (NVOCC) which charters slot from Mediterranean Shipping Company (MSC). KNSL uses other shipping lines for cargo destined to various ports of the world which creates operational risks in case such services are withdrawn by the service provider.

(ii) Financial risk management

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

(iii) Foreign currency risk management

The company undertakes certain transactions denominated in foreign currencies primarily in US Dollars. The fluctuations in currency exchange rates result in changes in the value of monetary assets and monetary liabilities denominated in foreign currencies hence exposures to the risk of incurring exchange losses. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

(iv) Credit risk management

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

VII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The credit risk on trade receivables is limited because the customers are known to be customers with high credit ratings. The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

(v) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

SECTION E: MATERIAL ARREARS IN STATUTORY & OTHER FINANCIAL OBLIGATIONS

The company reduced its current liabilities from Ksh 100.17 million in the year ending June 30, 2016 to Kshs 74.77 million in the year June 30, 2017.

SECTION F: THE ENTITY'S FINANCIAL PROBITY AND SERIOUS GOVERNANCE ISSUES

KNSL Board is committed to upholding high standards of corporate governance. The day-to-day running of the business of the company's system of internal control is bestowed on the Managing Director,

There were no governance issues among the Board or member of the Board and top management including conflict of interest

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which disclose the company's state of affairs.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of shipping services.

RESULTS

The results of the company for the year ended June 30, 2017 are set out on page 17.

DIRECTORS

The members of the Board of Directors who served during the year are shown on page 5.

AUDITORS

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which also empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



Corporate Secretary
Mombasa

Date:

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the Kenya Company's 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. 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 ended on June 30, 2017. 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 judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Kenya Company's 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, 2017, 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.

The directors acknowledge that the continued existence of the company as a going concern depends on the continued success of the various strategic measures that are being pursued by the directors to achieve optimal volumes of cargo handled to return the company to profitable trading and continued financial support from shareholders. The directors are of the view that, once these measures are fully implemented, the company's solvency will be restored and it will trade profitably for the foreseeable future.

Approval of the financial statements

The *company's* financial statements were approved by the Board on 14TH OCTOBER 2017 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SHIPPING LINE LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENT

Adverse Opinion

I have audited the accompanying financial statements of Kenya National Shipping Line Limited set out on pages 18 to 40, which comprise of the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya National Shipping Line Limited as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and do not comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Late submission of Financial Statements

Kenya National Shipping Line Limited financial statements for the year ended 30 June 2017 were submitted to the Auditor-General on 14 November 2017, almost two (2) months after the statutory deadline of 30 September 2017. This is contrary to provisions of Section 47(1) of Public Audit Act, 2015 which requires the management to submit the financial statements to the Auditor-General within three (3) months after the end of the financial year to which the respective accounts relate.

Consequently, the Kenya Shipping Line Limited management is in breach of the law.

Report of the Auditor-General on the Financial Statements of Kenya National Shipping Line Limited for the year ended 30 June 2017

2. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June 2017 presented for audit had the comparative figures in the financial statement at variance with the last year's audited financial statements as shown below:-

Item	Note in the financial statements	Balance as per 2015/2016 audited financial statements (Kshs)	Comparative figure in the 2016/2017 financial statements (Kshs)	Variance (Kshs)
Finance Income	14	-	263,629	(263,629)
Finance Costs	16	-	(1,250,053)	1,250,053
Communication Expenses	7	-	7,724	(7,724)
Container Costs	7	63,081	55,357	7,724
Other Receivables	18	22,505,599	22,510,173	(4,574)
Trade receivable	18	437,332	37,223,933	(36,786,601)
Total		23,006,012	58,810,763	(35,804,751)

In the circumstances, the financial statement presented for audit do not comply with International Financial Reporting Standards (IFRS) No. 1 on presentation.

3. Going Concern

As previously reported, the statement of comprehensive income for the year ended 30 June 2017 reflects a loss of Kshs.46,157,888 resulting in an accumulated deficit of Kshs.375,817,266. Further, the current liabilities of Kshs.74,767,951 exceeded the current assets of Kshs.25,771,646 resulting in a negative working capital of Kshs.48,996,305.

Under the circumstance, the financial statements have been prepared on a going concern basis on the assumption that the entity will continue getting financial support from the Government, creditors and bankers.

4. Cash and Bank Balances

The statement of financial position reflects bank and cash balance of Kshs.8,179,156 as at 30 June 2017. This includes Kshs.64,937.28 (USD 658.33) in Barclays Bank Plc London current account whose monthly bank statements and bank balance confirmation certificate were not availed for audit review.

Further, bank reconciliation statements for 11 months (July 2016 to May 2017) were not availed for audit review.

In the circumstances the accuracy, validity and completeness of the cash and bank balance of Kshs.8,179,156 could not be confirmed.

