

REPUBLIC OF KENYA



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OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA NATIONAL SHIPPING LINE
LIMITED

FOR THE YEAR ENDED
30 JUNE 2016



KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

I. KEY COMPANY INFORMATION

Background information

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

Principal Activities

The principal activity of the *company* is shipping.

Directors

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

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

* Italian ** German

Corporate Secretary

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

Corporate Headquarters

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

KENYA NATIONAL SHIPPING LINE LTD

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MOMBASA, KENYA

Corporate Contacts

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

E-mail: admin@knsl.co.ke

Website: www.knsl.co.ke

Corporate Bankers

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

Principal Auditor

The Auditor General

Office of the Auditor General

Anniversary Towers, University Way







P.O. Box 30084 - 00100

NAIROBI.








Principal Legal Advisers

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

II. THE BOARD OF DIRECTORS

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

II THE BOARD OF DIRECTORS (continued)

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

KENYA NATIONAL SHIPPING LINE LTD





**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

II THE BOARD OF DIRECTORS (continued)

Board Committees

Name of the Committee	Members
Finance and General Purpose Committee	<ol style="list-style-type: none">1. Mr. Issa Muslim2. Mr. Tom Mokaya3. Mr. Farid Swaleh4. Mr. Jacob Mwarua
Audit and Risk Committee	<ol style="list-style-type: none">1. Mr. George Ndegwa2. Mrs. Catherine Mturi-Wairi3. Ms. Poline Kanyora

III. MANAGEMENT TEAM

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

IV. CHAIRMAN'S STATEMENT

The Chairman wish to present the estimates of financial statements for the year ended June 30, 2016.

The company registered an estimated loss of Kshs 37.2 million and Kshs 30.3 million for the year ending 30 June 2016 and year ending 30 June 2015 respectively.

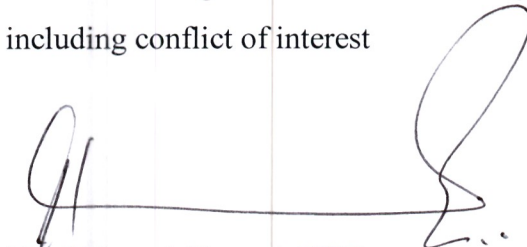
The Government is committed to restructure the Company under the Blue Economy sector, a process which is undergoing. The Directors and Management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include revival of the company, partnering with a service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

The short-term objectives of the Company are:

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

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

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



Mr. Edward Karani, HSC
Chairman, Board of Directors

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

V. REPORT OF THE MANAGING DIRECTOR

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

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

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

The company reported an estimated loss of Kshs 37.2 million and Kshs 30.3 million for the year ending 30 June 2016 and 30 June 2015 respectively.

The overall indication given by the financial position statement as at 30 June 2016 is that of negative net current assets. This implies that the company cannot meet, at least in the short term, its current obligations from the existing current assets.

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

- (i) Restructuring of the company
- (ii) Partnering with a service provider – the company is in the process of seeking service providers to ensure it offers global shipping services.
- (iii) Resolving shareholding structure

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
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V REPORT OF THE MANAGING DIRECTOR (Continued)

- (iv) Implementing Strategic Plan (2016-2021) – a strategic plan has been prepared and will be implemented.

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



Joseph Juma
Ag. Managing Director

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

VI. CORPORATE GOVERNANCE STATEMENT

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

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

The role of the Board includes to:

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

Board Committees

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

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

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

VII. REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITY

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

RESULTS

The results of the company for the year ended June 30, 2016 are set out on page 15.

DIRECTORS

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

Dr Nathaniel Tum resigned on 9 March 2016 and was replaced by Edward Karani on 10 March 2016.

G. Ndua resigned as a director on ___ February 2016 and was replaced by C. Wairi on the same date.

N. Karigithu was appointed as a director on ___ December 2015.

M.S.K. Shapi and W.W.Wangamati resigned as directors on 10 October 2015.

