

REPUBLIC OF KENYA



*Paper laid  
by Majority Party  
Whip, Hon B Washaki  
Tuesday 5/6/2018  
Ash*

OFFICE OF THE AUDITOR-GENERAL

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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR  
ENDED 30 JUNE 2015**



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# **KENYA NATIONAL SHIPPING LINE LTD**

## **REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2015**

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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, 2015

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# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### KEY COMPANY INFORMATION

#### Background information

The *company* was established under the Companies Act (Cap 486) on 2<sup>nd</sup> 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 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. Adraya Dena – KPA Corporate Secretary  
Certified Public Secretary (Kenya)  
P.O. Box 88206 - GPO 80100  
MOMBASA

#### Corporate Headquarters

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

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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### 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

### Principal Legal Advisers


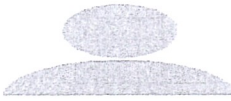





1. The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya
2. Omondi Waweru & Company Advocates  
P.O. Box 1606  
MOMBASA

**THE BOARD OF DIRECTORS**

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

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

2. THE BOARD OF DIRECTORS (continued)

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

**KENYA NATIONAL SHIPPING LINE LTD**

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**2. THE BOARD OF DIRECTORS (continued)**



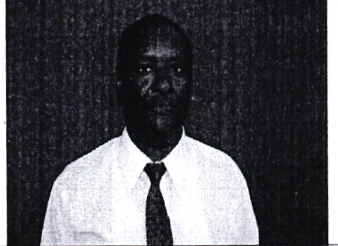

**(a) Board Committees**

<b>Name of the Committee</b>	<b>Members</b>
Finance and General Purpose Committee	<ol style="list-style-type: none"><li>1. Mr. Issa Muslim</li><li>2. Mr. Tom Mokaya</li><li>3. Mr. Farid Swaleh</li><li>4. Mr. Jacob Mwarua</li></ol>
Audit and Risk Committee	<ol style="list-style-type: none"><li>1. Mrs. Nancy Karigithu, CBS</li><li>2. Mrs. Catherine Mturi-Wairi</li><li>3. Ms. Poline Kanyora</li></ol>

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**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, 2015**

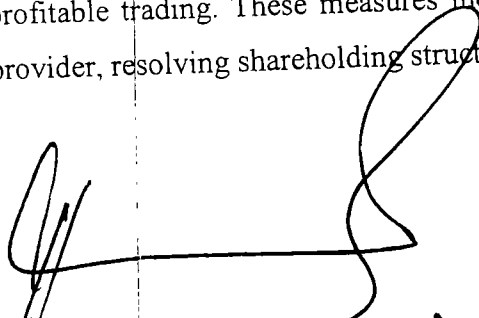
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**CHAIRMAN'S STATEMENT**

The Chairman wish to present the estimates of financial statements for the year ended June 30, 2015.

The company registered an estimated loss of Kshs 30.3 Million and Kshs 22.5 million for the year ending 30 June 2015 and year ending 30 June 2014 respectively.

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



**Mr. Edward Karani, HSC**

**Chairman, Board of Directors**

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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### 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 also 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, Lexoies. KNSL also calls to other ports in the world through other shipping lines though on a limited way.

The company reported an estimated loss of Kshs 30.3 Million and Kshs 22.5 million for the year ending 30 June 2015 and 30 June 2014 respectively.

The overall indication given by the financial position statement as at 30 June 2015 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.

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

**KENYA NATIONAL SHIPPING LINE LTD**

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**REPORT OF THE MANAGING DIRECTOR (Continued)**

- (iv) Developed 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.



**Joseph Juma**  
**Ag. Managing Director**

### **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 achieved 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, 2015

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### REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 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, 2015 are set out on page 15.

### DIRECTORS

The members of the Board of Directors who served during the year are shown on page 2.

### AUDITORS

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

By Order of the Board

  
Corporate Secretary  
Mombasa

Date: 22.8.2016

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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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*.

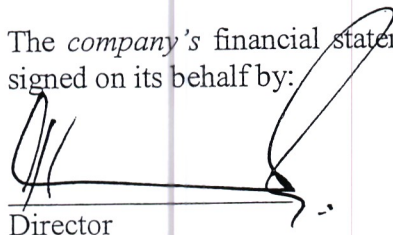
The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the *company* for and as at the end of the financial year ended on June 30, 2015. This responsibility includes: (i) maintaining adequate 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.