5. Trade and Other Receivables

The statement of financial position reflects trade and other receivables of Kshs.17,040,570 as at 30 June 2017 and as detailed in note 18 to the financial statements, it includes a balance of Kshs.69,484,433 in respect of gross trade and other receivables of Kshs.52,443,863 in respect of provisions for bad and doubtful debts. However, included in the gross trade and other receivables is a balance of Kshs.31,088,340 which was not supported.

In addition, included in the trade receivables is an amount of Kshs.8,916,666 being VAT recoverable. Records availed indicated that the VAT recoverable was over twelve months. Further, the company does not have an effective credit policy and procedures in place with respect to estimating and providing for bad and doubtful debts in its financial statements.

Consequently, the accuracy, validity and recoverability of trade and other receivables balance of Kshs.17,040,570 could not be confirmed.

6. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.48,103,056 which includes a balance of Kshs.6,237,942 in respect to Pay as You Earn of Kshs.6,194,446 and Tax withheld from merchants amounting to Kshs.43,496 which had not been remitted to Kenya Revenue Authority as at 30 June 2017. No explanation was provided by the management for the non-settlement of these statutory deductions. No provision in respect of penalties and interest resulting from non-payment of these deductions have been provided for in these financial statements.

In addition, included in trade and other payables is an amount of Kshs.5,572,043 which was due to two container leasing companies. Records availed for audit indicated that last written communication dated in 2009 between the entity and the two companies revealed that the balances outstanding at that time were Kshs.1,804,637.58 (USd22,958.13) and Kshs.3,489,376.50 (USd 45,000) respectively. The two container leasing companies have since stopped sending invoices for container leasing charges and monthly statements to Kenya National Shipping Line Ltd. The liabilities carried in trade payables in respect of the amounts due to these suppliers are based on outstanding negotiated balances which were never agreed upon and there were no statements received from these suppliers.

Consequently, the company did not comply with the law and in absence of statements, invoices or direct confirmation from the companies it has not been possible to confirm the accuracy of trade and other payables balance of Kshs.48,103,056.

7. Funds Awaiting Allotment

The statement of financial position reflects funds awaiting allotment balance of Kshs.233,681,500 as at 30 June 2017. Included in this balance is Kshs.40,000,000 in respect to government grants which has been wrongly classified as funds awaiting allotment of shares contrary to International Accounting Standards No. 20 on accounting for grants which states that a government grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Note 20 to the financial statement further reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization.

Consequently, accuracy and completeness of the funds awaiting allotment amount of Kshs.233,681,500 as at 30 June 2017 and the status of the shareholding of the Company could not be ascertained.

8. Employee Costs

The statement of comprehensive income reflects employment costs of Kshs.19,040,345 for the year ended 30 June 2017. Included in this balance is Kshs.428,625 in respect to acting allowance paid to the acting Managing Director for the period under review. However, the Managing Director has been serving in acting capacity for over 5 years having been appointed in the year 2013. This is contrary to Section C.14 (1) of the Public Service Commission Code of Regulations, of May 2016 on acting allowances, which states that acting allowance will not be payable to an officer for more than six (6) months.

Further, the acting Managing Director serving in job scale M5 was paid a monthly house allowance of Kshs.60,000 after an increment approved by the Board in March 2015.

However, this amount was above the salary scale set by the Salaries and Remuneration Commission as per the circular reference number SRC/ADM/CIR/1/13 Vol.III (126) of 10th December 2014, which capped the allowance payable to Kshs.20,000 for salary scale P-R which falls within the organization scale M4-5 for Mombasa region.

Under the circumstances, it was not possible to confirm the regularity of Kshs.908,625 paid to the acting Managing Director.

9. Administration Costs

The statement of comprehensive income reflects administration costs balance of Kshs.25,435,220. Included in this figure is Kshs.1,157,695 in respect of

entertainment/meals allowance paid to directors and staff. However, entertainment/meal allowances were paid in addition to daily subsistence allowance. The daily subsistence allowance caters for all meals and accommodation to officers working outside their normal duty station. A payment of an additional lunch/entertainment allowance therefore resulted in a double payment.

Consequently, the regularity of Kshs.1,157,695 spent on entertainment could not be confirmed.

10. Dues to a Related Party

As previously reported, the statement of financial position as at 30 June 2017 reflects a balance of Kshs.26,664,895 in respect of liabilities due to a related party. The entity has indicated that these are transactions between the entity and Kenya Ports Authority. However, this amount differs with an amount of Kshs.28,121,000 reflected in the records maintained by the Kenya Ports Authority resulting in an un-reconciled difference of Kshs.1,456,105.

Consequently, it has not been possible to confirm the accuracy and completeness of the amount due to a related party of Kshs.26,664,895.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya National Shipping Line Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Adverse opinion.

Emphasis of Matter

Uncertainty on Shareholding of the Company

Note 20 to the financial statement for the year ended 30 June 2017 reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization. To effect the reorganization and increase the share capital, the Company had sought a court order to dispense with the requirement to serve notice to all the creditors of the Company but was denied. Since then, the Company has not served notice to all the creditors and the reorganization has stalled resulting to uncertainty of the shareholding.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements, except for the matters discussed in

the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no other Key Audit Matters to communicate in my report.