J. Mwarua, F.A Swaleh, and P. Kanyora were appointed as directors on 11 October 2015.

AUDITORS

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

By Order of the Board


Corporate Secretary
Mombasa

Date: 

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the Kenya Company's Act, require the Directors to prepare financial statements in respect of that *company*, which give a true and fair view of the state of affairs of the *company* at the end of the financial year/period and the operating results of the *company* for that year. The Directors are also required to ensure that the *company* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *company*. The Directors are also responsible for safeguarding the assets of the *company*.

The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the *company* for and as at the end of the financial year ended on June 30, 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.

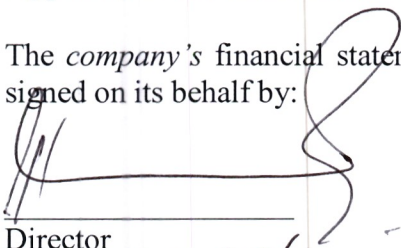
The Directors accept responsibility for the *company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Kenya Company's Act. The Directors are of the opinion that the *company's* financial statements give a true and fair view of the state of *company's* transactions during the financial year ended June 30, 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.

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

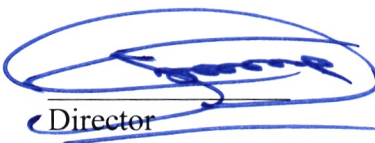
Approval of the financial statements

The *company's* financial statements were approved by the Board on 22/08/ 2016 and signed on its behalf by:

Director


CAMRMAN

Director



REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SHIPPING LINE LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENT

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Shipping Line Limited set out on pages 15 to 39, which comprise of 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Shipping Line Limited as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Late Submission of Financial Statements

Kenya National Shipping Line Limited financial statements for the year ended 30 June 2016 were submitted to the Auditor General on 6 February 2017, almost five (5) months after the statutory deadline date of 30 September 2016. This is contrary to provisions of Section 47(1) of Public Audit Act, 2015 which requires the management to submit the financial statements to the Auditor General within three (3) months after the end of the financial year to which the respective accounts relate.

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

Report of the Auditor-General on the Financial Statements of Kenya National Shipping Line Limited for the Year ended 30 June 2016

2.0 Going Concern

The statement of comprehensive income reflects a loss of Kshs.37,223,418 resulting to accumulated deficits of Kshs.329,659,378 as at 30 June 2016. Further, the current liabilities of Kshs.100,172,672 exceeds the current assets of Kshs.56,687,369 resulting in a negative working capital of Kshs.43,485,303.

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

3.0 Trade Receivables

As reported in the previous years, the statement of financial position reflects a net balance of Kshs.19,554,441 relating to trade and other receivables as at 30 June 2016 as detailed in Note 18 to financial statements. It was however, noted that the company currently does not have a clear credit policy and procedures in place with respect to estimating and recording an allowance for doubtful debts in its financial statements. Further, included in the trade receivables is an amount of Kshs.8,578,946 being VAT recoverable. Records availed indicated that the VAT recoverable were over six months and were not payable.

Consequently, the accuracy and recoverability of trade and other receivables totaling to Kshs.19,554,441 as at 30 June 2016 could not be confirmed.

4.0 Trade and Other Payables

As reported previously, the statement of financial position as at 30 June 2016 reflects a balance of Kshs.74,115,287 in respect of trade and other payables out of which an amount of Kshs.5,431,844 was due to two container leasing companies. Records availed for audit indicated that the last written communication was in 2009 between the entity and the two companies which revealed that the balances outstanding at that time were Kshs.1,804,637.58 (USd 22,958.13) and Kshs.3,489,376.50 (USd 45,000) respectively. The two container leasing companies have since stopped sending invoices for container leasing charges and monthly statements to Kenya National Shipping Line Ltd. The liabilities carried in trade payables in respect of the amounts due to these suppliers are based on outstanding negotiated balances which were never agreed upon and no statements were received from these suppliers.

In absence of statements, invoices or direct confirmation from the companies, it has not been possible to confirm the accuracy of the trade and other payables balance of Kshs.74,115,287.

