

REPUBLIC OF KENYA



Paper laid by LOM
Hon. Aden Duale, MP
on 29/9/17
Wednesday Afternoon
Sitting
Aden

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2016**

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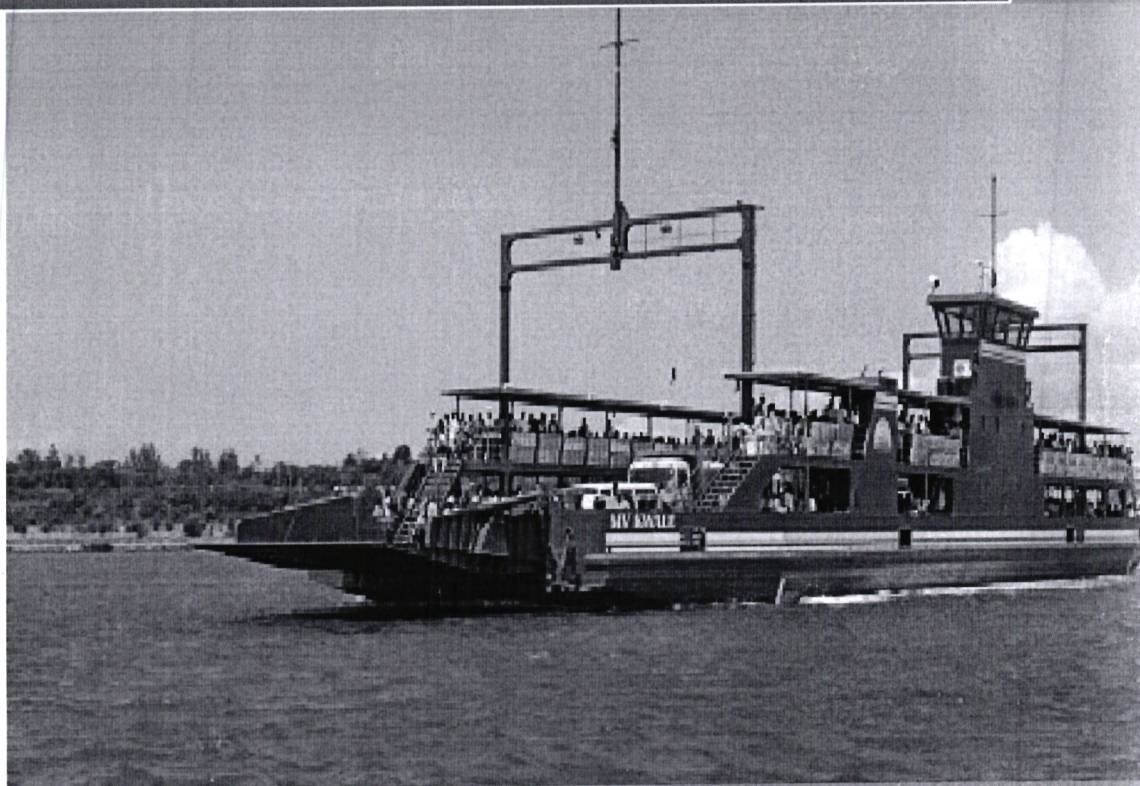
KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 31



2016

KENYA FERRY SERVICES LTD



*Annual Report and Financial
Statements June 2016*

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

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KEY COMPANY INFORMATION

Background information

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

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

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

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

Principal Activities

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

Directors

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

Hon. Said Ramadhan Kajembe	Chairman	Appointed on 1/7/2016
Mr. Bakari Hamisi Gowa	Managing Director	Appointed on 1/7/2016
Ms. Catherine Mturi-Wairi	Director (Managing Director KPA)	Appointed on 1/7/2016
Mr. Gunga Chea Ndurya	Director	Appointed on 2/10/2015
Ms. Rosina N Mruttu	Director	Appointed on 2/10/2015
Mr. Mshenga Ruga	Director	Appointed on 17/4/2015

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KEY COMPANY INFORMATION (Continued)

Bwanahamad Bwana	Director	Appointed on 17/04/2015
Mr. Henry Rotich	CS National Treasury (Alternate Mr. Festus King'ori)	Appointed on 15/5/2013
Mr. Irungu Nyakera	PS Ministry for Transport & Infrastructure (Alternate Mrs. Consolata Muruiki)	Appointed on 25/6/2013

Corporate Secretary

Mr. Elijah Kitur

P.O Box 96242- 80110

Likoni

Registered office

Peleleza - Likoni

P. O. Box 96242 - 80110

Likoni, Mombasa

Corporate Headquarters

P. O. Box 96242 – 80110

Kenya Ferry Services HQ

Gaza Street - Peleleza

Likoni, Mombasa

Corporate contacts

Telephone: (254) 0723664000

E-mail: info@kenyaferry.co.ke

Website: www.kenyaferry.co.ke



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KEY COMPANY INFORMATION (Continued)

Corporate bankers

National Bank (K) Ltd
Portway House Branch
P.O. Box 87770 – 80100
Mombasa- Kenya

Independent auditors

Auditor General
Kenya National Audit Office
Anniversary Tower, University Way
P. O. Box 30084 –
GPO 00100
Nairobi, Kenya

Principal Legal Advisors

1. The Attorney General
State Law Office
Harambee Avenue
P.O Box 4112
City Square 00200
Nairobi, Kenya
2. Company Secretary, (Elijah Kitur)
Kenya Ferry Services Ltd
Peleleza Likoni
P. O. Box 96242 – 80110 Likoni, Mombasa

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THE BOARD OF DIRECTORS

	<p>Chairman Hon. Said Ramadhan Kajembe was born on 3rd June 1944 and holds a bachelor's degree in Business Administration (Corporate Strategy) from the European Business School Cambridge, England, Diploma in shipping (Stevedoring and Shore handling) He has extensive experience in shipping matters in large Corporations having worked for Landing & Shipping Co. East Africa and Kenya Ports Authority where he rose to the position of Assistant Superintendent Operations. He has also served as a distinguished politician in various capacities from 1966 to 2015. Hon. Kajembe takes over from Mr. Fondo whose term ended in November 2016.</p>
	<p>Out-going Chairman Mr. James Kitsao Fondo was born on the 23rd November 1950 and is happily married. He holds a bachelor's degree in Commerce (Accounting option) from the University of Nairobi earned in 1977. Has extensive experience as a Professional Accountant in large Corporations having worked for Kenya Power & Lighting Company Ltd and Kenya Seed Company Ltd rising through the ranks to become Group Financial Accountant. Mr. Fondo's term ended in November 2015.</p>
	<p>Out-going Managing Director Mr. Musa Hassan Musa was born on 23rd July 1970. He holds a bachelor degree in Education in Technology (Electrical Option) from Moi University, and he has a Master of Science degree in Marine Education and Training (Marine Engineering) from world Maritime University (Sweden) and Executive Master's degree in Business Administration from Jomo Kenyatta University. He is a member of the Institute of Engineering and Technology (MIET) and the Institute of Marine Engineering Science and Technology (MIMAREST). He has sixteen years' experience in marine sector and quality management systems.</p>





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	<p>Managing Director</p> <p>Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has over ten years' experience in financial management. Mr. Bakari Hamisi Gowa takes over from Mr. Musa Hassan Musa as Managing Director.</p>
	<p>Director</p> <p>Mr. Nduva Muli was born on 29th November 1969. He is the Principal Secretary of the State Department for Transport in the Ministry of Transport and Infrastructure. He holds an Executive Master of Business Administration in Global Strategic Marketing from Moi University and a Bachelor of Land Economics from University of Aberdeen in Scotland. Prior to becoming the Managing Director of Kenya Railways, he served as the General Manager Corporate Planning and Business development at the same organization from 2006 to 2007. He was also a Communication & Fund raising manager in AMREF from 2004 to 2006, Manager of E-Business & Distribution in Kenya Airways from 2001 to 2004. He has been bestowed with the honor of Elder of the Burning Spear (EBS). Mr. Muli has since retired from service.</p>
	<p>Director</p> <p>Mr. Wilson Nyakera Irungu is the Principal Secretary State Department of Transport. He holds a Master's in Finance and Decision Engineering, first worked at Citi Group in London after graduating from Stanford University in 2007. He worked for NIC bank for four years after which he quit the Kenyan banking industry to work as the Regional Head of East and Southern Africa at Frontier Markets Fund Managers, Guarantco, between March 2013 and July 2014. Mr Nyakera later moved to Equity Bank where he helped start the Equity Investment Bank as managing director until his appointment to the government (Public Service).</p>
	<p>Director</p> <p>Mr. Henry K. Rotich was born in 1969. He is the Cabinet Secretary, The National Treasury and holds a Master's degree in Public Administration (MPA) from Harvard University USA, Master's degree in Economics and a Bachelor's degree in Economics both from University of Nairobi, Kenya. Prior to his elevation as Cabinet Secretary, Mr. Rotich was Head of Macroeconomics at the Ministry of Finance since March 2006. He also worked at Research Department of Central Bank of Kenya since 2004. Besides, Mr. Rotich has served in as director of several boards of state corporations such as Insurance Regulatory Authority, Industrial Development Bank, Communications Authority of Kenya and Kenya National Bureau of Statistics.</p>

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	<p>Director Mr. Gichiri Ndua was the Managing Director of Kenya Ports Authority. He holds a Master of Arts in Economics from the University of Nairobi. He was also a Board of Director of Kenya Railways, IAPH, Cruise Indian Ocean Association (CIOA) and Port Management Association of Eastern and Southern Africa (PMAESA) and a Trustee, Kenya Ports Authority Pension Fund. He has a wide experience in Management of Institutions acquired since 1984 when he joined Kenya Ports Authority.</p>
	<p>Director Ms. Catherine Mturi-Wairi is the Managing Director Kenya Ports Authority. She holds an MBA in Strategic Management, BSc. in Finance and Accounting from USIU and various professional qualifications including CPA, CPS, and is a Certified SAP Consultant. She is a member of Institute of Directors (IOD), ICPAK, ICPSK, KIM, KNLS, WOMESA, AWAK and the Trustee KPA Staff Pension Scheme. She has extensive experience in finance matters having risen to the position of General Manager Finance. Ms Mturi Wairi succeeds Mr. Gichiri Ndua at the helm of KPA.</p>
	<p>Director Mr. Nelson Mwanzanje was born in April 1954 and is happily married. He holds a diploma in Radio Telecommunications and other technical courses in Telecommunication from RTTI, Mbagathi. He has extensive Managerial experience in Technical areas and rose through the ranks to become a Regional Manager with Telkom Kenya Ltd. He joined the board on the 6th November 2012. Mr. Nelson's term ended in November 2015.</p>
	<p>Director Mr. Cheya Gunga Ndurya was born in 1975 and is happily married. He holds accountancy qualifications and has extensive experience as an accountant in the area in education sector as a Finance Officer. He joined the board in October 2015.</p>

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Director

Ms. Rosina N Mruttu was born in February 1962 and holds Masters in Counseling Studies University Durham, Degree in Theology with International Faith Theological Seminary (IFTS), Post graduate diploma in Child Forensic Psychology at University of Leeds ,Higher diploma in Psychological Counseling ,Higher Diploma in Counselor Education and Supervision ,Diploma in Marriage and Family Counseling ,Diploma in Intensive Care Nursing Medical Training College (Nairobi),Diploma in Kenya Registered Nursing Kenya at Medical Training College (Nairobi) among others.