Other matter

1. Budget Control and Performance

1.1. Revenue Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2017 reflects an approved income budget of Kshs.113,623,000. However, the entity actual revenue for the year amounted to Kshs.41,238,340 resulting in an under collection of Kshs.72,384,660 or 64% as detailed below;

Revenue Item	Final Budget (Kshs)	Actual Revenue (Kshs)	Under Collection (Kshs)	% Under Collection
Service Income	71,953,000	722,609	71,230,391	99%
Government Grants	40,000,000	40,000,000	-	0%
Finance Income	1,020,000	515,731	504,269	49%
Other Income	650,000	-	650,000	100%
Total	113,623,000	41,238,340	72,384,660	64%

This under collection was attributed by the entity to minimal trading and preparing unrealistic income budget.

The under collection of Kshs.72,384,600 or 64% may hinder the entity in achieving the set objectives and planned activities thus threatening the survival of the entity.

1.2. Expenditure Budget

Further, the entity had a total approved expenditure budget of Kshs.113,065,000 for the year under review. However, the entity's actual expenditure for the year amounted to Kshs.47,396,228 resulting in an under absorption of Kshs.65,668,772 or 58% as follows:

Expenditure Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Budget Utilization Difference (Kshs)	% Budget Utilization
Compensation of Employees	26,762,000	19,060,345	7,721,655	29%
Administrative Costs	30,431,000	25,435,220	4,995,780	16%
Service Costs	52,564,000	243,759	52,320,241	99.5%
Finance Cost	1,000,000	1,954,018	(954,018)	-41%
Depreciation	2,308,000	722,886	1,585,114	69%
Total	113,065,000	47,396,228	65,668,772	58%

There is need for the management to review the budget preparation mechanism, with a view of making realistic budgets.

Responsibilities of Management and those charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern/sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Institute's or cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level

of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Kenya National Shipping Line Limited internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Kenya National Shipping Line Limited to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

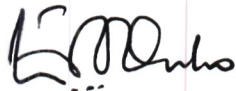
I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the 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 not been kept by the Company, so far as appears from my examination of those books; and,

The Company's statement of financial position and statement of comprehensive income are not in agreement with the books of account.



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

Nairobi

30 July 2018

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

XI. STATEMENT OF COMPREHENSIVE INCOME

	Note	2017 Kshs	2016 Kshs
REVENUES			
Service Income	6	722,609	652,311
TOTAL REVENUES		722,609	652,311
OPERATING EXPENSES			
Service Costs	7	(243,759)	(387,059)
Employment Costs	8	(19,040,345)	(16,522,921)
Administration Costs	9	(25,435,220)	(19,898,208)
Depreciation and Amortization Expenses	12-13	(722,886)	(343,692)
TOTAL OPERATING EXPENSES		(45,442,210)	(37,151,880)
OPERATING LOSS		(44,719,601)	(36,499,568)
Finance Income	14	458,627	263,629
Gain on Disposal of Non-Financial Assets	15	57,104	262,575
Finance Costs	16	(1,954,018)	(1,250,053)
LOSS BEFORE TAXATION		(46,157,888)	(37,223,418)
TAXATION CHARGE	10	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(46,157,888)	(37,223,418)

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

**X. REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA
NATIONAL SHIPPING LINE LTD**

Auditor General

Date

KENYA NATIONAL SHIPPING LINE LTD

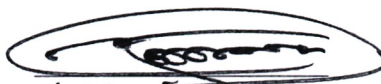
**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 Kshs	2016 Kshs
ASSETS			
Non-Current Assets			
Vehicles and equipment	12	383,539	1,030,425
Intangible assets	13	-	-
		<u>383,539</u>	<u>1,030,425</u>
Current Assets			
Inventories & Stores	17	551,920	162,959
Trade and other receivables	18	17,040,570	19,554,441
Bank and cash balances	19	8,179,156	36,969,969
		<u>25,771,646</u>	<u>56,687,369</u>
TOTAL ASSETS		<u><u>26,155,185</u></u>	<u><u>57,717,794</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	20	93,523,000	93,523,000
Funds awaiting allotment of shares	20	233,681,500	193,681,500
Accumulated deficit		(375,817,266)	(329,659,378)
Capital and Reserves		<u>(48,612,766)</u>	<u>(42,454,878)</u>
Current Liabilities			
Trade and other payables	21	48,103,056	74,115,287
Due to related party	22	26,664,895	26,057,385
		<u>74,767,951</u>	<u>100,172,672</u>
TOTAL EQUITY AND LIABILITIES		<u><u>26,155,185</u></u>	<u><u>57,717,794</u></u>

The financial statements were approved by the Board on TH 14 OCTOBER 2017 and signed on its behalf by:

Chairman of the Board
Edward Karani


Ag. Managing Director
Joseph Juma
ICPAK M/No: 9945

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XIII. STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Funds awaiting allotment of shares	Accumulated deficit	Total
At July 1 , 2015	93,523,000	133,681,500	(292,435,960)	(65,231,460)
Total comprehensive loss for the year	-	-	(37,223,418)	(37,223,418)
Capital Injection	-	60,000,000	-	60,000,000
At June 30, 2016	93,523,000	193,681,500	(329,659,378)	(42,454,878)
At July 1 , 2016	93,523,000	193,681,500	(329,659,378)	(42,454,878)
Total comprehensive loss for the year	-	-	(46,157,888)	(46,157,888)
Capital Injection	-	40,000,000	-	40,000,000
At June 30, 2017	93,523,000	233,681,500	(375,817,266)	(48,612,766)

(Note 20)

(Note 20)

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XIV. STATEMENT OF CASH FLOWS

	Note	2017 Kshs	2016 Kshs
OPERATING ACTIVITIES			
Cash used in operations	24	(68,771,917)	(30,484,777)
Interest received		-	-
Net cash used in operating activities		<u>(68,771,917)</u>	<u>(30,484,777)</u>
INVESTING ACTIVITIES			
Purchase of equipment	12	(76,000)	(215,000)
Proceeds from disposal of equipment		57,104	272,530
Net cash generated from/(used in) investing activities		<u>(18,896)</u>	<u>57,530</u>
FINANCING ACTIVITIES			
Proceeds from capital injection	20	40,000,000	60,000,000
Net cash generated from financing activities		<u>40,000,000</u>	<u>60,000,000</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(28,790,813)	29,572,753
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		36,969,969	7,397,216
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>8,179,156</u></u>	<u><u>36,969,969</u></u>

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
PERIOD ENDED 30 JUNE 2017**

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Explanation of Material Variance
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Service Income	71,953,000	-	71,953,000	722,609	(71,230,391)	Minimal trading due to lack of service.
Government grants	40,000,000	-	40,000,000	40,000,000	-	
Finance Income	1,020,000	-	1,020,000	515,731	(504,269)	Budgeted foreign exchange gain not realised.
Other income	650,000	-	650,000	-	(650,000)	Minimal net income from disposal of Assets.
Total income	113,623,000	-	113,623,000	41,238,340	(72,384,660)	
Expenses						
Service Costs	52,564,000	-	52,564,000	243,759	(52,320,241)	Minimal trading due to lack of service.
Employment Costs	26,762,000	-	26,762,000	19,040,345	(7,721,655)	Some job positions remained unfilled.
Administration Costs	30,431,000	-	30,431,000	25,435,220	(4,995,780)	General savings from variable expenses.
Depreciation Expenses	2,308,000	-	2,308,000	722,886	(1,585,114)	No new assets were purchased as budgeted due to lack of development funds.
Finance cost	1,000,000	-	1,000,000	1,954,018	954,018	Resulted from foreign exchange losses.
Total expenditure	113,065,000	-	113,065,000	47,396,228	(65,668,772)	
Surplus/(Deficit) for the period	558,000	-	558,000	(6,214,193)	(6,772,193)	

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared under the historical cost convention. The principal accounting policies adopted in the preparation of these financial statements, which are set out below, remain unchanged from previous years.

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

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

The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years and are set out below:

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	Effective date	Impact
Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (issued in May 2014)	1 st Jan 2016	<p>The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.</p> <p>As the company has not revalued its plant and equipment and intangible assets, the application of the amendments had no impact on the disclosures or on the amounts recognised in the company's financial statements.</p>
Amendment to IFRS 7 (<i>Annual Improvements to IFRSs 2012–2014 Cycle</i> , issued in September 2014)	1 st Jan 2016	<p>The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.</p> <p>The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.</p>

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. ACCOUNTING POLICIES (Continued)

<p>Amendments to IAS 1 titled <i>Disclosure Initiative (issued in December 2014)</i></p>	<p>1st Jan 2016</p>	<p>The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.</p> <p>The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.</p>
<p><i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i></p>	<p>1st Jan 2017</p>	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p> <p>The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.</p>
<p><i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i></p>	<p>1st Jan 2017</p>	<p>The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.</p> <p>The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.</p>

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. ACCOUNTING POLICIES (Continued)

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
FRS 15 <i>Revenue from Contracts with Customers</i> (issued in May 2014)	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 <i>Financial Instruments</i> (issued in July 2014)	1 Jan 2018	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition: <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39.
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in year 2017.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

Service income represents the invoiced value of shipping services rendered and is recognised once the goods have been shipped net of discounts where applicable.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

b) Retirement benefit costs and employment leave entitlements

The company contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under this scheme are limited to specific contributions legislated from time to time and are currently limited to Sh 200 per month per employee.