5.0 Cash and Bank Balances

The statement of financial position reflects a bank and cash balance of Kshs.36,969,969 out of which Kshs.66,558.61 (USD 658.33) is in respect of the Barclays Bank PLC (US) current account. However, no monthly bank statements were received during the year under review from the bank. It was explained that

although the bank balance confirmation certificate was requested from the bank, no reply was received.

Consequently, it has not been possible to confirm the validity, accuracy and completeness of the bank and cash balances of Kshs.66,558.61 (USD 658.33).

6.0 Due to Related Party

As previously reported, the statement of financial position as at 30 June 2016 reflects a balance of Kshs.26,057,385 in respect of liabilities due to related party. The entity has indicated that these are transactions between the entity and Kenya Ports Authority. However, this amount differs with an amount of Kshs.28,121,000 reflected in the records maintained by the Kenya Ports Authority resulting to an un-reconciled difference of Kshs.2,063,615.

Consequently, it has not been possible to confirm the accuracy and completeness of the amount due to related party amounting to Kshs.26,057,385.

7.0 Funds Awaiting Allotment of Shares

The statement of financial position reflects funds awaiting allotment of shares balance of Kshs.193,681,500. Included in this balance is Kshs.30,000,000 in respect to government grants which has been wrongly classified as funds awaiting allotment of shares contrary to International Accounting Standards No. 20 on accounting for grants which states that government grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Note 20 to the financial statement further reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization.

Consequently, accuracy, regularity and completeness of the funds awaiting allotment amount of Kshs.193,681,500 and the status of the shareholding of the Company could not be ascertained.

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

Emphasis of Matter

Funds Awaiting Allotment

Note 20 to the financial statement for the year ended 30 June 2016 reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization. To effect the reorganization and increase the share capital, the Company had sought a court order to dispense with the requirement to serve notice to all the creditors of the Company but was denied. Since then, the Company has not

served notice to all the creditors and the reorganization has stalled resulting to uncertainty of the shareholding.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Kenya National Shipping Line Ltd internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Kenya National Shipping Line Ltd ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Kenya National Shipping Line Ltd to cease as a going concern or to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Kenya National Shipping Line Ltd to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

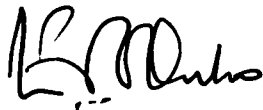
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the Company so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

17 July 2018

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

X. STATEMENT OF COMPREHENSIVE INCOME

	Note	2016 Kshs	2015 Kshs
SERVICE INCOME	6	652,311	3,386,842
SERVICE COSTS	7	(387,059)	(968,529)
SERVICE PROFIT		265,252	2,418,313
FINANCE INCOME	8	-	149,158
GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS	9	262,575	940,222
EMPLOYMENT COSTS	10	(16,522,921)	(14,056,383)
ADMINISTRATION COSTS	11	(19,898,208)	(15,353,931)
DEPRECIATION AND AMORTIZATION EXPENSES	14-15	(343,692)	(511,527)
NET FOREIGN EXCHANGE LOSSES	16	(986,424)	(3,914,859)
LOSS BEFORE TAXATION		(37,223,418)	(30,329,007)
TAXATION CHARGE	12	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(37,223,418)	(30,329,007)