She has fourteen (14) years' experience in Training, Counseling, Supervision and curriculum development, Health, Psychology, Psychological debriefing, drug and substance abuse counselling, Disaster Preparedness and Management.



Director

Hon. Mshenga Ruga Holds a Diploma in County Governance. He has over 15 years' experience in Public Administration having served as Councilor and Mayor for defunct Kwale County Council. He joined the board on the 17th April 2015.








Director

Bwanahamad Bwana Is a former Board member at Transport Licensing Board. Has extensive experience in the Shipping Sector where he worked in various capacities. He holds O level qualifications. He joined the board on the 17th April 2015.

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MANAGEMENT TEAM

	<p>Managing Director</p> <p>Mr. Musa Hassan Musa holds a bachelor degree in Education in Technology (Electrical Option) from Moi University, and he has a Master of Science degree in Marine Education and Training (Marine Engineering) from world Maritime University (Sweden) and Executive Master's degree in Business Administration from Jomo Kenyatta University.</p> <p>He is a member of the Institute of Engineering and Technology (MIET) and the institute of Marine Engineering Science and Technology (MIMAREST). He has sixteen years' experience in marine sector and quality management systems. Mr. Musa retired from service in April 2016 having served two full terms.</p>
	<p>Managing Director</p> <p>Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has over ten years' experience in financial management. Mr. Bakari Hamisi Gowa takes over from Mr. Musa Hassan Musa as Managing Director.</p>
	<p>Human resource and administration manager</p> <p>Thomas Tuva Kenga has joined Kenya Ferry Services Limited from Technical University of Mombasa on the 4th May 2015 where he was the Head of Human Resources Department for over five years. An alumni of Moi University, University of Nairobi and Mombasa Polytechnic, Mr. Kenga's highest qualification is a Master's degree specializing in Human Resources Management. He is a full member of the Institute of Human Resource Management, Kenya.</p>
	<p>Company secretary and head of legal services</p> <p>Mr. Elijah Kitur holds an LLB (Hons), is an advocate and a certified public secretary CPS (K). He has eighteen years' experience and is a member of the Law society of Kenya and Institute of Certified public Secretaries of Kenya.</p>
	<p>Operations manager</p> <p>Mr. Antony Dosho Madzungu holds a Bachelor of Arts in Sociology and Geography; advanced management course offered by Kenya Institute of Management, he has twenty two years of experience and thirteen years as a head of department. Mr. Madzungu retired from service in January 2016.</p>

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	<p>Ag. Operations manager Mr. Morris H.D.Kai holds a Bachelor degree in Arts, Economics, Public Administration & Sociology, Master's in Economics, certificate in Project Planning & Management and also certificate in Crime Prevention & Maritime Laws. He is a member of Kenya Institute of Management and has over ten years' experience in operations management.</p>
	<p>Ag. Finance manager Mr. Robert Keng'ara holds a Bachelor degree in Commerce; Master's in Business Administration, he is a qualified Accountant with CPA (K), and a registered member of Institute In Of Certified Public Accountants of Kenya (ICPAK) and is currently pursuing CPS Course. He has over fifteen years' experience in financial management.</p>
	<p>Chief engineer Major (rtd) George Amos Nyadero holds higher diploma in Mechanical engineering (Kenya), diploma in Marine Survey (UK), diploma in Marine engineering. He also holds bachelor of science in mechanical Engineering (USA) and masters in marine surveying (UK). He is a member of IACS (International Association of Class Surveyors) and IMAREST (Institute of Engineering, Science and Technology). He has thirty seven years working experience in marine environment. Major (rtd) Nyadero retired from service in January 2016.</p>
	<p>Ag. Chief engineer Mr. Athmani Washenga holds higher national diploma in Electronics Marine (UK), diploma in Electrical Electronics Marine (UK). He is a specialist in electronics, fitting & turning, specialist in ships equipment all from UK. He is a member of Institute of Engineering Technologists & Technicians Registration Board, Kenya. He has thirty eight years working experience in marine environment, twelve years at Kenya Navy and 26 in KFSL.</p>
	<p>Procurement and supplies manager MS Jennifer Cirindi holds a Bachelor degree in Education. She is a qualified procurement professional with MCIPS(UK) and holds a post graduate diploma in CIPS. She is a member of KISM and is currently pursuing MBA at Nairobi University in Operations Management. She has over 10 years experience in supply chain management</p>

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CHAIRMAN'S STATEMENT

I am pleased to present the annual report and financial statements for the Company for the year ended 30th June 2016. The Company registered a deficit of Kshs 108million against a deficit of Kshs 43million realized in the previous year 2014/2015. This is a significant drop in performance in the light of our aspirations as an organization to post surpluses in the near future. The main contributing factors to this position was a decrease of 4% total revenue from Kshs 935 million in 2014/2015 to Kshs 900 million in 2015/2016. The Company's overall expenditure decreased by 1% from Kshs 987 million in 2014/2015 to Kshs 975 million in 2015/2016. On the other hand the asset base of the Company improved from Kshs 3.1 billion in the year 2013/2014 to Kshs 3.4 billion in 2014/2015 financial period and to Kshs 4.3 billion in the current year.

The government has a commitment to provide for ferry services to pedestrians accessing the Company facilities. This comes in the form of grants and its level (how much is allocated) affects the Company's performance. During the year the government allocated Kshs 336million to supplement the recurrent budget.

Strategic issues

The Company is on course in implementation of its strategic plan. Ferry landing facilities (ramps) on the mainland side of the Likoni Channel were completed and those on the Island side are 95% complete. The ferry maintenance Jetty at Peleleza was completed and is currently in use for both maintenance of ferries and mooring services. To enhance security situation, the Company through the support of the government installed scanners for both pedestrians and luggage and this has enable petty offenders to be nabbed. The government has also assisted KFS to establish a police post that specifically takes care of the minimum security for ferry operations. These facilities were undertaken courtesy of the government at a total cost of Kshs800 million and were completed in 2014/2015 financial year and are currently in use.

The Company entered into a contract for Design, Build, Supply and Commissioning of two new passenger /vehicular ferries with a Turkish firm MS Ozata Tersanecilik San .Ve Tic.Ltd.Sti at a total cost of Kshs 1.9 billion. This will boost the fleet of ferry crafts and is geared towards improving ferry services. The Company is keen on improving self-sustenance. Plans are underway to introduce cable car services as a way to enhance revenue base of the Company. This project will be implemented through public private partnership arrangement. Once complete this project will provide alternative mode of crossing the Likoni Channel and also boost tourism since it is expected to be one of its kind in East Africa. Further to this, the Company is planning to develop a ferry terminus on the island side of the channel. This project apart from its objective of ensuring smooth conveyance of passengers and motorists in and out of the ferry operational area shall generate rental income to supplement

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Company operations. In addition the terminus will provide ample space for various commercial, hotel and other social amenities to ferry users.

There are however challenges being experienced in this very noble exercise key of which include inadequate financing and late disbursement of funds for some of the earmarked projects in which development grants for 2015/2016 financial year were not only received in April 2016 but were also slashed from Kshs1, 438 million to Kshs1,068 million hence impairing project implementation.

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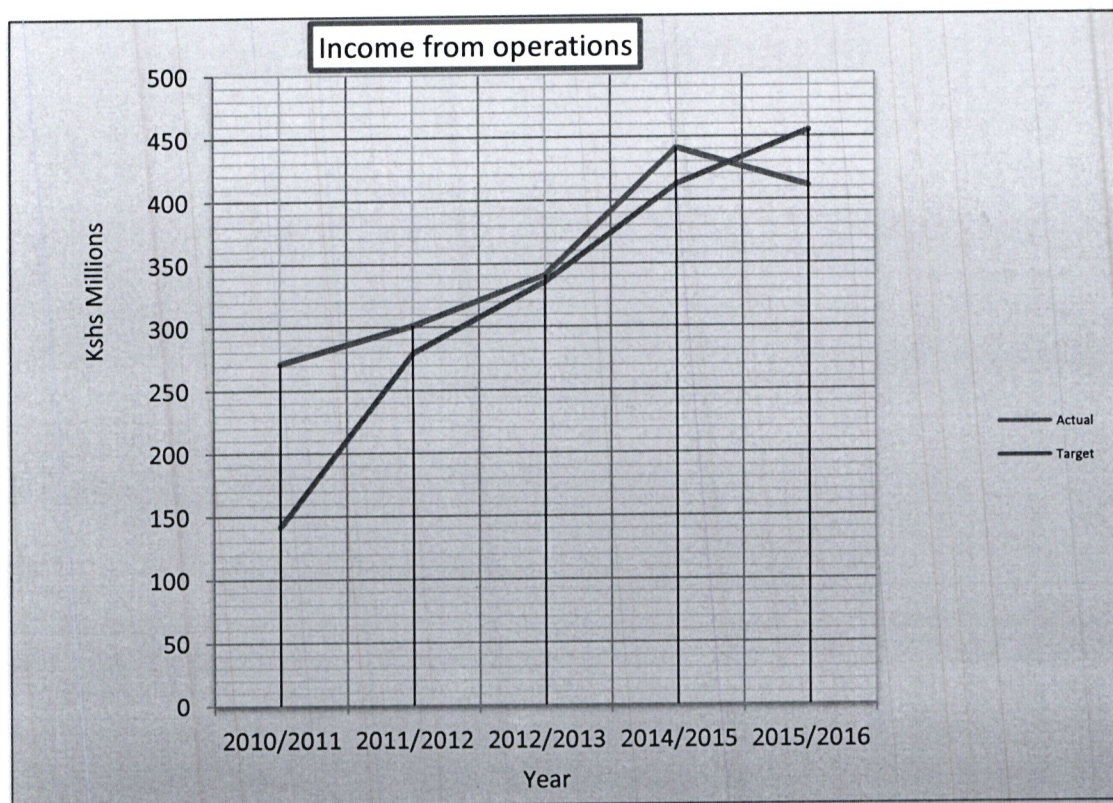
Reports and financial statements for the year ended 30th June 2016

REPORT OF THE MANAGING DIRECTOR

Financial Performance for the year

The Company realized a deficit of Kshs108million in the current year compared to a deficit of Kshs 43 million in the year 2014/2015 and Kshs 91 million in the year 2013/2014. The Company's capital base improved from equity of Kshs 2.9 billion in the year 2014/2015 to a figure of Kshs 3.8 billion in the current year. This is attributed to improved deferred income in the form of capital grants received at a total of Kshs 1,068 million from the government during the current financial year 2015/2016.