The company also operates a defined contribution pension scheme for all its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the company. The company's obligations to these schemes are charged to the profit or loss as they fall due.

c) Leave pay provision

A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee's entitlement to annual leave is also charged to the profit or loss when they accrue to employees.

d) Foreign currency translation

In preparing the financial statements, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on exchange are recognised in profit or loss.

e) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current taxation is provided on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, while deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be generated against which the unused tax losses and unused tax credit can be utilised.

f) Vehicles and equipment

Vehicles and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Depreciation

Depreciation is calculated on the straight- line basis to write-off the cost of motor vehicles and equipment over their expected useful lives at the following annual rates:

Vehicles	25%
Furniture, fittings and equipment	12.5%
Computers	33.33%
Containers	25%

h) Computer software costs

Computer software costs are recognised as intangible assets and are stated at cost less accumulated amortisation. Acquisition costs are amortised on the straight- line basis over the expected useful lives, not exceeding a period of three years.

i) Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

The company as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight line basis over the term of the relevant lease.

j) Impairment

At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a decrease in the revaluation surplus.

k) Financial instruments

Financial assets and liabilities are recognised on the company's statement of financial position when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

Trade payables

Trade payables are stated at their nominal value.

l) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances net of outstanding bank overdrafts and short term deposits. Short term deposits are liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

m) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation during the current year.

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment in applying the entities accounting policies and sources of estimation uncertainty are dealt with below:

(a) Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations [see (b) below], that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(b) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Vehicles, equipment and intangible assets

Critical estimates are made by the directors in determining depreciation rates for vehicles, equipment and intangible assets.

Contingent liabilities

As disclosed in note 23 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business including certain pending audits with Kenya Revenue Authority and a number of outstanding legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities.

However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

4. GOING CONCERN

As at 30 June 2017, the company had an accumulated deficit of Sh 375,817,266 (2016: Sh. 329,659,378) and its current liabilities exceeded its current assets by Sh 48,996,305 (2016: Sh. 43,485,303) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2017 of Sh 46,157,888 (2016: Sh. 37,223,418).

The directors and management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include; restructuring, partnering with a service provider, resolving shareholding structure and implementing Strategic Plan (2016-2021).

On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
5. LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging / (crediting):		
Auditors' remuneration	528,500	450,000
Bad debts less recoveries	(1,762,513)	(16,070)
Depreciation on motor vehicles and equipment	722,886	343,692
Employments costs	19,040,345	16,522,921
Gain on disposal of equipment	57,104	262,574
Operating lease rentals	2,105,201	2,476,338
	<u>=====</u>	<u>=====</u>
6. SERVICE INCOME		
Freight & Currency Adjustment Factor (CAF)	-	73,761
Terminal Handling Charges (THC)	72,907	27,487
Bunker Adjustment Factor (BAF)	-	40,899
Inland Freight	-	318,425
Container Demurrage Revenue	48,353	(80,495)
Miscellaneous Revenue	601,349	272,234
	<u>=====</u>	<u>=====</u>
	722,609	652,311
7. SERVICE COSTS		
Discharging Charges	71,515	21,242
Commissions	-	6,546
Inland Freight	-	296,190
Communication Expenses	-	7,724
Containers Costs	172,244	55,357
	<u>=====</u>	<u>=====</u>
	243,759	387,059
8. EMPLOYMENT COSTS		
Salaries and wages	12,799,495	12,393,496
contributions	2,001,283	1,956,513
Medical expenses	3,381,579	1,518,455
Staff training and welfare	817,788	618,057
NSSF contributions	40,200	36,400
	<u>=====</u>	<u>=====</u>
	19,040,345	16,522,921
The average number of employees at the end of the year was:		
Permanent employees – Management	5	5
Permanent employees – Non -Managerial	11	10
Temporary and contract employees	1	1
	<u>=====</u>	<u>=====</u>
	17	16

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
9. ADMINISTRATION COSTS		
Advertising	1,166,051	125,725
Audit fees	528,500	450,000
Bad debts less recoveries	(1,762,513)	(16,070)
Bank charges	146,447	142,527
Board Expenses	9,880,469	5,525,323
Donations	120,262	110,000
Electricity & water	154,751	232,076
Entertainment	1,162,679	1,049,800
Insurance	427,806	228,771
Legal and professional	200,000	-
Miscellaneous	867,536	488,064
Motor vehicle running	766,480	1,063,345
Penalties	2,396,376	63,300
Printing and stationery	39,329	372,837
Rent	2,105,201	2,476,338
Repairs and maintenance	244,150	231,284
Subscriptions and renewals	185,976	284,082
Telecommunication	790,994	701,210
Transport, travelling and accommodation	6,014,726	6,369,596
	<u>25,435,220</u>	<u>19,898,208</u>
	=====	=====
10. TAXATION		
(a) Tax charge		
Current taxation based on the taxable (loss)/profit for the year at 30%	-	-
Deferred taxation (credit)/charge	-	-
	<u>-</u>	<u>-</u>
	=====	=====
(b) Reconciliation of tax charge to expected tax based on accounting (loss)/profit		
Accounting (loss)/profit before taxation	(46,157,888)	(37,223,418)
	<u>(46,157,888)</u>	<u>(37,223,418)</u>
	=====	=====
Tax at the applicable rate of 30%	(13,847,366)	(11,167,025)

11. DEFERRED TAXATION

At 30 June 2017, there was a potential deferred tax asset which has not been recognised in these financial statements because of the uncertainty regarding the company's ability to generate sufficient future taxable profits against which the accumulated tax losses can be utilised.