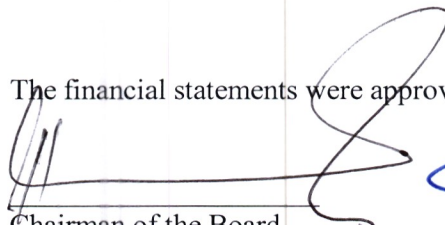
KENYA NATIONAL SHIPPING LINE LTD


**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

**XI. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Note	2016 Kshs	2015 Kshs
ASSETS			
Non-Current Assets			
Vehicles and equipment	14	1,030,425	1,169,072
Intangible assets	15	-	-
		<u>1,030,425</u>	<u>1,169,072</u>
Current Assets			
Inventories	17	162,959	206,794
Trade and other receivables	18	19,554,441	15,775,260
Bank and cash balances	19	36,969,969	7,397,216
		<u>56,687,369</u>	<u>23,379,270</u>
TOTAL ASSETS		<u><u>57,717,794</u></u>	<u><u>24,548,342</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	20	93,523,000	93,523,000
Funds awaiting allotment of shares	20	193,681,500	133,681,500
Accumulated deficit		(329,659,378)	(292,435,960)
Capital and Reserves		<u>(42,454,878)</u>	<u>(65,231,460)</u>
Current Liabilities			
Trade and other payables	21	74,115,287	63,722,417
Due to related party	22	26,057,385	26,057,385
		<u>100,172,672</u>	<u>89,779,802</u>
TOTAL EQUITY AND LIABILITIES		<u><u>57,717,794</u></u>	<u><u>24,548,342</u></u>

The financial statements were approved by the Board on 22/08/ 2016 and signed on its behalf by:


Chairman of the Board
Edward Karani


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

KENYA NATIONAL SHIPPING LINE LTD**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016****XII. STATEMENT OF CHANGES IN EQUITY**

	Ordinary share capital	Funds awaiting allotment of shares	Accumulated deficit	Total
At July 1 , 2014	93,523,000	103,681,500	(262,106,953)	(64,902,453)
Total comprehensive loss for the year	-	-	(30,329,007)	(30,329,007))
Capital Injection	-	30,000,000	-	30,000,000
At June 30, 2015	93,523,000	133,681,500	(292,435,960)	(65,231,460)
At July 1 , 2015	93,523,000	133,681,500	(292,435,960)	(65,231,460)
Total comprehensive loss for the year	-	-	(37,223,418)	(37,223,418)
Capital Injection	-	60,000,000	-	60,000,000
At June 30, 2016	93,523,000	193,681,500	(329,659,378)	(42,454,878)

(Note 20)

(Note 20)

KENYA NATIONAL SHIPPING LINE LTD**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016****XIII. STATEMENT OF CASH FLOWS**

	Note	2016 Kshs	2015 Kshs
OPERATING ACTIVITIES			
Cash generated used in operations	24	(30,484,777)	(27,589,194)
Interest received		-	149,158
Net cash generated used in operating activities		(30,484,777)	(27,440,036)
INVESTING ACTIVITIES			
Purchase of vehicles and equipment	14	(215,000)	(257,983)
Proceeds from disposal of equipment		272,530	1,591,780
Net cash generated from investing activities		57,530	1,333,797
FINANCING ACTIVITIES			
Proceeds from capital injection	20	60,000,000	30,000,000
Net cash generated from financing activities		60,000,000	30,000,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		29,572,753	3,893,761
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		7,397,216	3,503,455
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		36,969,969	7,397,216

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

**XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD
ENDED 30 JUNE 2016**

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Explanation of Material Variance
	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Service Income	178,572,000	-	178,572,000	652,311	(177,919,689)	Minimal trading due to lack of service.
Government grants	60,000,000	-	60,000,000	60,000,000	-	
Finance Income	1,290,000	-	1,290,000	263,629	(1,026,371)	Budgeted foreign exchange gain not realised.
Other income	5,500,000	-	5,500,000	262,575	(5,237,425)	Minimal net income from disposal of Assets.
Total income	245,362,000	-	245,362,000	61,178,515	(184,183,485)	
Expenses						
Service Costs	116,008,000	-	116,008,000	387,059	115,620,941	Minimal trading due to lack of service.
Employment Costs	27,328,000	-	27,328,000	16,522,921	10,805,079	Some job positions remained vacant.
Administration Costs	24,191,000	-	24,191,000	19,898,208	4,292,792	General savings from variable expenses.
Depreciation Expenses	4,276,000	-	4,276,000	343,692	3,932,308	No new assets were purchased as budgeted due to lack of development funds.
Finance cost	2,170,000	-	2,170,000	1,250,053	919,947	Resulted from foreign exchange gains.
Total expenditure	173,973,000	-	173,973,000	38,401,933	135,571,067	
Surplus/(Deficit) for the period	71,389,,000	-	71,389,,000	22,776,582	(48,612,418)	

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV. NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance and comply with International Financial Reporting Standards.