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



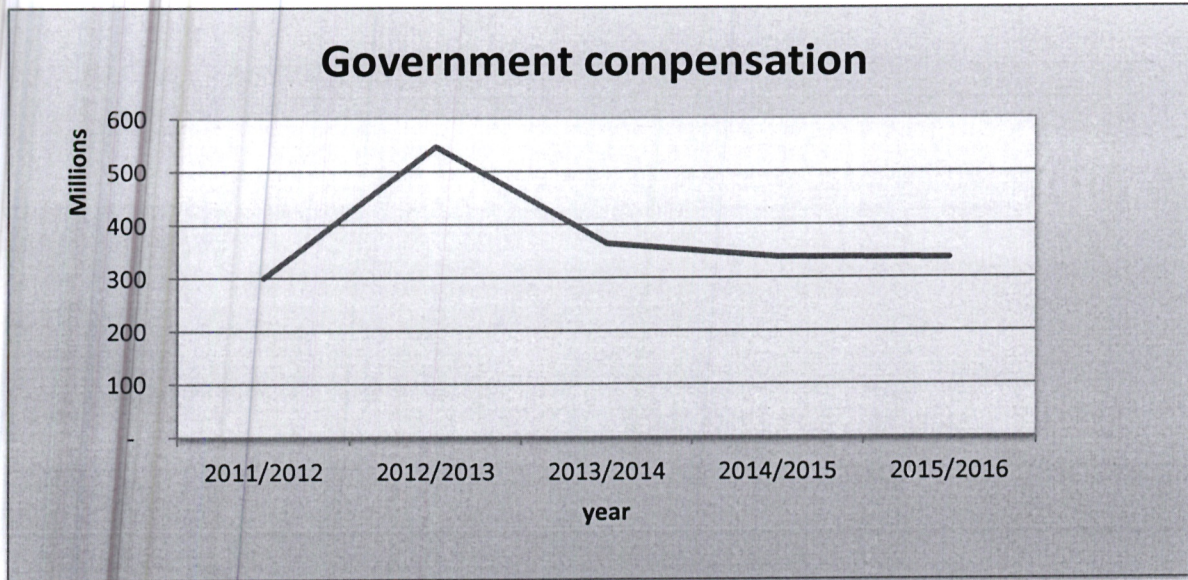
The National Government disburses funds in two forms i.e. development funds for capital projects and compensation for free passage of pedestrians (recurrent funds). Unlike internally generated income, government grants seem not to be following the same trend. It has always been unpredictable over the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

Below is a summary of the same for the last five years.

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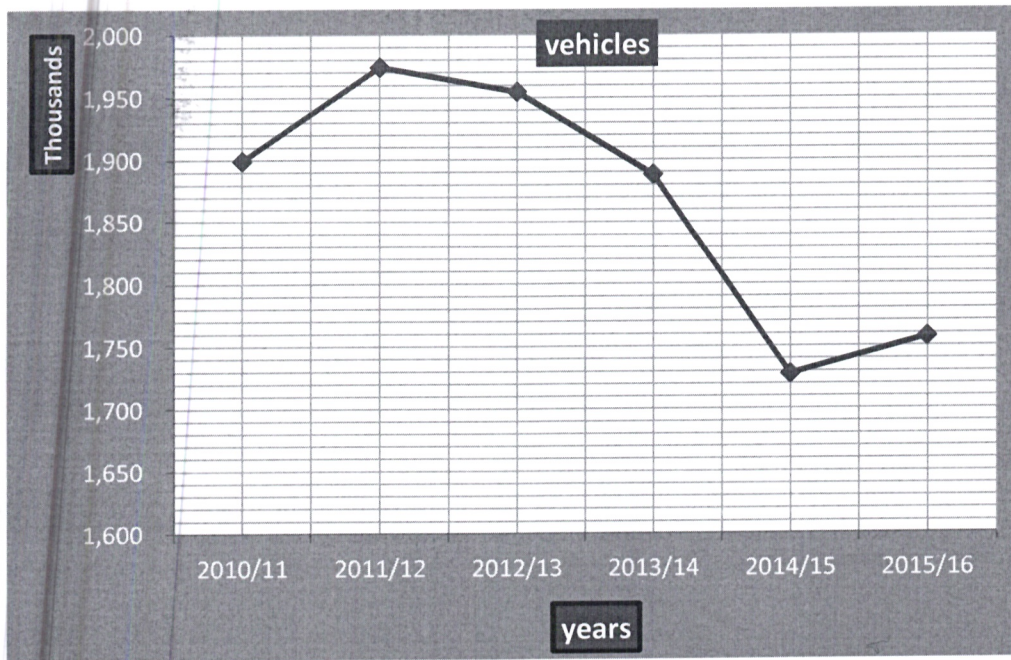
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Year	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Government compensation (Kshs)	300,000,000	545,712,000	364,000,000	338,325,392	336,031,500



Ferry operations

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



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Information Communication Technology

In a bid to implement and achieve the goals of its ICT Strategic Plan, the Company implemented several activities which include; implementation of ERP System, purchase of servers, computers, and accessories, and automation of ticketing verification.

The implementation of the Enterprise Resource (ERP) System is ongoing. ERP is an integrated system that will automate all the business processes through a single database. The system is at 60% completion. It is envisaged that the system will be operationalized in the next financial year. The Company acquired servers, computers, laptops and other accessories. This is in line with its target of achieving a ratio of 1:1 computer for office staff and 1:10 for other staff as outlined in our ICT Strategy

To improve on the efficiency of revenue collection and verification, the Company automated the ticket verification process. The toll inspectors are using scanner to verify tickets issued by the cashier. This has improved efficiency and verification speed. On the same vein, the Company introduced Personal Digital Assistants (PDAs) for billing purposes. The system is integrated to the main POS billing system. This will complement the POS billing especially during rush hours and when the main system is down due to technical or operational challenges.

The Company has in place a trunked network connection and wireless system and is currently offering wireless connectivity to its staff in the HQ location and is in the process of doing the same on the Island Office. This will enhance access to Company resources such as the intranet and internet by all staff.

Customer service delivery

The Corporate Services Section is mandated to take a strategic position in the way the Company interacts with its publics (ferry users), staff and stakeholders at large. The specific responsibilities include;

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

During the year 2015/2016 under review the following activities were realized;

Tours/Visits to KFSL

His Excellency President Uhuru Kenyatta's visit

On 4th January 2016, His Excellency President Uhuru Kenyatta President Republic of Kenya accompanied by among others, Hon. Najib Balala, CS Tourism, Hon Masoud Mwachima MP Likoni, made an impromptu visit to Kenya Ferry Services Ltd. He was on a familiarization tour of ferry services offered by the Company. He was received by the then Managing Director Mr. Musa,

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outgoing chairman Mr. Fondo and senior managers with whom he had a brief meeting. The President was appraised about the ferry services and the challenges faced which he promised to look into with a view to finding a lasting solution. He later on toured the ferry facilities i.e. the newly completed Peleza Jetty and the workshop. The visit culminated in the change of top management in the institution in which the then Managing Director proceeded on terminal leave whereas the Operations Manager and Chief Engineer took early retirement.

This also led to changes in top management with the then Finance Manager Mr. Bakari Hamisi Gowa taking over the helm at KFSL among other top management changes. A new Board of Directors Chairman Hon. Said Ramadhan Kajembe was appointed to take over from outgoing Chairman Mr. James Kitsao Fondo. The changes have breathed a new lease of life in the service provision across the channel with long traffic snarl ups experienced in the past managed and kept at its lowest and at times no queues at all resulting in high customer satisfaction levels.



H.E. Hon Uhuru Kenyatta on board MV Nyayo (left), being briefed by Md Mr. Musa, outgoing Chairman Mr. J. Fondo and Chief Engineer Mr.G. Nyadero at Peleleza Jetty (right) on 4th January 2016.

Similarly, during the year under review the Company hosted Permanent Secretary Ministry of Transport & Infrastructure, Housing & Urban Development Mr. Wilson Nyakera Irungu who paid a courtesy call to familiarize himself with the operations of KFSL. He held a meeting with senior management after which he also toured ferry facilities. The Company received 690 students drawn from different institutions both lower and higher institutions of learning, we conducted educational tours of our Company and thus leveraged on good corporate image as the visitors become our ambassadors wherever they go.

Complaint handling

In 2015/2016, Sixteen (16No.) written complaints were received, recorded and addressed out of which 88% of the complaints touched on customers' dissatisfaction on ferry delays, interruption of ferry schedules 13%, customer care 22% and lack of toilet facilities on board ferry vessels 9%. In

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May, 2016 the Company acquired a free toll line aimed at serving customers in terms of receiving enquiries, complaints, compliments and suggestions. It also serves as a platform of communicating to the customers on 24hr basis. The toll line number is 0800721801. The same is posted on our website, face book page, twitter and continuous announcements through public address system. Customer care email platform customercare@kenyaferry.co.ke has also been operationalized. Quarterly reports to Commission on Administrative Justice continue being effected as per requirements.

Media relations

The section managed to coordinate directly with media houses to maximize positive coverage of the Company. The total media content analysis conducted by the section established balanced coverage in both print and electronic media which all carried balanced stories about the organization and its operations. The MD was also interviewed live on KTN, KBC, K24, NTV and Pwani TV and local FM stations (Pili Pili, Radio Salaam, Rahma, Baraka, etc.)

Corporate Social Responsibility (CSR)

The Company spent Kshs 450, 000 on donations to support various social initiatives. It is worth noting that the Company has maintained its flagship CSR activity (eye screening) to ferry users every last Saturday of every month in conjunction with Kwale Eye Clinic. This has gained popularity and is an event which our ferry users look up to. This is explained by the high turnout of people during the function. The greatest challenge has been the shortage of ample time. The year 2015/2016 recorded 1,615 patients screened on eye related ailment of which some have been referred for surgeries. The Company has been active in engaging and supporting local initiative Community Based Organizations such as Hatua Likoni in promotion of education to the youth from less privileged families.