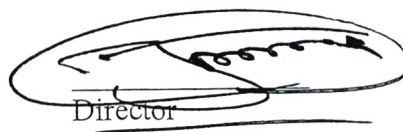
The Directors accept responsibility for the *company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required 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, 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.

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 22.8 2016 and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SHIPPING LINE LIMITED FOR THE YEAR ENDED 30 JUNE 2015

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#### REPORT ON THE FINANCIAL STATEMENT

I have audited the accompanying financial statements of Kenya National Shipping Line Limited set out on pages 15 to 33, which comprise of the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and believe, 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 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.

The 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.

#### **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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. These 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 risks of material

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*Report of the Auditor-General on the Financial Statements of Kenya National Shipping Line Limited for the year ended 30 June 2015*

misstatement in 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 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 Company's internal control. An audit also includes evaluating 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 opinion.

### **Basis for Qualified Opinion**

#### **1. Going Concern**

As reported in the previous year, the statement of comprehensive income for the year ended 30 June 2015 indicated that the Company recorded a loss of Kshs.30,329,007 (2014 - Kshs.22,532,597) resulting to accumulated deficits of Kshs.292,435,960 as at 30 June 2015 (2014 - Kshs.262,106,953). Further, income from operations reduced to Kshs.3,386,842 compared to Kshs.11,676,100 during the financial period 2013/2014. In addition, the current liabilities of Kshs.89,779,802 exceed the current assets of Kshs.23,379,270 resulting in a negative working capital of Kshs.66,400,532.

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 its creditors and related parties.

#### **2. Non-Current Assets**

The statement of financial position as at 30 June 2015 reflects non-current assets balance of Kshs.1,169,072. However, the fixed assets register availed for audit review did not reflect the location and code numbers of the assets thus reducing the effectiveness of the register as a control and verification tool.

Under the circumstance, it has not been possible to confirm the completeness and existence of non-current assets balance of Kshs.1,169,072 as at 30 June 2015.

#### **3. Trade and Other Receivables**

As reported in the previous years, the statement of financial position reflects trade and other receivables balance of Kshs.15,775,260 as at 30 June 2015. It was however noted that the company recorded a provision for debts and doubtful trade receivables of Kshs.53,455,083 as at 30 June 2015 (2014 - Kshs.52,524,385). The company currently does not have clear policies and procedures in place with

respect to estimating and recording an allowance for doubtful debts in its financial statements.

Consequently, the accuracy and recoverability of trade and other receivables totalling Kshs.15,775,260 as at 30 June 2015 could not be confirmed.

#### **4. Bank and Cash Balances**

As previously reported, the statement of financial position reflects bank and cash balance of Kshs.7,397,216, out of which Kshs.57,692.67 (USD 658.39) is in respect of the Barclays Bank Plc (US) current account. However, no monthly bank statements and bank balance confirmation certificate were availed for audit review.

Consequently, it has not been possible to confirm the validity, accuracy and completeness of the bank and cash balance of Kshs.7,397,216 as at 30 June 2015.

#### **5. Trade and Other Payables**

As reported in the previous year, the statement of financial position as at 30 June 2015 reflects trade and payables balance of Kshs.63,722,417 out of which amounts totaling to Kshs.5,299,527 is due to container leasing companies, most of whom stopped sending invoices for container leasing charges and monthly statements to the Kenya National Shipping Line several years back. The liabilities carried in trade payables in respect of the amounts due to these suppliers are based on balances outstanding when the statements were last received from these suppliers.

In the absence of statements, invoices or direct confirmation from these companies, it has not been possible to confirm the accuracy of trade and other payables balance of Kshs.63,722,417 as at 30 June 2015.

#### **6. Dues to Related Party**

The statement of financial position as at 30 June 2015 reflects a balance of Kshs.26,057,385 in respect of dues to related party. The entity has indicated that these are transactions between the Company and Kenya Ports Authority. However, a review of records maintained by Kenya Ports Authority reflected an amount of Kshs.28,120,000 resulting in unexplained or reconciled difference of Kshs.2,062,615.

Consequently, it has not been possible to confirm the accuracy and completeness of the amount due to related parties amounting in Kshs.26,057,385 as 30 June 2015.