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

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

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) *New standards and amendments to published standards effective for the year ended 30 June 2016*

The following new and revised standards and interpretations were effective in the current year and had no material impact on the amounts reported in these financial statements.

IFRS 13 Fair Value Measurement	The amendment to the basis for conclusions of IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.
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As the company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.

IAS 16 Property, Plant and Equipment	The amendments to IAS 16 remove perceived inconsistencies in the accounting for accumulated depreciation when an item of property, plant and equipment is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
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As the company has not revalued its plant and equipment and intangible assets, the application of the amendments had no impact on the disclosures or on the amounts recognised in the company's financial statements.

IAS 24 Related Party Disclosures	The amendment clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.
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The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019
IFRS 9	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 January 2016

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2016 and future annual periods*

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2016 and future annual periods (Continued)*

IFRS 9 Financial Instruments (Continued)

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is early adopted).

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2016 and future annual periods (Continued)*

IFRS 15 Revenue from Contracts with Customers (Continued)

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Far more prescriptive guidance has been introduced by the new revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2016 and future annual periods (continued)*

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Company do not anticipate that the application of IFRS 16 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

Annual Improvements 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 7 provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. Also, the amendment clarifies that the offsetting disclosures are not specifically required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to satisfy the requirements in IAS 34 *Interim Financial Reporting*.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2016 and future annual periods (continued)*

Annual Improvements 2012-2014 Cycle (Continued)

The amendments to IAS 19 clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency should be used.

The directors of the company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements.

(iv) *Early adoption of standard*

The company did not early-adopt any new or amended standards in the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(i) Statement of compliance and basis of preparation

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

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

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

(ii) Revenue recognition

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

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

(iii) Retirement benefit costs and employment leave entitlements

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The company also operates a defined contribution pension scheme for all its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the company.

The company's obligations to these schemes are charged to the profit or loss as they fall due.

(iv) Leave pay provision

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

(v) Foreign currency translation

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

(vi) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

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

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

(vii) Vehicles and equipment

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

(viii) Depreciation

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

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

(ix) Computer software costs

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Accounting for leases

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

The company as lessee

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

(xi) Impairment

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

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

(xii) Financial instruments

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

Equity instruments

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

(xiii) Cash and cash equivalents

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

(xiv) Comparatives

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Critical judgements in applying accounting policies

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

(b) Key sources of estimation uncertainty

Impairment losses

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

Vehicles, equipment and intangible assets

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

Contingent liabilities

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

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

4. GOING CONCERN

As at 30 June 2016, the company had an accumulated deficit of Sh 329,659,378 (2015: Sh. 292,435,960) and its current liabilities exceeded its current assets by Sh 43,485,303 (2015: Sh. 66,400,533) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2016 of Sh 37,223,418 (2015: Sh. 30,329,007).

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

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

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

XV	NOTES TO THE FINANCIAL STATEMENTS (Continued)	2016	2015
		Kshs	Kshs
5.	(LOSS)/PROFIT BEFORE TAXATION		
	The (loss)/profit before taxation is arrived at after charging / (crediting):		
	Auditors' remuneration	450,000	670,500
	Bad debts less recoveries	(16,070)	64,365
	Depreciation on motor vehicles and equipment	343,692	511,527
	Amortisation of intangible assets	-	-
	Employments costs	16,522,921	14,056,383
	Loss on disposal of equipment	(262,575)	(940,222)
	Operating lease rentals	2,476,338	2,334,667
		=====	=====
6.	SERVICE INCOME		
	Freight & Currency Adjustment Factor (CAF)	73,761	1,271,841
	Terminal Handling Charges (THC)	27,487	362,418
	Bunker Adjustment Factor (BAF)	40,899	453,291
	Inland Freight	318,425	77,856
	Container Demurrage Revenue	(80,495)	458,595
	Miscellaneous Revenue	272,234	762,841
		-----	-----
		652,311	3,386,842
		=====	=====
7.	SERVICE COSTS		
	Loading Charges	-	-
	Discharging Charges	21,242	2,470
	Commissions	6,546	282,262
	Inland Freight	296,190	77,856
	Containers Costs	63,081	483,430
	Slot Charter	-	-
	Other Surcharges	-	122,511
		-----	-----
		387,059	968,529
		=====	=====
8.	FINANCE INCOME		
	Interest income on short-term bank deposits	-	149,158
		=====	=====
9.	GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS		
	Gain on disposal of non-financial assets	262,575	940,222
		-----	-----
		262,575	940,222
		=====	=====