Collaboration between KFSL and Kwale District Eye Clinic

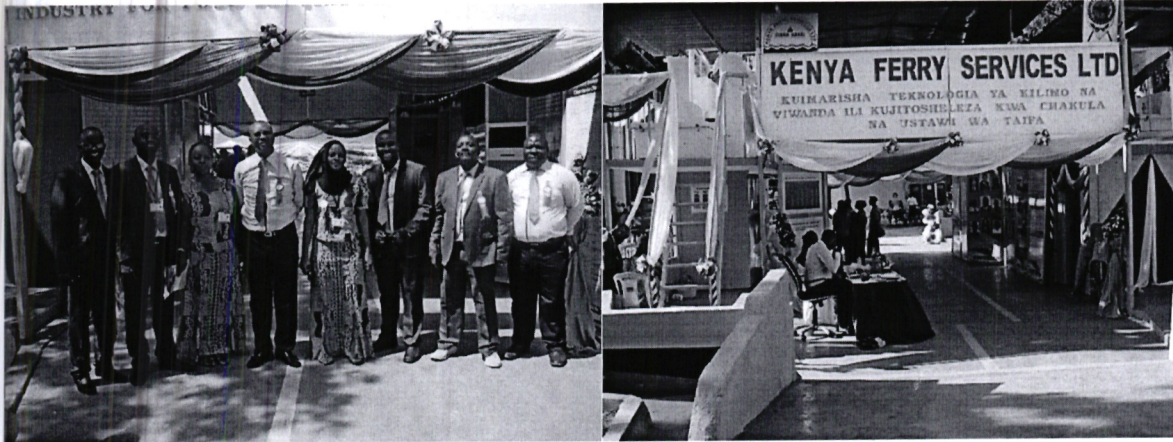
Stakeholders/ customer week / ASK show Mombasa

In order to engage customers and stakeholders on the issues related to service delivery, the KFSL held a stakeholders meeting on 29th July, 2015 at ACK Guest House Likoni whereby a proposal to

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revise toll tariffs and this was subsequently consented by all. The Company also presented to the stakeholders the proposed alternative crossing solution across the channel via a cable car, a privately initiated public private partnership by Trapos Ltd. All these proposals were approved by stakeholders. The Section also championed a successful exhibition at the ASK Mombasa show in August, 2015 recording over 1400 show goers visiting our stand including participation in beach safety and awareness during Easter holidays in support of Kenya Maritime Authority.



The refurbished KFSL ASK show stand

Projects implementation progress

During the financial year, the Company began implementation of the Enterprise Resource Planning solution in its entire operations. This project is intended to boost efficiency in ferry operations in line with KFSL ICT strategy 2013-2017. All departmental functions shall be automated such as preventive and corrective maintenance, toll revenue billing system, customer relations management, procurement, among others.

The Company is in the process of rehabilitating its fleet of vessels to make them mechanically sound and guarantee availability as per operation schedules. In this regard the engines for MV Kwale & MV Nyayo have been overhauled, and parts for overhaul for MV Kilindini have been delivered. On the same vein the contract for supply and delivery of new generator sets for MV Likoni, MV Kilindini and Mv Nyayo was awarded and signed in the month of June 2016.

On the Island side of the channel the ferry landing facility construction is in its final stages and is expected to be completed by the end of the second quarter of the 2016/2017 financial year. A similar project was done on the mainland side and has been on defect liability period which lapsed in the 2014/2015 financial year. The projects were meant to rehabilitate and expand the facility to accommodate simultaneous safe landing of two ferries. This is in response to the ever increasing demand of ferry services especially by the pedestrians.

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CORPORATE GOVERNANCE STATEMENT

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

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

Corporate governance guidelines

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

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

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company; exercise duty with care and diligence; avoidance and management of conflict of interest; maintain confidentiality of information about the Company; show commitment to and attend to Company business; and respect to fellow directors.

Composition of the board of directors

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

CORPORATE GOVERNANCE STATEMENT (Continued)

Role and responsibilities of the board

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

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

Role of Chairman of the Board of Directors

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

Managing Director & Chief Executive Officer

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

Directors' training and development

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

Board work plan and meetings

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed before the meetings. The Board and its Committees held the following meetings during the year, which were well attended as detailed below:

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

Types of meetings	Main board	Finance and establishment Committee	Audit and risk Committee	Ad hoc/ Special Board
Board members				
Hon. Seif Ramadhan Kajembe	0	0	0	0
Mr. James K. Fondo	2	0	0	1
Mr. Nelson Mwanzanje	2	2	0	1
Mrs. Eunice Wanja Kibe	2	0	1	1
Mr. Gunga C. Ndurya	2	0	2	11
The PS for Transport	4	5	4	11
Mrs. Catherine Mturi-Wairi	2	1	0	2
The Cabinet Secretary, The National Treasury	4	5	4	11
Mr. Gichiri Ndua	2	3	2	2
Ms. Rosina N. Mruttu	2	3	0	10
Mr. Musa H. Musa	2	2	0	2
Mr. Bakari H. Gowa	2	3	0	10
Mr. Mshenga Ruga	4	0	4	11
Mr. Bwanamadi Bwana	4	5	0	11
No. of Meetings	4	5	4	11

In addition to the above meetings the board conducted a workshop to review its various Company policies.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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



KFS partnering with Kwale District Eye Centre in eye screening clinic

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

During the month of June 2016 ,the Company management under the stewardship of the Managing Director Mr. Bakari H. Gowa visited the Kenya Navy Mtongwe headquarters and held collaborative discussions with the Navy Commander Major General Mghalu on how Kenya Navy can help in training of the intended KFSL diving and rescue unit. The Company shall immensely benefit from the

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONT...)

expertise of Kenya Navy in operationalization of the said unit that shall respond to emergencies in the sea.



KFSL Managing Director (second left) and Senior Managers when they paid a courtesy call to the Kenya Navy Commander Mtongwe



KFSL Managing Director takes the County Commissioner Mr. Achoki on a tour the ferry facilities

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

RISK MANAGEMENT

The board recognizes risk management as an important tool to safe guard the interest of the organization business. To manage risk effectively the Company is in the process of developing a risk management policy. The following risk categories have been highlighted and corresponding strategies formulated for implementation;

Strategic risk

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

Strategic plan implementation

As stated in the chairman's statement the Company has a new strategic plan for the five years 2014-2019. The implementation of the document requires an estimated budget of kshs.3.2 billion spread over the five years. Among the forecast risk on this item is delayed disbursement and underfunding. The Company to a large extent depends on the government to fund its development projects. Key to the strategic plan is the acquisition of two new ferries, rehabilitation and expansion of the mooring and landing facilities, extension of the ferry services to the larger Mombasa, Lamu and Kisumu regions.

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

Dongo Kundu bypass

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

On this regard the Company is planning to extend the ferry operations to the larger Mombasa, Lake Victoria and Lamu. The strategic plan provides for diversification into property management to

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

supplement the revenue generation. Already proposals are being developed for the island plots and consultations with the parent Ministry and Treasury is ongoing.

Operation risks

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Company's affairs.

Principal activities

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

Results

The results of the Company for the year ended June 30, 2016 are set out on page 31 to this document.

Dividends

The Company is a non- commercial state corporation

Directors

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

Auditors

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

Elijah Kitur

 Corporate Secretary

Mombasa

Date

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the *Company's* financial statements, which give a true and fair view of the state of affairs of the *Company* for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Company's* financial statements give a true and fair view of the state of *Company's* transactions during the financial year ended June 30, 2016, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company's* financial statements as well as the adequacy of the systems of internal financial control.

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF DIRECTORS RESPONSIBILITIES (continued)

Approval of the financial statements

The *Company's* financial statements were approved by the Board on 26th August 2016 and signed on its behalf by:

Hon. Seif Ramadhan Kajembe

Chairman



Bakari Hamisi Gowa

Managing Director



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

REPORT OF THE INDEPENDENT AUDITORS

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENT

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 31 to 65, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

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 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 (7) 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 misstatement in the

Report of the Auditor-General on the Financial Statements of Kenya Ferry Services Limited for the year ended 30 June 2016

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 the basis for my qualified opinion.

Basis for Qualified Opinion

1.0 Financial performance

As reported in the previous year, the statement of comprehensive income for the year ended 30 June 2016 reflects a deficit of Kshs.108,273,000 (2014/2015 - Kshs.43,331,000) resulting to accumulated deficit of Kshs.913,494,000 as at 30 June 2016. Income from operations reduced to Kshs.410,742,000 in the year under review from Kshs.441,442,000 during the year 2014/2015.

Under the circumstance, the financial performance of the company is precarious and if strategies are not put in place to reverse the trend, the company will experience financial challenges in future.

2.0 Property, Plant and Equipment

2.1. Understated Work In Progress

The statement of financial position reflects property plant and equipment balance of Kshs.2,201,284,000 out of which Kshs.115,456,000 is work-in-progress as indicated under Note 13 to the financial statements. The Company capitalized a security project during the previous year at Kshs.82,100,150 instead of Kshs.104,535,330 which was the actual cost of the project. No adjustment was made in the books of account to correct the anomaly during the year under review and in effect, the property plant and equipment balance of Kshs.2,201,284,000 as at 30 June 2016 is understated by Kshs.22,435,180.

2.2. Idle Assets

During the year under review, the management procured and installed weigh bridges on both sides of the Likoni Channel at a cost of Kshs.26,779,893 as indicated in the assets register. Although the weighbridges were integrated with the revenue system, they are practically, idle assets since KFS does not use them to charge for use of its ferries by

motor vehicles. Further, management indicated that the bridges were a control measure to enhance safety by estimating the weight of motor vehicles boarding ferries at the Channel. However, there was no evidence showing that weights of motor vehicles measured through the weigh-bridges are used to control the number of motor vehicles that board the ferries.

Consequently, it has not been possible to confirm the propriety of the expenditure totaling Kshs.25,779,893 incurred on installation of weigh-bridges at Likoni Ferry during the year under review.

2.3. Irregular Award of Tender for Two New Ferries

During the year under review, Kenya Ferry Services Limited Company awarded a contract for supply and delivery of two new passenger ferries at a cost of Kshs1,863,000,000 (US \$18,630,000). Information availed for audit review indicated that the tender award process had the following anomalies:

2.3.1 Technical Evaluation

The contract was awarded to the bidder who was ranked No 4 at the technical evaluation stage. The technical evaluation report indicated that the type of ferry to be supplied by the winning bidder was Roll on/Roll off and that dead weight at designed draft was approximately 490 tons. However, review of the winning bidder's tender document revealed that the bidder did not provide this information.

2.3.2 Irregular Down Payment

The Company made a down-payment of Kshs.598,023,000 (US \$ 5,920,726.7) to the local appointed agent in August 2015. Section 17.1 of the contract document required that such payment be made upon production of an unconditional bank guarantee issued by an established and reputable bank located in Kenya. The winning tenderer submitted a performance bank guarantee of Kshs.93,150,000 (USD 931,500) issued by a foreign bank, located in Istanbul Turkey. However, there was no evidence showing that due diligence was carried out to establish the validity of the guarantee. It was further noted that the performance bond dated 13 July 2015 was submitted sixteen days after the signing of the contract contrary to Paragraph 10 on General Conditions of the Contract which required the contractor to furnish the employer with performance security before the signing of the contract.

2.3.3 Failure to Deduct and Remit Taxes

During the year under audit, the Company made an advance payment of Kshs.598,023,000 (US \$ 5,920,726.7) to the Kenyan agent but failed to withhold 6% of Value-Added-Tax totaling to Kshs.35,881,380 and withholding tax at 20% for the

non-resident company totalling to Kshs.119,604,600 despite professional advice from Kenya Revenue Authority to subject the payments to the taxes.