## 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 National Shipping Line 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 Kenyan Companies Act.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, 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 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 account.



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

**Nairobi**

**19 February 2018**

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

STATEMENT OF COMPREHENSIVE INCOME

	Note	2015 Kshs	2014 Kshs
SERVICE INCOME	5	3,386,842	11,676,100
SERVICE COSTS	6	(968,529)	(8,040,240)
<b>SERVICE PROFIT</b>		<b>2,418,313</b>	<b>3,635,860</b>
FINANCE INCOME	7	149,158	184,380
GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS	8	940,222	1,454,674
EMPLOYMENT COSTS	9	(14,056,383)	(13,030,599)
ADMINISTRATION COSTS	10	(15,353,931)	(12,691,946)
DEPRECIATION AND AMORTIZATION EXPENSES	13-14	(511,527)	(939,858)
NET FOREIGN EXCHANGE LOSSES	15	(3,914,859)	(1,145,108)
<b>LOSS BEFORE TAXATION</b>		<b>(30,329,007)</b>	<b>(22,532,597)</b>
TAXATION CHARGE	11	-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(30,329,007)</b>	<b>(22,532,597)</b>

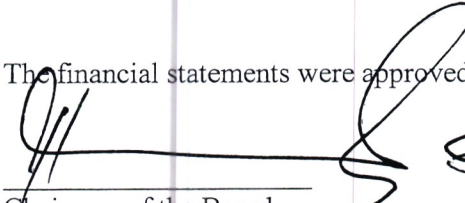
KENYA NATIONAL SHIPPING LINE LTD


REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2015

	Note	2015 Kshs	2014 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Vehicles and equipment	13	1,169,072	2,074,174
Intangible assets	14	-	-
		<u>1,169,072</u>	<u>2,074,174</u>
<b>Current Assets</b>			
Inventories	16	206,794	177,672
Trade and other receivables	17	15,775,260	14,642,676
Bank and cash balances	18	7,397,216	3,503,455
		<u>23,379,270</u>	<u>18,323,803</u>
<b>TOTAL ASSETS</b>		<u><u>24,548,342</u></u>	<u><u>20,397,977</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	19	93,523,000	93,523,000
Funds awaiting allotment of shares	19	133,681,500	103,681,500
Accumulated deficit		(292,435,960)	(262,106,953)
<b>Capital and Reserves</b>		<u>(65,231,460)</u>	<u>(64,902,453)</u>
<b>Current Liabilities</b>			
Trade and other payables	20	63,722,417	59,243,045
Due to related party	21	26,057,385	26,057,385
		<u>89,779,802</u>	<u>85,300,430</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>24,548,342</u></u>	<u><u>20,397,977</u></u>

The financial statements were approved by the Board on 22.8 2016 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, 2015

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Funds awaiting allotment of shares	Accumulated deficit	Total
At July 1, 2013	93,523,000	73,681,500	(239,574,356)	(72,369,856)
Total comprehensive loss for the year	-	-	(22,532,597)	(22,532,597)
Capital Injection	-	30,000,000	-	30,000,000
At June 30, 2014	93,523,000	103,681,500	(262,106,953)	(64,902,453)
At July 1, 2014	93,523,000	103,681,500	(262,106,953)	(64,902,453)
Total comprehensive loss for the year	-	-	(30,329,007)	(30,329,007)
Capital Injection	-	30,000,000	-	30,000,000
At June 30, 2015	93,523,000	133,681,500	(292,435,960)	(65,231,460)

(Note 19)

(Note 19)

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

STATEMENT OF CASH FLOWS

	Note	2015 Kshs	2014 Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated used in operations	23	(27,589,194)	(31,542,309)
Interest received		149,158	184,380
<b>Net cash generated used in operating activities</b>		<u>(27,440,036)</u>	<u>(31,357,929)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of vehicles and equipment	12	(257,983)	(765,117)
Proceeds from disposal of equipment		1,591,780	2,755,820
<b>Net cash generated from investing activities</b>		<u>1,333,797</u>	<u>1,990,703</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from capital injection	19	30,000,000	30,000,000
<b>Net cash generated from used in financing activities</b>		<u>30,000,000</u>	<u>30,000,000</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>3,893,761</b>	<b>632,774</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>3,503,455</b>	<b>2,870,681</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<u><u>7,397,216</u></u>	<u><u>3,503,455</u></u>

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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### NOTES TO THE FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

##### 2. 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.

##### 3. 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.

##### 4. 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.

##### 5. 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.

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 6. 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.