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kshs	2015 Kshs
10. EMPLOYMENT COSTS		
Salaries and wages	12,393,496	10,497,747
Pension funds contributions	1,956,513	1,611,491
Medical expenses	1,518,455	1,199,773
Staff training and welfare	618,057	707,572
NSSF contributions	36,400	39,800
	<u>16,522,921</u>	<u>14,056,383</u>

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

Permanent employees – Management	5	5
Permanent employees – Non -Managerial	10	10
Temporary and contract employees	1	2
	<u>16</u>	<u>17</u>

	2016 Kshs	2015 Kshs
11. ADMINISTRATION COSTS		
Advertising	125,725	360,727
Audit fees - current	450,000	670,500
Bad debts less recoveries	(16,070)	64,365
Bank charges	142,527	140,942
Board Expenses	5,525,323	2,358,772
Donations	110,000	70,000
Electricity & water	232,076	175,518
Entertainment	1,049,800	569,301
Insurance	228,771	156,410
Legal and professional	-	54,100
Miscellaneous	488,064	710,805
Motor vehicle running	1,063,345	874,564
Penalties	63,300	10,000
Printing and stationery	372,837	345,347
Rent	2,476,338	2,334,667
Repairs and maintenance	231,284	421,180
Subscriptions and renewals	284,082	442,046
Telecommunication	701,210	1,057,591
Transport, travelling and accommodation	6,369,596	4,537,096
	<u>19,898,208</u>	<u>15,353,931</u>

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. TAXATION

(a) Tax charge

Current taxation based on the taxable (loss)/profit for the year at 30%	-	-
Deferred taxation (credit)/charge	-	-
	<u>-</u>	<u>-</u>
	=====	=====

(b) Reconciliation of tax charge to expected tax based on accounting (loss)/profit

Accounting (loss)/profit before taxation	(37,223,418)	(30,329,007)
	=====	=====
Tax at the applicable rate of 30%	(11,167,025)	(9,098,702)

13. DEFERRED TAXATION

At 30 June 2016, there was a potential deferred tax asset which has not been recognised in these financial statements because of the uncertainty regarding the company's ability to generate sufficient future taxable profits against which the accumulated tax losses can be utilised.

14. VEHICLES AND EQUIPMENT

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

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 VEHICLES AND EQUIPMENT (Continued)

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

At 30 June 2016, vehicles and equipment with a cost of Kshs 12,855,663 (2015 – Kshs 11,893,484) had been fully depreciated. The normal annual depreciation charge for these assets would have been Kshs 3,531,155 (2015 – Kshs 3,368,737).

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)	2016	2015
	Kshs	Kshs
15. INTANGIBLE ASSETS		
COST		
At 1 July	485,020	485,020
Additions	-	-
At 30 June	<u>485,020</u>	<u>485,020</u>
AMORTISATION		
At 1 July	485,020	485,020
Charge for the year	-	-
At 30 June	<u>485,020</u>	<u>485,020</u>
NET BOOK VALUE		
At 30 June	<u>-</u>	<u>-</u>
	=====	=====
At 30 June 2016, intangible assets with a cost of Sh 485,020 had been fully amortised.		
16. FOREIGN EXCHANGE TRANSACTIONS		
Unrealized foreign exchange gain	263,629	1,510,982
Unrealized foreign exchange loss	(1,250,055)	(5,425,841)
	<u>(986,424)</u>	<u>(3,914,859)</u>
	=====	=====
17. INVENTORIES		
Stationery and general stores	162,959	206,794
	<u>162,959</u>	<u>206,794</u>
	=====	=====
18. (a) TRADE AND OTHER RECEIVABLES		
Trade receivables (note 18 (b))	38,223,933	38,518,264
Deposits and prepayments	3,876,087	756,940
VAT recoverable	8,578,946	7,638,499
Staff receivables	3,278	(10,902)
Other receivables	22,505,599	22,327,542
Gross trade and other receivables	<u>73,187,843</u>	<u>69,230,343</u>
Provision for bad and doubtful trade receivables	(53,633,402)	(53,455,083)
Net trade and other receivables	<u>19,554,441</u>	<u>15,775,260</u>
	=====	=====