2.3.4 Delay in Executing the Contract

The contract was signed on 27 June 2015 and the new ferries were to be delivered after seventeen (17) months, by November 2016. However, as the time of this audit in January 2017, there was no evidence of the level of progress-of-work since photographs of work-in-progress stipulated in the contract, and progress reports by the Project Manager, were not availed for audit review.

In light of the foregoing, it has not been possible to confirm the validity and accuracy of the building and supply of two new ferries at cost of Kshs.1,863,000,000 (USD 18,630,000) and the propriety of expenditure totaling Kshs.598,023,000 paid to the contractor during the year under review.

3.0 Revenue

3.1. Income From Operations

The statement of comprehensive income reflects an amount of Kshs.410,742,000 as income from operations. However, records availed for audit review indicated that the company's toll collections amounted to Kshs.410,845,000 resulting in an unexplained variance of Kshs.103,000.

3.2. Variances between Receipt Books and Control Records

During the year under review, one thousand two hundred and ninety (1,290) manual receipt books were issued by the Revenue Section to collectors as shown in the Control Receipt Book Register (CRBR). However, the number of receipt books issued to the Revenue Section by the Procurement department was, as shown in bin cards, five hundred seventy (570) resulting in an excess of seven hundred twenty (720) receipt books that did not originate from the procurement department. Although the management has explained that the extra 720 receipt books were received directly from the suppliers, the receipt books had not been accounted for as at 30 June 2016.

Further, stores records revealed that at the close of the financial year under review, manual receipt books balance was one hundred fifty (150) whereas stock taking records revealed a nil balance thus resulting to an unaccounted surplus of one hundred fifty receipt books.

3.3. Irregular Motor-Vehicle Toll Fees

Kenya Ferry Services does not have any equipment or means of measuring motor vehicle length to establish the appropriate charges to be levied on its customers. This

contravenes Vehicle Toll Charges Amendment Rules, 2013 which provide that the Company's levies should be based on the length of the vehicles carried in its ferries.

In the light of the foregoing circumstances, it has not been possible to confirm that the income from operations amounting to Kshs.410,742,000 for the year ending 30 June 2016 is fairly stated.

4.0 Bank and Cash Balances

The statement of financial position as at 30 June 2016 reflects a balance of Kshs.1,020,620,000 in respect of cash and bank balance. However, the balances as per the bank reconciliations availed for audit totaled to Kshs.1,020,724,000 resulting to unexplained nor reconciled difference of Kshs.103,000.

Consequently the accuracy and completeness of cash and bank balance of Kshs.1,020,620,000 as at 30 June 2016 cannot be confirmed.

5.0 Long Outstanding Debts

Note 17 to the financial statements reflects trade receivables balance of Kshs.88,981,000 which includes two debtors: one of Kshs.12,300,496 and the other Kshs.50,652,633 which, as previously reported, have been outstanding since the year 2008/2009. Although the management has indicated that the debts are subject to court cases, no documentary evidence has been provided to confirm the management's assertion.

Consequently, it has not been possible to confirm the authenticity and accuracy of trade receivables balance of Kshs.88,981,000 as at 30 June 2016.

6.0 Trade and Other Payables

Included in trade and other payables balance of Kshs.208,620,000 as shown in Note 24 to the financial statements are creditors amounting to Kshs.177,371,000 out of which creditors of Kshs.58,973,323 are long outstanding, an indication that the management could be having difficulties in meeting credit obligations when they fall due which may lead to legal cases being instituted against the Company. Further, records availed for audit indicated that unpaid invoices for goods received amounting to Kshs.1,116,958 were not posted in the ledger and were hence excluded from these financial statements.

Under the circumstance, it has not been possible to confirm the validity and accuracy of trade and other payables balance of Kshs.208,620,000 as at 30 June 2016.

7.0 Administration Expenses

The statement of comprehensive income for the year ended 30 June 2016 reflects Kshs.89,817,000 in respect of administration expenses out of which Kshs.12,605,000 relates to domestic and foreign travel as detailed in Note 6 to the financial statements. Examination of records availed for audit revealed that the Company bought ticketing services amounting to Kshs.6,862,280 through direct procurement contrary to Section 103 (1) of the Public Procurement and Asset Disposal Act, 2015 which prohibits avoidance of competition in procurement. Further, the management did not provide for audit review analyses for domestic and foreign travels expenditure amounting to Kshs.12,605,000 included in the accommodation expenses for the year under review.

Consequently, the propriety and completeness of the expenditure of Kshs.12,605,000 incurred on the domestic and foreign travel expenses during the year under review cannot be confirmed.

8.0 Ferry Operation Costs

The statement of comprehensive income for the year ended 30 June 2016 reflects ferry operation costs amounting to Kshs.176,577,000 out of which expenditure of Kshs.59,152,000 relates to security services. Records availed for audit review indicate that Kenya Ferry Services awarded the contract for provision of security, and crowd control to a local security firm. However, review of the procurement process revealed the following anomalies:

8.1. Preliminary Evaluation

The confidential business questionnaire filled by the winning bidder indicated that the company was a controlling shareholder contrary to the requirement that shareholders were to be directors. This guarded disclosure did not provide transparency as to who actually owned the company. The business questionnaire was to be signed in every page. However the winning bidder's signature was not appended in the page requiring information about the registration of the company.

8.2. Technical Evaluation

The management did not carry out actual vetting of bidders but instead only requested for documents on personnel and did not verify these for authenticity. Further, the personnel were not interviewed to confirm whether the information they provided was true. Further, certificates of good conduct provided by personnel working for the bidder had similar reference numbers and were hand-written in contrast to standard certificates which are printed. In addition, validity of the secondary school certificates attached could not be confirmed since some indicated male personnel having attended girl schools for Ordinary-level education. In view of these anomalies the validity of qualifications of personnel employed by the winning bidder could not be confirmed.

Consequently, the propriety of the security services expense amounting to Kshs.59,152,000 for the period ended 30 June 2016 cannot be confirmed.

9.0 Advances – Kenya Ports Authority

As reported in previous years, the statement of financial position as at 30 June 2016 reflects a balance of Kshs.336,010,000 described as advances – KPA. The advances were from Kenya Ports Authority to Kenya Ferry Services during the later's initial years of operation. It is still not clear how the amount will be cleared from the books of account.

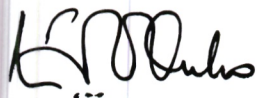
Qualified Opinion

In my opinion, except for 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 the Kenya Ferry Services as at 30 June 2016, and of its financial performance and of its cashflows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Kenyan Companies Act.

REPORT OF OTHER LEGAL AND REGULARITY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit, that;

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- (iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of accounts.



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

Nairobi

04 July 2017

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30TH JUNE 2016

	Notes	2015/2016	2014/2015
		Kshs	Kshs
		'000'	'000'
REVENUE			
Income from operations	1	410,742	441,442
Government compensation	2	336,032	338,325
Other income	3	28,672	33,864
Transferred from deferred income	4	124,959	121,769
TOTAL REVENUE		900,405	935,400
OPERATING EXPENSES			
Staff costs	5	485,558	459,678
Administration costs	6	89,817	106,598
Operation costs	7	176,577	184,964
Board costs	8	14,528	13,748
Repairs and maintenance costs	9	81,911	76,000
Depreciation	13&14	126,500	145,365
Amortization	15	333	333
TOTAL OPERATING EXPENSES		975,225	986,686
OPERATING DEFICIT		(74,820)	(51,286)
Finance Income	11	56	7,954
Finance Costs	12	(33,509)	-
Deficit		(108,273)	(43,331)

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2016

	Notes	2015/2016	2014/2015
		Kshs	Kshs
		'000'	'000'
NON CURRENT ASSETS			
Property, plant & equipment	13	2,201,284	2,246,584
Investment property	14	338,364	346,233
Prepaid operating lease	15	3,058	3,391
Total non current assets		2,542,706	2,596,208
CURRENT ASSETS			
Inventories	16	75,970	87,274
Trade & other receivables	17	692,656	102,112
Bank & cash balances	18	1,020,620	658,165
Total current assets		1,789,246	847,551
TOTAL ASSETS		4,331,952	3,443,759
EQUITY & LIABILITIES			
SHAREHOLDER'S FUNDS			
Share capital	19	499,904	499,904
Accumulated deficits	20	(913,494)	(770,086)
Revaluation reserves	21	542,280	542,280
Deferred income	22	3,658,631	2,715,590
Total Equity		3,787,322	2,987,688
NON CURRENT LIABILITIES			
KPA advances	23	336,010	336,010
CURRENT LIABILITIES			
Trade & other payables	24	208,620	116,588
Bank overdraft	24	-	3,472
		208,620	120,060
TOTAL EQUITY & LIABILITIES		4,331,952	3,443,759

The financial statements on pages 31 to 66 were approved by the board of directors on the 26th August 2016 and signed on its behalf by

Hon. Seif Ramadhan Kajembe

Bakari Hamisi Gowa

Chairman

Managing Director

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Revaluation reserves	Revenue Reserves Restated	Deferred income	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Changes in Equity for 2014/2015	'000'	'000'	'000'	'000'	'000'
As at 1st July 2014	499,904	547,874	(732,622)	2,237,359	2,546,921
Addition to deferred income				600,000	600,000
Transfer to income statement				(121,769)	(121,769)
Surplus/Deficit for the year			(43,331)		(43,331)
Disposal on revaluated assets		(5,594)	5,867		5,867
As at 30th June 2015	499,904	542,280	(770,086)	2,715,590	2,987,688
Balance as at 1st July 2015	499,904	542,280	(770,086)	2,715,590	2,952,553
Addition to deferred income				1,068,000	1,068,000
Transfer to income statement				(124,959)	(124,959)
Surplus/Deficit for the year			(108,273)	-	(108,273)
Salary arrears(prior year adjustment)			(35,135)		(35,135)
As at 30th June 2016	499,904	542,280	(913,494)	3,658,631	3,787,322

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES	Note	2015/2016	2014/2015
		Kshs	Kshs
		"000"	"000"
Cash used for operating activities	25(a)	(600,913)	(78,220)
		(600,913)	(78,220)
INVESTMENT ACTIVITIES			
Interest received	11	56	7,954
Purchase of property, plant & equipment	13	(73,332)	(157,740)
Proceeds from disposal of assets	13	2,153	-
Net cash used in investing activities		(71,123)	(149,786)
FINANCING ACTIVITIES			
Government funds	22	1,068,000	600,000
Net cash from financing activities		1,068,000	600,000
Increase in cash and cash equivalent		395,964	371,994
Movement in cash & cash equivalent			
Cash and cash equivalent at the start of the year	25(b)	658,165	286,170
Increase in cash and cash equivalent		395,964	371,994
Effect of exchange rate difference	12	(33,509)	-
Cash and cash equivalent at the end of the year		1,020,620	658,165