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
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XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. VEHICLES AND EQUIPMENT

2017	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2016	4,397,301	10,476,212	14,873,513
Additions	-	76,000	76,000
Disposals	-	(131,057)	(131,057)
At June 30, 2017	4,397,301	10,421,155	14,818,456
DEPRECIATION			
At July 1, 2016	4,382,301	9,460,787	13,843,088
Charge for the year	14,000	708,886	722,886
Eliminated on disposal	-	(131,057)	(131,057)
At June 30, 2017	4,396,301	10,038,616	14,434,917
NET BOOK VALUE			
At June 30, 2017	1,000	382,539	383,539

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
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XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 VEHICLES AND EQUIPMENT (Continued)

2016	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2015	4,397,301	10,615,525	15,012,826
Additions	-	215,000	215,000
Disposals	-	(354,313)	(354,313)
At June 30, 2016	4,397,301	10,476,212	14,873,513
DEPRECIATION			
At July 1, 2015	4,382,301	9,461,453	13,843,754
Charge for the year	-	343,692	343,692
Eliminated on disposal	-	(344,358)	(344,358)
At June 30, 2016	4,382,301	9,460,787	13,843,088
NET BOOK VALUE			
At June 30, 2016	15,000	1,015,425	1,030,425

At 30 June 2017, vehicles and equipment with a cost of Kshs 14,775,998 (2016: Kshs 12,855,663) had been fully depreciated. The normal annual depreciation charge for these assets would have been Kshs 3,005,363 (2016: Kshs 3,531,155).

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
13. INTANGIBLE ASSETS		
COST		
At 1 July	485,020	485,020
Additions	-	-
At 30 June	<u>485,020</u>	<u>485,020</u>
AMORTISATION		
At 1 July	485,020	485,020
Charge for the year	-	-
At 30 June	<u>485,020</u>	<u>485,020</u>
NET BOOK VALUE		
At 30 June	<u>-</u>	<u>-</u>
At 30 June 2017, intangible assets with a cost of Sh 485,020 had been fully amortised.		
14. FINANCE INCOME		
Unrealized foreign exchange gain	<u>458,627</u>	<u>263,629</u>
15. GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS		
Gain on disposal of non-financial assets	57,104	262,575
	<u>57,104</u>	<u>262,575</u>
16. FINANCE COSTS		
Unrealized foreign exchange loss	<u>(1,954,018)</u>	<u>(1,250,053)</u>
17. INVENTORIES		
Stationery and general stores	<u>551,920</u>	<u>162,959</u>
18. (a) TRADE AND OTHER RECEIVABLES		
Trade receivables [note 18 (b)]	38,212,453	38,223,933
Deposits and prepayments	4,944,621	3,876,087
VAT recoverable	8,916,666	8,578,946
Salary Control	-	(1,296)
Other receivables	17,410,693	22,510,173
Gross trade and other receivables	<u>69,484,433</u>	<u>73,187,843</u>
Provision for bad and doubtful trade receivables	<u>(52,443,863)</u>	<u>(53,633,402)</u>
Net trade and other receivables	<u>17,040,570</u>	<u>19,554,441</u>
18 (b) TRADE RECEIVABLES		
Trade receivables	38,200,903	37,223,933
Accrued Income	11,550	-
	<u>38,212,453</u>	<u>37,223,933</u>

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
19. BANK AND CASH BALANCES		
Cash at bank	8,139,156	36,929,969
Cash in hand	40,000	40,000
	<u>8,179,156</u>	<u>36,969,969</u>

The bulk of the cash at bank was held at Kenya Commercial Bank Kshs 7,409,908 (2016: 36,177,322) and Barclays Bank of Kenya Kshs 660,970 (2016: 686,089).

20. ORDINARY SHARE CAPITAL

Authorised:

200,000 ordinary shares of Sh.1,000 each	<u>200,000,000</u>	<u>200,000,000</u>
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Issued and fully paid:

93,523 ordinary shares of Sh.1,000 each	<u>93,523,000</u>	<u>93,523,000</u>
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On 30 March 2002, the shareholders passed a special resolution to effect the following changes in the company's authorised and issued capital:

- to reduce the par value of the company's ordinary shares from Sh.1,000 to Sh.500 per share without reducing the number of shares issued, thus reducing the total paid up capital to Sh.46,761,500. The credit arising from this reduction was to be applied towards reducing accumulated losses carried in the statement of financial position.
- to increase the reduced authorised share capital of Sh.100,000,000 (made up of 200,000 ordinary shares of Sh.500 each) to Sh.300,000,000 (made up of 600,000 ordinary shares of Sh.500 each).
- to issue an additional 147,363 ordinary shares at a price of Sh.500 per share of which 38,670 shares would be allotted to the principal shareholder, Kenya Ports Authority, while 108,693 shares would be allotted to a new shareholder, Heywood Shipping Company Limited.

