

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA NATIONAL SHIPPING LINE
LIMITED



FOR THE YEAR ENDED

30 JUNE 2018

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 02 JUL 2019

DAY

TUESDAY

TABLED
BY:

MAJORITY WHIP

CLERK-AT
THE-TABLE:





KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

I. KEY COMPANY INFORMATION

Background information

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

Principal Activities

The principal activity of the *company* is shipping.

Directors

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

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

* Italian ** German

Corporate Secretary

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

Corporate Headquarters

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

I. KEY COMPANY INFORMATION (continued)

Corporate Contacts

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

E-mail: admin@knsl.co.ke

Website: www.knsl.co.ke

Corporate Bankers

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

Principal Auditor

The Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084 GOP 00100

NAIROBI, KENYA

Principal Legal Advisers


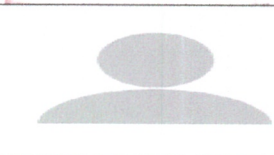

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya
2. Omondi Waweru & Company Advocates
P.O. Box 1606
MOMBASA

II. THE BOARD OF DIRECTORS

1.	Mr. Edward Karani, HSC. Chairman, Board of Directors.	Business person	
2.	Dr. Kamau Thuge, EBS. Principal Secretary, The National Treasury.	Doctor of Philosophy (PhD) degree in Economics, Master's degree in Economics, Bachelor of Arts (Economics) degree.	
3.	Mrs. Nancy Karigithu, CBS. Principal Secretary, State Department of Maritime & Shipping Affairs.	Principal Secretary	
4.	Dr. Daniel O. Manduku Ag. Managing Director, Kenya Ports Authority.	Doctorate of Business administration, Masters of Business Administration, Bachelor of Architecture (B. Arch) Degree	
5.	Mr. Farid Ahmed Swaleh. Director.	Business person	
6.	Ms. Poline Kanyora. Director.	Business person	

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

II THE BOARD OF DIRECTORS (continued)





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

II THE BOARD OF DIRECTORS (continued)

Board Committees

Name of the Committee	Members
Finance and General Purpose Committee	<ol style="list-style-type: none">1. Mr. Issa Muslim2. Mr. Tom Mokaya3. Mr. Farid Swaleh4. Mr. Jacob Mwarua
Audit and Risk Committee	<ol style="list-style-type: none">1. Mrs. Nancy Karigithu, CBS2. Dr. Arch Daniel O. Manduku3. Ms. Poline Kanyora

III. MANAGEMENT TEAM

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

IV. CHAIRMAN'S STATEMENT

The Chairman wishes to present the financial statements for the year ended June 30, 2018.

The company registered a loss of Kshs 42.83 million and Kshs 46.16 million for the year ending 30 June 2018 and year ending 30 June 2017 respectively. The Company performance was affected by lack of service provision.

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

The short-term objectives of the Company are:

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

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

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



**Mr. Edward Karani, HSC
Chairman, Board of Directors**

V REPORT OF THE MANAGING DIRECTOR (Continued)

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

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

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

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



Joseph Juma
Ag. Managing Director

V. REPORT OF THE MANAGING DIRECTOR

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

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

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

The company reported a loss of Kshs 42.83 million and Kshs 46.16 million for the year ending 30 June 2018 and 30 June 2017 respectively.

The overall indication given by the financial position statement as at 30 June 2018 is that of negative net current assets. This implies that the company cannot meet, at least in the short term, its current obligations from the existing current assets.

In the year 2017/18, the Company performed poorly due to below challenges:

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

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.