##### 7. Vehicles and equipment

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

##### 8. 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%

##### 9. 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.

##### 10. 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.

##### 11. 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.

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 12. 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.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

##### 13. 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.

##### 14. Comparatives

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

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2. 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 22 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.

#### 3. GOING CONCERN

As at 30 June 2015, the company had an accumulated deficit of Sh 292,435,960 (2014: Sh. 262,106,953) and its current liabilities exceeded its current assets by Sh 66,400,533 (2014: Sh. 66,976,627) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2015 of Sh 30,329,007 (2014: Sh. 22,532,597).

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, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
<b>4. (LOSS)/PROFIT BEFORE TAXATION</b>		
The (loss)/profit before taxation is arrived at after charging / (crediting):		
Auditors' remuneration	670,500	881,000
Bad debts less recoveries	64,365	(517,707)
Depreciation on motor vehicles and equipment	511,527	939,858
Amortisation of intangible assets	-	-
Employments costs	14,056,383	13,030,599
Gain/(Loss) on disposal of equipment	(940,222)	(1,454,674)
Operating lease rentals	2,334,667	2,075,282
	<u>=====</u>	<u>=====</u>
<b>5. SERVICE INCOME</b>		
Freight & Currency Adjustment Factor (CAF)	1,271,841	5,121,763
Terminal Handling Charges (THC)	362,418	1,269,324
Bunker Adjustment Factor (BAF)	453,291	1,816,957
Inland Freight	77,856	1,077,305
Container Demurrage Revenue	458,595	199,049
Miscellaneous Revenue	762,841	2,191,702
	<u>=====</u>	<u>=====</u>
	3,386,842	11,676,100
<b>6. SERVICE COSTS</b>		
Loading Charges	-	1,030,907
Discharging Charges	2,470	631,893
Commissions	282,262	473,689
Inland Freight	77,856	1,596,786
Containers Costs	483,430	1,697,246
Slot Charter	-	1,833,371
Other Surcharges	122,511	776,348
	<u>=====</u>	<u>=====</u>
	968,529	8,040,240
<b>7. FINANCE INCOME</b>		
Interest income on short-term bank deposits	149,158	184,380
	<u>=====</u>	<u>=====</u>
<b>8. GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS</b>		
Gain on disposal of non-financial assets	940,222	1,454,674
	<u>=====</u>	<u>=====</u>
	940,222	1,454,674

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
<b>9. EMPLOYMENT COSTS</b>		
Salaries and wages	10,497,747	9,645,468
Pension funds contributions	1,611,491	1,597,667
Medical expenses	1,199,773	1,095,511
Staff training and welfare	707,572	653,553
NSSF contributions	39,800	38,400
	<u>14,056,383</u>	<u>13,030,599</u>
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – Management	5	5
Permanent employees – Non -Managerial	10	11
Temporary and contract employees	2	1
	<u>17</u>	<u>17</u>
	2015 Kshs	2014 Kshs
<b>10. ADMINISTRATION COSTS</b>		
Advertising	360,727	688,352
Audit fees - current	670,500	881,000
Bad debts less recoveries	64,365	(517,707)
Bank charges	140,942	138,760
Board Expenses	2,358,772	1,828,116
Donations	70,000	-
Electricity & water	175,518	267,167
Entertainment	569,301	460,563
Insurance	156,410	305,894
Legal and professional	54,100	110,980
Miscellaneous	710,805	520,864
Motor vehicle running	874,564	734,602
Penalties	10,000	194,853
Printing and stationery	345,347	537,102
Rent	2,334,667	2,075,282
Repairs and maintenance	421,180	106,387
Security	-	45,000
Subscriptions and renewals	442,046	1,070,330
Telecommunication	1,057,591	837,814
Transport, travelling and accommodation	4,537,096	2,406,587
	<u>15,353,931</u>	<u>12,691,946</u>

**KENYA NATIONAL SHIPPING LINE LTD**

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2015 Kshs	2014 Kshs
<b>11. TAXATION</b>		
(a) Tax charge		
Current taxation based on the taxable (loss)/profit for the year at 30%	-	-
Deferred taxation (credit)/charge	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
(b) Reconciliation of tax charge to expected tax based on accounting (loss)/profit		
Accounting (loss)/profit before taxation	(30,329,007)	(22,532,597)
	<u>(30,329,007)</u>	<u>(22,532,597)</u>
Tax at the applicable rate of 30%	(9,098,702)	(6,759,779)

**12. DEFERRED TAXATION**

At 30 June 2015, 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.