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS

	Notes	2015/2016	2014/2015	Budget 2015/2016	Budget variance
		Kshs	Kshs	Kshs	%
REVENUE		'000'	'000'	'000'	
Income from operations	1	410,742	441,442	454,877	-10%
Government compensation	2	336,032	338,325	336,000	0%
Other income	3	28,672	33,864	40,469	-29%
Transferred from deferred income	4	124,959	121,769	74,180	68%
TOTAL REVENUE		900,405	935,400	905,526	-1%
OPERATING EXPENSES					
Staff costs	6	485,558	459,678	501,024	3%
Administration costs	7	89,817	106,598	118,342	24%
Operation costs	8	176,577	184,964	215,820	18%
Board costs	9	14,528	13,748	14,500	0%
Repairs and maintenance costs	10	81,911	76,000	163,079	50%
Depreciation	13	126,500	145,365	143,593	12%
Amortization	15	333	333	333	0%
TOTAL OPERATING EXPENSES		975,225	986,686	1,156,692	16%
OPERATING SURPLUS/DEFICIT		(74,820)	(51,286)	(251,166)	70%
Finance Income	11	56	7,954	-	
Finance Costs (Foreign Exchange Loss)	12	(33,509)	-	-	
Surplus/(Deficit)		(108,273)	(43,331)	(251,166)	57%

The variances are explained in detail in the relevant notes to the financial statements on pages 43-52.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

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

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

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

2. Revenue recognition

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

- i). **Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii). **Grants from National Government** are recognized in the year in which the Company actually receives such grants. Grants for development projects are treated as deferred income as per IAS 20.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

In-kind contributions

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

3. Property, plant and equipment

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

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

Increases in the carrying amounts of assets arising from revaluation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items and are recognized in profit or loss in the income statement.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Depreciation and impairment of property, plant and equipment

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

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

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

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

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

5. Investment property

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Inventories

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

7. Finance and operating leases

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

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

8. Trade and other payables

Trade and other payable are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *Company* or not, less any payments made to the suppliers.

9. Retirement benefit obligation

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

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Provision for staff leave pay

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

11. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at central bank of Kenya and at various commercial banks in Kenya at the end of the financial year. For the purposes of these financial statements, cash and cash equivalent also include short term cash impress and advances to

12. Exchange rates differences

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

13. Financial Instruments-Recognition and measurement

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

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

Comprise cash in hand and short term marketable securities.

Receivables:

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

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

14. Comparative figures

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

15. Financial Risk Management

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

i) Credit risk

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

ii) Liquidity risk

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

iii) Market risk

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iv) Interest rate risk

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

v) Currency risk

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

16. Effective IFRS Disclosures

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

17. Deferred Income

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

18. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS

1. Income from operation

	2015/2016	2014/2015
	Kshs '000'	Kshs '000'
Toll collections	388,753	418,151
Ferry passes	21,989	23,291
Total	410,742	441,442

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

The Company's income for the year was Kshs 410 million which represents a decrease of 7% compared to the year 2014/2015 earnings of Kshs 441 million. In general, earnings from internally generated source have been registering a positive trend for the last five years; however, the decrease during the year is attributed to low service levels offered to customers especially in the second and third quarters due to non-availability of vessels as scheduled. This led to low business volumes particularly for integral customers i.e. empty trailers and loaded trailers whose numbers dropped from 10,526 units and 13,505 units in 2014/2015 financial year to 7,560 units and 9,298 units respectively during the year under review. This represents a drop of 28% and 31% respectively in traffic volumes for this category of customers. On the same vein, the number of pickups dropped from 200,188 to 197,538 or 1% this financial year. The Company is confident that this category of customers shall resume using the channel since they shall be crossed at any time of the day or night as long as the tide /water levels allow as opposed to previous arrangement whereby they used to be crossed only during day time.

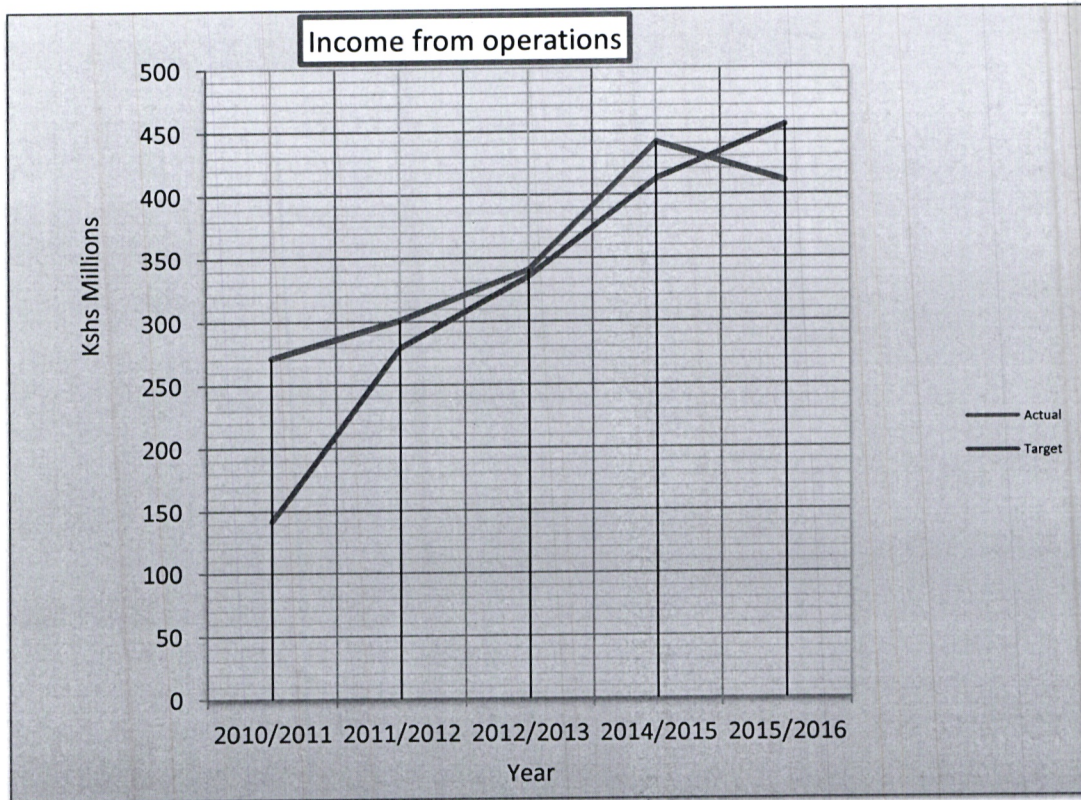
The Company also missed its yearly target on toll revenue by 10%. This is majorly attributable to the fact that in its budget for 2015/2016, KFSL factored revision of its tariffs on motorists. This was approved by the stakeholders and later forwarded to the parent Ministry for action; however, the same was not gazetted.

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)



2. Government compensation

	2015/2016	2014/2015
	Kshs	Kshs
Government Compensation	336,032	338,325
Total	336,032	338,325

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

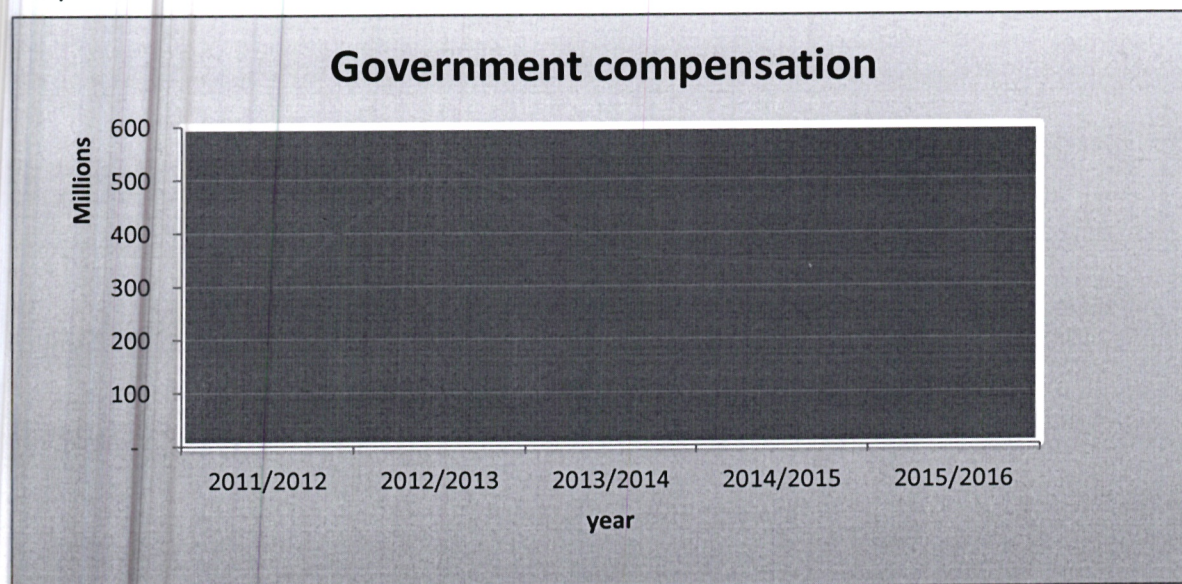
During the year that ended the Company received a total of Kshs 336 million. This was a decrease of 7% compared to what the Company earned in the previous year of Kshs 338 million and this greatly affected the smooth operations of the Company. Further, the existing financing arrangement is not sustainable in that whereas the Company's revenue generation has steadily increased over the years, the government subventions are quite erratic and unpredictable.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

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



3. Other income

	2015/2016	2014/2015
	Kshs '000'	Kshs '000'
Infrastructure rent income	15,517	10,938
Commercial adverts	9,723	18,870
Tender documents, prequalification forms	270	1,544
Used oil, drums, insurance commission	658	2,293
Hire of ferries	69	220
Group Life Compensation	282	-
Gain on disposal	2,153	-
Total	28,672	33,865

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

The Company earned Kshs 28 million during the year as opposed to a figure of Kshs 34 million earned in the previous year and a target of Kshs 41 million during the year. Other income decreased by Kshs 5 million or by 16% compared to last financial year.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

Infrastructure (rental) income earnings were below target as the facility was invaded and taken over by the County Government of Mombasa just a few months after being availed to the new lessee ; My Space Ltd. The matter is currently in court awaiting determination which is slated for 30th September 2016.

4. Deferred income

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

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Ferry crafts	63,867	63,867
Infrastructure Buildings	7,869	7,869
Office Building	1,235	1,235
Car Shade	9	9
Dry docking	9081	9081
Ferry Generators	698	698
Ferry Engines	2,735	2,735
Safety equipment	9,816	9,816
Mainland ramp	1,558	1,558
Mtongwe pontoon	6,093	6,093
Peleleza jetty	6058	5742
Security Project	10,263	10,263
Schottel steering system MV Nyayo	2,852	2,803
Furniture & Equipment	117	-
Computers	2,708	-
Total	124,959	121,769

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Staff expenses

Staff cost include all forms of remunerations paid to employees for services rendered to the Company. Total staff costs incurred during the year was Kshs 485 million against a budgetary provision of Kshs 501 million. In the previous financial year (2014/2015) total cost incurred was Kshs 460 million. Staff welfare includes staff medical cover service pay and token of appreciation that may be paid.