The effect of these changes would be to increase the issued share capital from Sh.93,523,000 to Sh.120,443,000.

- Since July 2013, the Government through KPA has injected capital of Kshs 160 million which is treated as funds awaiting allotment.

A formal petition was lodged with the High Court of Kenya seeking a confirmation of the reduction in the par value of the company's shares in accordance with the requirements of the Kenyan Companies Act. A preliminary application to the High Court (to dispense with the requirement to serve notice to all the creditors of the company) was made on 10 May 2003. **However, the High Court did not grant the orders sought. The company is now seeking alternative** ways of reorganising its share capital.

The funds received for the above purpose amounting to Sh. 233,681,500 (2016: Sh. 193,681,500), continue to be carried in the statement of financial position as funds awaiting allotment of shares until such time that an alternative way of reorganising share capital is agreed upon between the existing shareholders and Heywood Shipping Company Limited.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
21. TRADE AND OTHER PAYABLES		
Trade payables	27,662,415	36,587,463
Accruals and other payables	20,440,641	37,527,824
	<u>48,103,056</u>	<u>74,115,287</u>

Included in the trade payables balance are amounts totalling Sh. 5,572,043 (2016 – Sh 5,431,844) due to container leasing companies, most of whom stopped sending invoices for container lease charges and monthly statements to the company several years back. The liabilities carried in trade payables in respect of amounts due to these suppliers are based on balances outstanding when statements were last received from these suppliers [also see note 23 (iii)]. Based on compromise arrangements that are being negotiated with major container leasing companies, a number of which have been successful, the directors believe that no further liabilities have accrued since the determination of these balances.

	2017 Kshs	2016 Kshs
22. RELATED PARTY BALANCE AND TRANSACTIONS		
Due to a related party		
Kenya Ports Authority (KPA)	26,664,895	26,057,385

The transactions between Kenya National Shipping Line Ltd and Kenya Ports Authority are as a result of trading and are related through common shareholding and directorship. Refer to note 20 on shareholding.

Compensation of directors and key management personnel

The remuneration for directors and other members of key management during the period/year was as follows:

	2017 Kshs	2016 Kshs
Salaries (including non-cash benefits)	8,702,350	8,358,022
Pension and NSSF contributions	1,375,021	1,384,560
Director's fees - honorarium	960,000	960,000
	<u>11,037,371</u>	<u>10,702,582</u>

23. CONTINGENT LIABILITIES

- (i) The company, in the normal course of business, holds containers leased from various companies. Should any container be lost or damaged, the company has the responsibility to compensate the owners. The directors do not anticipate any significant liabilities to accrue from these arrangements, apart from those liabilities already provided for in the financial statements (2016: Nil).
- (ii) In 2004, Kenya Revenue Authority (KRA) carried out a withholding tax audit of the company covering the year 2003 and issued a demand of Sh 2,922,898 for unpaid withholding taxes, interest and penalties. The company has raised an objection with regard to this, and the amount has not been provided for as, in the opinion of the directors, the company has good grounds for the objection lodged. An amount of Sh 974,298 already paid in respect of this demand has been reflected as a claim recoverable within trade and other receivables (2016: Sh 974,298).

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

- (iii) A claim from Textainer Equipment Limited for US\$17,571 (Sh. 1,822,318) in respect of unpaid invoices included in their statement when last received, has not been provided for in the financial statements because the directors believe that the claim is not valid (2016: US\$ 17,571 – Sh. 1,776,467).
- (iv) A claim from P. N. Communications Limited for US\$ 17,660 (Sh 1,831,549) in respect of advertisement services rendered has not been provided for, as, in opinion of the directors having regard to legal advice received, the claim is not valid (2016: US\$ 17,660- Sh 1,785,465).
- (v) There are ongoing legal claims for specific damages which have been brought against the company by former employees. Based upon legal opinions received, the directors do not anticipate that these claims will result in significant losses to the company.