**13. VEHICLES AND EQUIPMENT**

2015	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2014	4,397,301	11,684,878	16,082,179
Additions	-	257,983	257,983
Disposals	-	(1,327,336)	(1,327,336)
<b>At June 30, 2015</b>	<b>4,397,301</b>	<b>10,615,525</b>	<b>15,012,826</b>
<b>DEPRECIATION</b>			
At July 1, 2014	4,382,301	9,625,704	14,008,005
Charge for the year	-	511,527	511,527
Eliminated on disposal	-	(675,778)	(675,778)
<b>At June 30, 2015</b>	<b>4,382,301</b>	<b>9,461,453</b>	<b>13,843,754</b>
<b>NET BOOK VALUE</b>			
At June 30, 2015	15,000	1,154,072	1,169,072

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 VEHICLES AND EQUIPMENT (Continued)

2014	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
<b>COST</b>	Ksh	Ksh	Ksh
At July 1, 2013	4,397,301	14,815,684	19,212,985
Additions	-	765,117	765,117
Disposals	-	(3,895,923)	(3,895,923))
<b>At June 30, 2014</b>	<b>4,397,301</b>	<b>11,684,878</b>	<b>16,082,179</b>
<b>DEPRECIATION</b>	4,382,301	11,280,623	15,662,924
At July 1, 2013	-	939,858	939,858
Charge for the year	-	(2,594,777)	(2,594,777)
Eliminated on disposal	<b>4,382,301</b>	<b>9,625,704</b>	<b>14,008,005</b>
<b>At June 30, 2014</b>			
<b>NET BOOK VALUE</b>			
At June 30, 2014	15,000	2,059,174	2,074,174

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
<b>14. INTANGIBLE ASSETS</b>		
<b>COST</b>		
At 1 July	485,020	485,020
Additions	-	-
At 30 June	<u>485,020</u>	<u>485,020</u>
<b>AMORTISATION</b>		
At 1 July	485,020	485,020
Charge for the year	-	-
At 30 June	<u>485,020</u>	<u>485,020</u>
<b>NET BOOK VALUE</b>		
At 30 June	<u>-</u>	<u>-</u>
At 30 June 2015, intangible assets with a cost of Sh 485,020 had been fully amortised.		
<b>15. FOREIGN EXCHANGE TRANSACTIONS</b>		
Unrealized foreign exchange gain	1,510,982	103,906
Unrealized foreign exchange loss	(5,425,841)	(1,249,014)
	<u>(3,914,859)</u>	<u>(1,145,108)</u>
<b>16. INVENTORIES</b>		
Stationery and general stores	206,794	177,672
	<u>206,794</u>	<u>177,672</u>
<b>17. (a) TRADE AND OTHER RECEIVABLES</b>		
Trade receivables (note 17 (b))	38,518,264	38,142,939
Deposits and prepayments	756,940	759,417
VAT recoverable	7,638,499	6,960,029
Staff receivables	(10,902)	136,309
Other receivables	22,327,542	21,168,367
Gross trade and other receivables	<u>69,230,343</u>	<u>67,167,061</u>
Provision for bad and doubtful trade receivables	(53,455,083)	(52,524,385)
Net trade and other receivables	<u>15,775,260</u>	<u>14,642,676</u>

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
<b>17 (b) TRADE RECEIVABLES</b>		
Trade receivables	38,347,565	38,060,615
Accrued Income	170,699	82,324
Provision for doubtful trade receivables	(37,641,818)	(36,861,099)
	<u>876,446</u>	<u>1,281,840</u>
<b>18. BANK AND CASH BALANCES</b>		
Cash at bank	7,357,216	3,463,455
Cash in hand	40,000	40,000
	<u>7,397,216</u>	<u>3,503,455</u>

The bulk of the cash at bank was held at Kenya Commercial Bank, the *company's* main bankers.