	2015/2016	2014/2015
	Kshs '000'	Kshs '000'
Salaries and allowances of permanent employees	421,550	397,819
NSSF	691	691
Pension and provident	19,613	16,432
Gratuity	970	6,793
Staff Welfare	42,734	37,944
Total	485,558	459,678

As reported in 2014/2015 financial year, the Company registered a deadlock with the Dock Workers Union on certain terms and conditions of service for non-management staff during the CBA negotiations for the year 2013/14 to 2014/15. The matter was finally referred to the Industrial Court where conciliation efforts failed. The Industrial Court in its judgment delivered on 22nd May 2015 ordered the Company to revise the unionisable staff basic salaries by 17.5% for the two years in dispute. This is one of the major causes of the increase on staff costs in the recent past. Further to this several allowances of the union staff were required by the court to be revised. The Company in this regard paid a total of Kshs53 million as resultant arrears and also confirmed the staff as permanent employees.

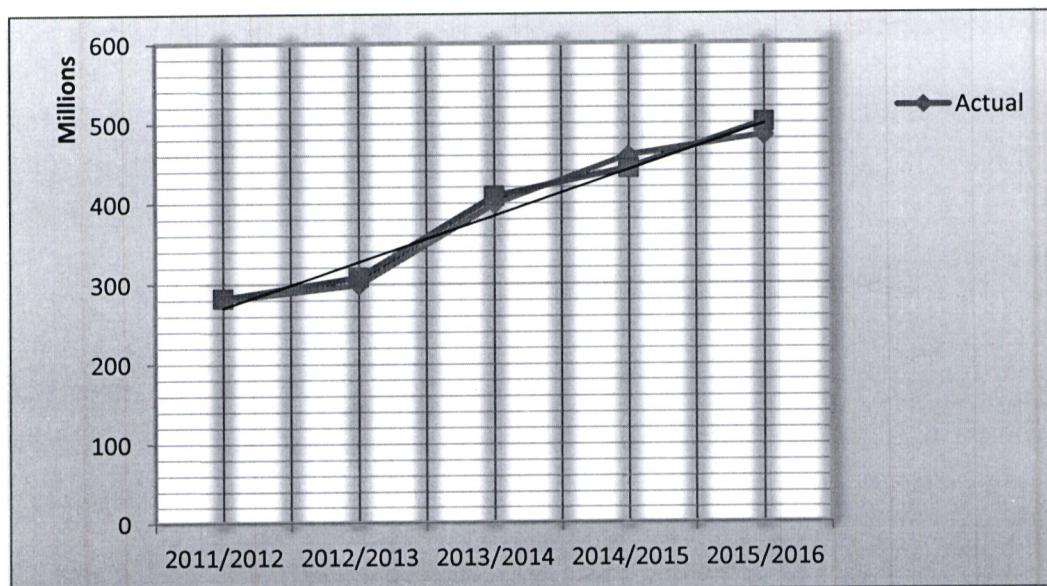
During the year, the Company recruited ten new members of staff to boost its manpower. The positions are electrical engineering technicians (all ladies in line with affirmative action) 3No. mechanical engineering technicians 2No , senior operations officer 1No., Security Assistants 3No. and procurement assistant 1No.

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

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)



Staff increased by 25 million for the five year period. At the moment it, accounts for 50% of the total operating costs.

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

	2015/2016	2014/2015
	Number	Number
Permanent employees – management	115	115
Permanent employees - unionisable	173	122
Temporary and contract employees	-	51
Total	288	288

Two management staff retired from the service of the Company having attained the mandatory retirement age of 60 years while another employee tendered his resignation in the month of April 2016. One staff member attached to Human Resource & Administration Department (Mr. Kenyatta Asiago) passed away in February 2016. One management employee was engaged to fill vacant position of Senior Operations Officer in the Company establishment.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Administration expenses

Administration costs are all forms of expenses which the Company incurs in order to run its business other than staff, operating and repairs as well as maintenance cost. During the year the Company spent a total of Kshs 90 million on administration costs which accounted for about 9% of the total operating costs. Total administrative costs decreased by 16% in the current year compared to last financial year's decrease of 20%.

There was a general decrease in most line items of the administration costs which was necessary to take care of the planned activity levels of the Company. This notwithstanding the Company spent within its approved budget for all the items of Kshs 134 million.

Below is a summary of administration costs for the year.

	2015/2016	2014/2015
	Kshs '000'	Kshs '000'
Electricity and Sewerage charges	8,249	10,699
Telephone, Telex, Facsimile and mobile phone	4,535	4,552
Accommodation – Domestic and Foreign Travel	12,605	12,103
Printing, Advertising and Information Supplies & Services	5,243	6,244
Subscriptions to Newspaper, Magazines etc	528	748
Trade Shows and Exhibitions	2,796	1,462
Sports and Recreation	6,397	5,808
Rent and Rates - Non Residential	633	1,550
Training Expenses	8,827	12,883
Hospitality Supplies and Services	986	1,443
IT Implementation and Training	6,037	4,884
Gifts, Food and Drinks	4,779	3,734
Purchase of Uniforms and clothing - Staff	5,483	7,525
Office and General Supplies and Services	6,347	4,648
General Office Supplies (papers, pencils, forms, small office equipment(etc.)	2,797	1,770
Sanitary and Cleaning Materials	758	1,407
General insurances	5,666	6,673
Legal Dues/Fees, Arbitration and Compensation	2,903	5,355
Audit fees-current year	500	500
Contracted Professional Services	1,962	7,850
HIV & AIDS	-	3,002

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

Fuel & lubricants for transport	680	-
Transport for funeral	324	-
Fungicides, Insecticides & sprays	559	423
Loss on disposal	-	-
Bank charges	225	1,334
Total	89,817	106,598

The Company had reorganized its administrative expenses in line with the remitted government subventions.

7. Ferry operating costs

Operating costs are all forms of costs associated with the core business of the Company which ensures provision of ferry services. Total cost incurred during the year was Kshs 177 million equal to 18% of the total operating costs. This compared to last year's figure of Kshs 185 million incurred represents a decrease of 4%. The Company realized a substantial amount of cost savings on fuel due to a fall on the pump rates of diesel. Operating costs were lower than budget for the year by 18% attributed to low pump fuel prices.

	2015/2016	2014/2015
	Kshs	Kshs
Fuel Oil and Lubricants (ferry vessels)	63,140	76,448
Overseas ferry vessels insurances	54,286	56,588
Security Services	59,152	51,928
Total	176,577	184,964

8. Board costs

These are expenses incurred to cater for all forms of board activities ranging from sitting allowances, duty travel and accommodation. There are several activities which contributed to the increase of board expenses by 6% including conducting of interviews for the position of Managing Director, Operations Manager, Chief Engineer and Senior Internal Auditor.

	2015/2016	2014/2015
	Kshs	Kshs
Board allowances, conferences & seminars	14,528	13,748

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Repairs and maintenance

	2015/2016	2014/2015
	Kshs	Kshs
Workshop Tools, Spares & Small Equipment for ferry vessels	72,516	54,467
Maintenance of vehicles	869	568
Routine Maintenance - ferry vessels(dry-docking)	6,739	10,163
Maintenance of safety equipment	1,171	10,801
Maintenance of Office Furniture and Equipment	615	-
Total	81,911	76,000

This a class of costs that takes care of repairs and maintenance of all Company assets including ferry crafts, motor vehicles, furniture and equipment. Cost of repairs and maintenance incurred during the year was Kshs 82 million (representing a 8% increase compared to a cost of Kshs 76 million incurred in the last financial year). Repairs for ferries (Workshop tools and spares cost for ferries) increased by 33% due to constant repairs on breakdown on the three old ferries (MV Nyayo, MV Kilindini and MV Harambee) especially in the second and third quarters. These are already past their useful period after they were acquired in 1990. The Company is in the process of acquiring two new ferries in the next financial year.

10. Operating deficit

Depreciation of property, plant and equipment has gone down due to charges made against certain classes of assets such as computers, furniture and equipment which have since been fully depreciated in the financial year under review. At the same time the overall charge decreased from Kshs 160million to Kshs 140 million.

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

	Notes	2015/2016	2014/2015
		Kshs '000'	Kshs'000'
Depreciation of property, plant and equipment	13	118,631	137,300
Depreciation of investment property	14	7,869	7,869
Amortization of intangible assets	14&15	333	333
Directors emoluments –fees	8	14,528	13,748
Auditors fees- current years		500	500
Gain on disposal of property, plant and equipment		(2,153)	-
Total		139,709	159,750

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11. Finance income

This income was earned from cash held on accounts with National Bank of Kenya Ltd (the Company banker). Total interest earned was Kshs 0.056 million during the year; an amount of Kshs 8 million was earned in 2014/2015.

	2015/2016	2014/2015
	Kshs	Kshs
Interest income	56	7,954

12. Finance costs

This refers to the exchange differences resulting from translating the USD 5,588,975 to Kenya shillings equivalent as at the rate ruling exchange rate as at 30th June 2016.

		2014/2015
	rate	Kshs '000'
Opening balance		598,023
Foreign Exchange rate ruling at conversion 30/6/2016	101.0050	564,514
Loss on foreign exchange conversion		33,509

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NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Property plant and equipment for the year ended 30th June 2016 Kshs'000'

	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Computers & LED Screens	Motor Vehicles	Generators, Plant Tools, Crane, CCTV & Equipment	Driveway, Watchtower, Sheds, Roads, Boat & Garden	Capital work in progress	Total
COST	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
At start of the year	1,607,061	16,537	739,514	7,366	119,957	16,404	433,197	71,175	113,795	3,125,006
Additions	-	-	15,814	-	12,791	-	937	-	43,790	73,332
Transfers	27,513	-	-	-	-	-	-	14,615	(42,128)	(0)
Disposal/impairment	(3,607)	-	-	-	-	(2,261)	-	-	-	(5,868)
At end of the year	1,630,967	16,537	755,328	7,366	132,748	14,143	448,750	85,791	115,456	3,192,470
DEPRECIATION										
At start of the year	377,457	-	27,342	7,366	118,723	12,521	281,134	53,880	-	878,422
Charge for the period	72,409	-	15,423	-	4,784	3,115	18,671	4,229	-	118,632
Disposal/impairment	(3,607)	-	-	-	-	(2,261)	-	-	-	(5,868)
At end of the year	446,259	-	42,765	7,366	123,507	13,375	299,805	58,109	-	991,186
NET BOOK VALUE										
As at June 30, 2016	1,184,708	16,537	712,563	-	9,241	768	148,945	27,682	115,456	2,201,284
As at June 30, 2015	1,229,604	16,537	712,172	-	1,234	3,884	152,063	17,296	113,794	2,246,584