24. NOTES TO THE STATEMENT OF CASH FLOWS

	2017	2016
	Kshs	Kshs
Reconciliation of operating loss to cash used in operations:		
Loss for the year/period	(46,157,888)	(37,223,418)
Adjustments:		
Interest receivable recognized in the loss for the year/period	-	-
Depreciation on motor vehicles and equipment	722,886	343,692
Amortisation of intangible assets	-	-
Loss/(gain) on disposal of equipment	(57,104)	(262,574)
	<u> </u>	<u> </u>
Loss for the year/period before working capital changes	(45,492,106)	(37,142,300)
Decrease in trade and other receivables	2,513,870	(3,779,125)
(Increase)Decrease in inventories	(388,961)	43,835
Increase/(Decrease) in trade and other payables	(26,012,230)	10,392,813
Net movement in related company balance	607,510	-
	<u> </u>	<u> </u>
Net cash used in operations	<u>(68,771,917)</u>	<u>(30,484,777)</u>

25. FINANCIAL INSTRUMENTS

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The company's overall strategy remains unchanged from 2016.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives

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

Foreign currency risk management

The company undertakes certain transactions denominated in foreign currencies primarily in US Dollars. The fluctuations in currency exchange rates result in changes in the value of monetary assets and monetary liabilities denominated in foreign currencies hence exposures to the risk of incurring exchange losses. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2017 Kshs	2016 Kshs
Assets		
<i>Trade and other receivables</i>		
US Dollars	4,027,279	3,925,081
Euros	155,542	440,230
Sterling Pounds	30,983	31,408
Swedish Krona (SK)	10,476	10,232
	<u>4,224,280</u>	<u>4,406,951</u>
<i>Bank and cash balances</i>		
US Dollars	402,516	1,152,563
	<u>402,516</u>	<u>1,152,563</u>
Liabilities		
<i>Trade and other payables</i>		
US Dollars	22,934,539	31,449,998
Euros	1,341,268	2,405,957
Swedish Krona (SK)	30,862	30,143
	<u>24,306,669</u>	<u>33,886,098</u>

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At 30 June 2017, if the Kenya Shilling had weakened/strengthened by 10% against the relevant foreign currencies with other variables held constant, the impact on pre-tax loss for the year would have been higher/lower by Sh 2.0M (2016: 2.9M).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year/period.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The interest rate risk exposure arises mainly from interest rate movements on the Company's fixed deposits and borrowings. The Company does not have any fixed deposits or bank borrowings. Its therefore not subject to interest rate risk.

Price risk

The Company does not have financial instruments subject to price risk hence this risk is not relevant.

Credit risk management

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on trade receivables is limited because the customers are known customers with high credit ratings.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The amount that best represents the company's maximum exposure to credit as at 30 June 2016 and 30 June 2017 is made up as follows:

2017

	Fully performing Sh	Past due Sh	Impaired Sh
Bank Balances	8,139,156	-	-
Trade receivables	254,650	-	37,957,803
	<u>8,393,806</u>	<u>-</u>	<u>37,957,803</u>

2016

	Fully performing Sh	Past due Sh	Impaired Sh
Bank Balances	36,929,969	-	-
Trade receivables	437,332	-	37,786,601
Due from Directors	-	-	-
	<u>37,367,301</u>	<u>-</u>	<u>37,786,601</u>

Cash and cash equivalents are fully performing.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL INSTRUMENTS (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debts that are due are not impaired and continue to be paid. The debts that are impaired have been fully provided for.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh	Between 1-3 months Sh	Over 3 months Sh	Total Sh
30 June 2017				
Trade payables	662,759	2,096,743	24,902,913	27,662,415
Due to related company	-	-	26,664,895	26,664,895
	662,759	2,096,743	51,567,808	54,327,310
	Less than 1 month Sh	Between 1-3 months Sh	3 months to 1 year Sh	Total Sh
30 June 2016				
Trade payables	-	-	36,587,463	36,587,463
Due to related company	-	-	26,664,895	26,664,895
	-	-	63,252,358	63,252,358

26. OPERATING LEASE RENTAL COMMITMENTS

	2017 Sh	2016 Sh
Payment made under operating leases during the year	2,105,201	2,476,338

27. INCORPORATION

The company is incorporated in Kenya under the Companies Act. The ultimate holding company is Kenya Ports Authority, which is also incorporated in Kenya.

28. EVENTS AFTER THE REPORTING PERIOD

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

29. CURRENCY

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

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

XVII. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

The Company is undergoing restructuring as a National Carrier. During the year under review, the Company did not implement any projects due to lack of developments funds.

XVIII. APPENDIX 2: INTER-ENTITY TRANSFERS

ENTITY NAME:		KENYA NATIONAL SHIPPING LINE LTD	
BREAK DOWN OF TRANSFERS FROM THE STATE DEPARTMENT FOR MARITIME AND SHIPPING AFFAIRS			
FY 2016/2017			
a. Recurrent Grants			
Bank Statement Date	Amount (KShs)	Financial Year	
26.08.2016	10,000,000	2016/2017	
16.11.2016	10,000,000	2016/2017	
15.02.2017	10,000,000	2016/2017	
10.05.2017	10,000,000	2016/2017	
Total	40,000,000		

The above amounts have been communicated to and reconciled with the parent Ministry.

XIX. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized
				Capital Fund
Ministry of Transport, Infrastructure, Housing & Urban Development.	26.08.2016, 16.11.2016, 15.02.2017, 10.05.2017	Recurrent	40,000,000	40,000,000
Total			40,000,000	40,000,000