### 19. ORDINARY SHARE CAPITAL

Authorised:		
200,000 ordinary shares of Sh.1,000 each	<u>200,000,000</u>	<u>200,000,000</u>
Issued and fully paid:		
93,523 ordinary shares of Sh.1,000 each	<u>93,523,000</u>	<u>93,523,000</u>

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 60 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. 133,681,500 (2014: Sh.103, 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, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
<b>20. TRADE AND OTHER PAYABLES</b>		
Trade payables	41,542,895	39,242,528
Accruals and other payables	22,179,522	20,000,517
	<u>63,722,417</u>	<u>59,243,045</u>

Included in the trade payables balance are amounts totalling Sh. 5,299,527 (2014 – Sh 4,707,866) 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 22 (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.

	2015 Kshs	2014 Kshs
<b>21. RELATED PARTY BALANCE AND TRANSACTIONS</b>		
<b>Due to a related party</b>		
Kenya Ports Authority (KPA)	<u>26,057,385</u>	<u>26,057,385</u>

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 19 on shareholding.

### 22. 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 (2014: 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 (2014: Sh 974,298).
- (iii) A claim from Textainer Equipment Limited for US\$17,571 (Sh. 1,733,193) 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 (2014: US\$ 17,571 – Sh. 1,539,692)
- (iv) A claim from P. N. Communications Limited for US\$ 17,660 (Sh 1,741,972) 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 (2014: US\$ 17,660- Sh 1,547,491).
- (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.

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 23. NOTES TO THE STATEMENT OF CASH FLOWS

	2015 K.shs	2014 K.shs
Reconciliation of operating loss to cash used in operations		
Loss for the year/period	(30,329,007)	(22,532,597)
Adjustments:		
Interest receivable recognized in the loss for the year/period	(149,158)	(184,380)
Depreciation on motor vehicles and equipment	511,527	939,858
Amortisation of intangible assets	-	-
Loss/(gain) on disposal of equipment	(940,222)	(1,454,674)
	<hr/>	<hr/>
Loss for the year/period before working capital changes	(30,906,860)	(23,231,793)
Decrease in trade and other receivables	(1,161,708)	(1,106,350)
Decrease in amounts due from directors	-	101,467
Increase/(Decrease) in trade and other payables	4,479,374	(7,498,855)
Net movement in related company balance	-	193,222
	<hr/>	<hr/>
Net cash used in operations	<u>(27,589,194)</u>	<u>(31,542,309)</u>

#### 24. 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 2014.

##### 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.

##### 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:

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 24 FINANCIAL INSTRUMENTS (Continued)

	2015 Kshs	2014 Kshs
<b>Assets</b>		
<i>Trade and other receivables</i>		
US Dollars	3,828,629	3,397,339
Euros	432,705	697,688
Sterling Pounds	357,443	499,224
Swedish Krona (SK)	10,283	11,320
	<u>4,629,060</u>	<u>4,605,571</u>
 <i>Bank and cash balances</i>		
US Dollars	434,028	3,405,333
	<u>434,028</u>	<u>3,405,333</u>
 <b>Liabilities</b>		
<i>Trade and other payables</i>		
US Dollars	36,858,619	32,901,391
Euros	2,345,026	2,645,614
Sterling Pounds	43,575	159,726
Swedish Krona (SK)	30,293	33,348
	<u>39,277,513</u>	<u>35,740,079</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.

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.

#### 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. It is 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.

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 24 FINANCIAL INSTRUMENTS (Continued)

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 2014 and 30 June 2015 is made up as follows:

2015

	Fully performing Sh	Past due Sh	Impaired Sh
Cash and cash equivalents	7,357,216	-	-
Trade receivables	(199,826)	-	37,641,818
Due from Directors	-	-	-
	<u>7,157,390</u>	<u>-</u>	<u>37,641,818</u>

2014

	Fully performing Sh	Past due Sh	Impaired Sh
Cash and cash equivalents	3,463,455	-	-
Trade receivables	205,568	-	36,861,099
Due from Directors	-	-	101,467
	<u>3,669,023</u>	<u>-</u>	<u>36,962,566</u>

Cash and cash equivalents are fully performing.

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.

# KENYA NATIONAL SHIPPING LINE LTD

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 25. OPERATING LEASE RENTAL COMMITMENTS

	2015 Sh	2014 Sh
Payment made under operating leases during the year	<u>2,334,667</u>	<u>2,075,282</u>

#### 26. 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.

#### 27. CURRENCY

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