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV	NOTES TO THE FINANCIAL STATEMENTS (Continued)	2016	2015
		Kshs	Kshs
18	(b) TRADE RECEIVABLES		
	Trade receivables	38,223,933	38,347,565
	Accrued Income	-	170,699
	Provision for doubtful trade receivables	(37,786,601)	(37,641,818)
		<u>437,332</u>	<u>876,446</u>
19.	BANK AND CASH BALANCES		
	Cash at bank	36,929,969	7,357,216
	Cash in hand	40,000	40,000
		<u>36,969,969</u>	<u>7,397,216</u>

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

20. ORDINARY SHARE CAPITAL

Authorised:

200,000 ordinary shares of Sh.1,000 each	200,000,000	200,000,000
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Issued and fully paid:

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

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

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

- Since July 2013, the Government through KPA has injected capital of Kshs 120 million which is treated as funds awaiting allotment.

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

The funds received for the above purpose amounting to Sh. 193,681,500 (2015: Sh. 133,681,500), continue to be carried in the statement of financial position as funds awaiting allotment of shares until such time that an alternative way of reorganising share capital is agreed upon between the existing shareholders and Heywood Shipping Company Limited.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kshs	2015 Kshs
21. TRADE AND OTHER PAYABLES		
Trade payables	36,587,463	41,542,895
Accruals and other payables	37,527,824	22,179,522
	<u>74,115,287</u>	<u>63,722,417</u>

Included in the trade payables balance are amounts totalling Sh. 5,431,844 (2015 – Sh 5,299,527) due to container leasing companies, most of whom stopped sending invoices for container lease charges and monthly statements to the company several years back. The liabilities carried in trade payables in respect of amounts due to these suppliers are based on balances outstanding when statements were last received from these suppliers (also see note 23 (iv)). Based on compromise arrangements that are being negotiated with major container leasing companies, a number of which have been successful, the directors believe that no further liabilities have accrued since the determination of these balances.

	2016 Kshs	2015 Kshs
22. RELATED PARTY BALANCE AND TRANSACTIONS		
Due to a related party		
Kenya Ports Authority (KPA)	26,057,385	26,057,385

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

Compensation of directors and key management personnel

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

	2016 Kshs	2015 Kshs
Salaries (including non-cash benefits)	8,358,022	7,106,658
Pension and NSSF contributions	1,384,560	1,062,913
Director's fees	960,000	960,000
	<u>10,702,582</u>	<u>9,129,571</u>

23. CONTINGENT LIABILITIES

- (i) The company, in the normal course of business, holds containers leased from various companies. Should any container be lost or damaged, the company has the responsibility to compensate the owners. The directors do not anticipate any significant liabilities to accrue from these arrangements, apart from those liabilities already provided for in the financial statements (2015: Nil).
- (ii) In 2004, Kenya Revenue Authority (KRA) carried out a withholding tax audit of the company covering the year 2003 and issued a demand of Sh 2,922,898 for unpaid withholding taxes, interest and penalties. The company has raised an objection with regard to this, and the amount has not been provided for as, in the opinion of the directors, the company has good grounds for the objection lodged. An amount of Sh 974,298 already paid in respect of this demand has been reflected as a claim recoverable within trade and other receivables (2015: Sh 974,298).