KENYA FERRY SERVICES LTD

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Item	2015/2016	2014/2015
	Kshs'000'	Kshs'000'
Guard rails	7,366	7,366
Computers & LED screens	112,245	112,245
Office equipment furniture & equipment	172,980	172,980
Driveways, watchtower	17,642	17,642
Gardening	3,416	-
Total	313,649	310,233

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Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Property plant and equipment for the year ended 30th June 2015 Kshs'000'

	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Computers & LED Screens	Motor Vehicles	Generators, Plant Tools, Crane, CCTV & equipment	Driveway, Watchtower, Sheds, Roads, Boat & Garden	Capital work in progress	Total
COST	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
At start of the year	1,584,635	16,537	67,320	7,366	119,589	16,250	350,909	69,079	735,427	2,967,112
Additions	-	-	-	-	368	-	188	2,097	155,088	157,741
Transfers	22,426	-	672,194	-	-	-	82,100	-	(776,721)	-
Disposal/impairment	-	-	-	-	-	154	-	-	-	154
At end of the year	1,607,061	16,537	739,514	7,366	119,957	16,404	433,197	71,176	113,794	3,125,007
DEPRECIATION										
At start of the year	297,104	-	12,552	7,366	117,513	10,019	247,751	48,817	-	741,122
Charge for the period	80,353	-	14,790	-	1,210	2,424	33,656	5,063	-	137,496
Eliminated on disposal	-	-	-	-	-	77	(273)	-	-	(196)
At end of the year	377,457	-	27,342	7,366	118,723	12,520	281,134	53,880	-	878,423
NET BOOK VALUE										
As at June 30, 2015	1,229,604	16,537	712,172	-	1,234	3,884	152,063	17,296	113,794	2,246,584
As at June 30, 2014	1,287,531	16,537	408,870	-	2,076	6,231	103,158	20,262	735,427	2,225,990

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Cost or valuation	Normal annual depreciation
	2015/2016	2015/2016
	Kshs'000'	Kshs'000'
Guard rails	7,366	737
Computers and LEDs	109,229	32,769
Office equipment, furniture and fittings	136,493	13,649
Motor vehicles	14,042	3,510
Total	267,130	50,665

14. Investment property

	2015/2016	2014/2015
	Kshs'000'	Kshs'000'
COST		
At start and end of year	393,446	393,446
DEPRECIATION		
As start of the year	47,214	39,345
Charge for the period	7,869	7,869
Total	55,083	47,214
NET BOOK VALUE		
As at June 30, 2016	338,364	346,232
As at June 30, 2015	346,232	354,102

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

15. Prepaid operating lease rental

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	Land	Buildings	Total
	Kshs'000'	Kshs'000'	Kshs'000'
COST			
At start and end of year	8,000	2,000	10,000
Amortization			
At start of the year	4,939	1,670	6,609
Charge for the year	267	67	333
At send of the year	5,206	1,737	6,942
As at 30 th June 2016	2,794	263	3,058

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

	2015/2016	2014/2015
	Kshs'000'	Kshs'000'
Cost		
Land	8,000	8,000
Buildings	2,000	2,000
Total	10,000	10,000
Amortization		
At start of the year	6,609	6,276
Charge for the year	333	333
Total	6,942	6,609
Net Book Value	3,058	3,391

16. Inventories

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

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Fuel & Oil	837	609
Stationery	1,155	1,050
Spare parts	73,978	85,615
Total	75,970	87,274

15(a) Ferry spare parts

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Gross Spare parts	112,590	124,227
Obsolete Stock Accumulation	(38,611)	(38,611)
Total	73,978	85,615

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

17. Trade and other receivables

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Trade receivables	88,981	63,733
Deposits and prepayments	625,022	27,470
VAT recoverable	9,872	34,783
Staff receivables	12,902	20,531
Gross trade and other receivables	736,778	146,517
Provision for bad and doubtful debts	(44,123)	(44,404)
Net trade and other receivables	692,656	102,112



KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

The Company advances funds to its staff to enable it cater for various personal effects including school fees for staff pursuing further education, medical expenses for those who may have exhausted their medical cover ceiling as well as for acquisition motor vehicles. Included in deposits and prepayments is Kshs 564,514,420 being advance payment (30% of cost) for acquisition of new ferry vessels. The prepayments reflected above constitutes marine insurance (Kshs 25,113,926), general insurance (1,384,485), group life insurance (Kshs 1,076,163), and medical insurance (Kshs 21,700,953). All insurance services are prepaid; the relevant cost is subsequently apportioned over the period of the cover. Many a times this may cut across two financial years.

a) Trade receivables

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Gross trade receivables	88,981	63,733
Provision for doubtful receivables	(40,903)	(40,903)
Net trade receivables	48,079	22,830
Less than 30 days	3,010	3,325
Between 30 and 60 days	1,817	2,319
Between 61 and 90 days	3,457	2,891
Between 91 and 120days	4,105	2,340
Over 120 days	76,592	52,858
Total	88,981	63,733

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

b) Staff receivables

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'

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Gross Staff receivables	12,902	20,428
Provision for doubtful receivables	(3,220)	(3,502)
Total	9,682	16,926
Amount due within one year	4,336	8,336
Amount due after one year	8,566	12,092

Included under staff receivables is advances made to staff as well as staff imprest. Staff Imprest outstanding as at end of the financial year was Kshs 996,000 and Kshs 103,000 for 2015/2016 and 2014/2015 respectively. The Company made recoveries for bad debts amounting to Kshs282,000. Outstanding provisions largely relates to advances made to staffs who have since been dismissed before full settlement had been made. The outstanding amounts due is however being pursued through the legal process to ensure full recovery.

18. Cash and bank

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Cash at bank	1,019,170	656,763
cash in hand	1,450	1,402
Total	1,020,620	658,165

For the purpose of the statement of cash flow, the year-end cash and cash equivalents comprise the following:

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Cash and bank balances	1,020,620	658,165
Bank overdraft (Note 12)	0	(3,472)
Total	1,020,620	654,693

The entire amount of cash at bank is held with National Bank of Kenya, the Company's main bankers. Held in development account of Kshs 968 million are funds earmarked for acquisition of two ferries among other development projects. The contract for the acquisition of the ferries was signed in August 2015 and construction is on-going. Cash in hand sales for the last day of the month of Kshs 1,350,035 and Kshs 100,000 being funds being utilized for change management at the two Company toll booths.

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Ordinary share capital

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

	2015/2016	2014/2015
	Kshs'000'	Kshs'000'
Authorized		
5,000,000 ordinary shares of Kshs 100 each	500,000	500,000
Issued		
4,999,040 ordinary shares of Kshs 100 each	499,904	499,904

20. Accumulated deficits

	2015/2016	2014/2015
	Kshs '000'	Restated Kshs'000'
At start of year	(770,086)	(732,622)
Revaluation reserves	-	5,867
Prior year adjustment-Salary arrears	(35,135)	-
Deficit for the year	(108,273)	(43,331)
At end of year	(913,494)	(770,086)

The Company recorded a deficit of Kshs108 million during the year as compared to a deficit of Kshs 43 million in 2014/2015 and a deficit of Kshs 91 million 2013/2014 financial year. The 2015/2016 figure contains salary arrears under provision of Kshs35million paid to unionisable staff awarded by the Industrial Court in May 2015. The arrears related to the financial years 2013/2014 and 2014/2015 whose payment was made and expensed in the current financial year.

21. Revaluation reserves

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
At start of year	542,280	547,874
Transfer	-	(5,594)

KENYA FERRY SERVICES LTD

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At end of year	542,280	542,280
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The Company assets were revalued in October 1996 by Tyson's limited. A further valuation for the ferry vessels (MV Kilindini, MV Harambee and MV Nyayo) was done in July 2012 after reaching a nil book value, by Bonriz Marine Surveyors Ltd, resulting in the above revaluation surplus of 290 million above. In year 2013/2014 MV Mvita and MV Pwani were also valued at Kshs 3,599,500 and 6,400,000 respectively.

22. Deferred income

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Opening balance	2,715,590	2,237,359
Additions	1,068,000	600,000
Transfer to income statement	(124,959)	(121,769)
Closing balance	3,658,631	2,715,590

Deferred income reflects on capital grants that the Company receives from the government for its development projects. For completed projects the Company apportions the respective costs over their useful life to statement of comprehensive income as deferred income. During the year the Company received capital grants from the government (Kshs 1,068 million) for acquisition of two ferries and maintenance for existing fleet.

23. KPA Advances

	2015/2016	2014/2015
	Kshs'000'	Kshs'000'
Balance as at beginning of the year	336,010	336,010
Balance as at June 30, 2015	336,010	336,010
Less amount due within one year		
Amount due after one year	336,010	336,010

The Company received some advances from Kenya Ports Authority during the initial years of operations. The balance is unsecured, interest free with no fixed date of repayment.

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Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Trade and other payables

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Creditors	177,371	85,266
Other payables (payroll deductions, audit fees & accruals)	31,248	31,322
Bank overdraft		3,472
Total	208,620	120,060

These refer to all categories of suppliers of goods and services to the Company, including staff, whose payments were outstanding at the close of the financial year 2015/2016. The same shall be paid in the new financial year 2016/2017 as a first charge.

25. Notes to the cash flow statement

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

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
Operating deficit	(108,273)	(43,331)
Depreciation of property, plant and equipment	126,500	137,496
Depreciation of investment property		7,869
Amortization	333	333
Impairment of property, plant and equipment	-	(77)
Transfer from deferred income	(124,959)	(121,769)
Finance Income	(56)	(7,954)
Foreign exchange loss	33,509	-
Gain on disposal	(2,153)	-
Prior year adjustment for salaries	(35,135)	-
Operating deficit before working capital changes	(110,233)	(27,433)
Receivables	(590,543)	35,656
Inventories	11,304	(12,859)
Payables	88,559	(77,055)
Cash generated from operations	(600,913)	(81,691)

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Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Related party transactions

a) Government of Kenya

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

	2015/2016	2014/2015
	Kshs	Kshs
Recurrent Funds	336,000	338,000
Development Funds	1,068,000	600,000
Total	1,404,000	938,000

b) Kenya Ports Authority (KPA)

	2015/2016	2014/2015
	Kshs	Kshs
Advances	336,010	336,010

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

c) Employees

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

	2015/2016	2014/2015
	Kshs	kshs
Total earnings paid to key managerial staff	40,615	31,615
Directors fees	14,528	13,748
Total	55,143	45,363

KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30th June 2016

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) National Bank of Kenya

National Bank of Kenya is the banker for the Company

27. Contingent liabilities

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

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

	2015/2016	2014/2015
	Kshs	Kshs
Estimated gross claims fatal and non-fatal	213,795	213,795
Claims paid as at	66,295	66,295
Estimated liabilities	147,500	147,500

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

28. Incorporation

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

29. Taxation

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