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 CONTINGENT LIABILITIES (Continued)

- (iii) A claim from Textainer Equipment Limited for US\$17,571 (Sh. 1,776,467) in respect of unpaid invoices included in their statement when last received, has not been provided for in the financial statements because the directors believe that the claim is not valid (2015: US\$ 17,571 – Sh. 1,733,193)
- (iv) A claim from P. N. Communications Limited for US\$ 17,660 (Sh 1,785,465) in respect of advertisement services rendered has not been provided for, as, in opinion of the directors having regard to legal advice received, the claim is not valid (2015: US\$ 17,660- Sh 1,741,972).
- (v) There are ongoing legal claims for specific damages which have been brought against the company by former employees. Based upon legal opinions received, the directors do not anticipate that these claims will result in significant losses to the company.

24. NOTES TO THE STATEMENT OF CASH FLOWS

	2016	2015
	Kshs	Kshs
Reconciliation of operating loss to cash used in operations		
Loss for the year/period	(37,223,418)	(30,329,007)
Adjustments:		
Interest receivable recognized in the loss for the year/period	-	(149,158)
Depreciation on motor vehicles and equipment	343,692	511,527
Amortisation of intangible assets	-	-
Loss/(gain) on disposal of equipment	(262,574)	(940,222)
	<u> </u>	<u> </u>
Loss for the year/period before working capital changes	(37,142,300)	(30,906,860)
Decrease in trade and other receivables	(3,735,346)	(1,161,708)
Decrease in amounts due from directors	-	-
Increase/(Decrease) in trade and other payables	10,392,869	4,479,374
Net movement in related company balance	-	-
	<u> </u>	<u> </u>
Net cash used in operations	<u><u>(30,484,777)</u></u>	<u><u>(27,589,194)</u></u>

25. FINANCIAL INSTRUMENTS

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The company's overall strategy remains unchanged from 2015.

Significant accounting policies

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives

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

Foreign currency risk management

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

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

	2016 Kshs	2015 Kshs
Assets		
<i>Trade and other receivables</i>		
US Dollars	3,925,081	3,828,629
Euros	440,230	432,705
Sterling Pounds	31,408	357,443
Swedish Krona (SK)	10,232	10,283
	<u>4,406,951</u>	<u>4,629,060</u>
<i>Bank and cash balances</i>		
US Dollars	1,152,563	434,028
	<u>1,152,563</u>	<u>434,028</u>
Liabilities		
<i>Trade and other payables</i>		
US Dollars	31,449,998	36,858,619
Euros	2,405,957	2,345,026
Sterling Pounds	-	43,575
Swedish Krona (SK)	30,143	30,293
	<u>33,886,098</u>	<u>39,277,513</u>

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

At 30 June 2016, if the Kenya Shilling had weakened/strengthened by 10% against the relevant foreign currencies with other variables held constant, the impact on pre-tax loss for the year would have been higher/lower by Sh 2.9M (2015 3.5M).

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

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

Price risk

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

Credit risk management

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

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

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

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

The amount that best represents the company's maximum exposure to credit as at 30 June 2015 and 30 June 2016 is made up as follows:

2016

	Fully performing Sh	Past due Sh	Impaired Sh
Cash and cash equivalents	36,929,969	-	-
Trade receivables	(638,992)	-	37,786,601
Due from Directors	-	-	-
	<u>36,290,977</u>	<u>-</u>	<u>37,786,601</u>

2015

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

Cash and cash equivalents are fully performing.

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

XV NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL INSTRUMENTS (Continued)

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

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

Liquidity risk management

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

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

	Less than 1 month Sh	Between 1-3 months Sh	3 months to 1 year Sh	1-5 years Sh	Total Sh
30 June 2016					
Trade payables	-	-	36,587,463	-	36,587,463
Due to related company	-	-	26,057,385	-	26,057,385
	-	-	62,644,848	-	62,644,848

	Less than 1 month Sh	Between 1-3 months Sh	3 months to 1 year Sh	1-5 years Sh	Total Sh
30 June 2015					
Trade payables	-	-	41,542,895	-	41,542,895
Due to related company	-	-	26,057,385	-	26,057,385
	-	-	67,600,280	-	67,600,280

26. OPERATING LEASE RENTAL COMMITMENTS

	2016 Sh	2015 Sh
Payment made under operating leases during the year	2,476,338	2,334,667

27. INCORPORATION

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

28. CURRENCY

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