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

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VI CORPORATE GOVERNANCE STATEMENT (Continued)

There were five BOD meetings held during the year as below:

Date of meeting	Number of Members Present	Number of Members absent with apology
15 th July 2017	11	1
14 th October 2017	9	3
30 th January 2018	8	2
6 th April 2018	7	3
19 th April 2018	9	3

Out of the twelve BOD members, three independent directors are appointed at ago. The chairman is appointed on a different date from the other three Board of Directors appointed through gazette notice. The Directors have also been inducted and are trained from time to time on emerging issues. The Board of Directors are usually evaluated by The State Corporations Advisory Committee and are remunerated as per the Salaries and Remuneration Commission guidelines. The directors are paid sitting allowance while the chairman is paid honorarium. During the year 2017/18 there was no reported case of conflict of interest.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A: OPERATIONAL AND FINANCIAL PERFORMANCE

As at 30 June 2018, the company had a shareholders' deficit of Sh 418,646,792 (2017: Sh. 375,817,266) and its current liabilities exceeded its current assets by Sh 36,643,117 (2017: Sh. 48,996,301) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2018 of Sh 42,829,527 (2017: Sh. 46,157,888).

In the year ending June 30, 2018, the company performed poorly due to lack of service provision. The company therefore relied on alternative service routes which are uncompetitive and have minimal profit margin which cannot cover fixed operation costs. This led to loss of numerous bookings with the Company managing to register a lifting of 145 Teus in the year 2017/18.

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

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

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

SECTION B: COMPLIANCE WITH STATUTORY REQUIREMENTS

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

SECTION C: KEY PROJECTS AND INVESTMENT DECISIONS

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

The projects include:

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

VII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

SECTION D: MAJOR RISKS

(i) Operational Risk

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

(ii) Financial risk management

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

(iii) Foreign currency risk management

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

(iv) Credit risk management

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the

VII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

(v) Liquidity risk management

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

SECTION E: MATERIAL ARREARS IN STATUTORY & OTHER FINANCIAL OBLIGATIONS

The company reduced its current liabilities from Ksh 74.77 million in the year ending June 30, 2017 to Kshs 69.41 million in the year June 30, 2018.

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

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

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

VIII. REPORT OF THE DIRECTORS

Directors submit their report together with the audited financial statements for the year ended June 30, 2018 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, 2018 are set out on page 19-23.

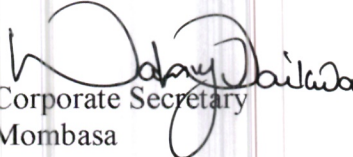
DIRECTORS

The members of the Board of Directors who served during the year are shown on page 4-5.

AUDITORS

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

By Order of the Board


Corporate Secretary
Mombasa

Date: 29th OCTOBER 2018

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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, 2018. 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, 2018, 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 29th OCTOBER 2018 and signed on its behalf by:


Director


Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.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 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Shipping Line Limited as set out on pages 19 to 43 which comprise the statement of financial position as at 30 June 2018, 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 National Shipping Line Limited as at 30 June 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, Cap 486 of the Laws of Kenya.

Basis for Qualified Opinion

1.0 Administration costs

1.1 Entertainment Expenditure

Note 9 to the financial statements for the year ended 30 June 2018 reflects entertainment expenses of Kshs.1,044,342, being allowances paid to directors and staff while on official duties outside duty station while also in receipt of the full subsistence allowances which was to cater for all their expenses.

Consequently, entertainment expenditure of Kshs.1,044,342 incurred during the year ended 30 June 2018 is irregular.

Report of the Auditor-General on the Financial Statements of Kenya National Shipping Line Limited for the year ended 30 June 2018

1.2 Transport, Travelling and Accommodation Expenditure

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.7,656,254 in respect of transport, travelling and accommodation allowances advanced to staff on duty outside duty station. However, the advances were expensed on issue without surrender, contrary to the regulation 93(5) Public Finance Management (National Government) Regulations, 2015 which states that 'A holder of a temporary imprest shall account or surrender the imprest within Seven (7) working days after returning to duty station'.

Consequently, the propriety and validity of transport, travelling and accommodation expenditure of Kshs.7,656,254 for the year ended 30 June 2018 could not be confirmed.

2.0 Trade and Other receivables

2.1 Trade Receivables

The statement of financial position as at 30 June 2018 reflects trade and other receivables balance of Kshs.17,601,704 after provision for bad and doubtful debtors of Kshs.51,427,696 as detailed under note 18 (a) to the financial statements. However, included in this amount is trade receivables balance of Kshs.38,205,968 which is not supported by invoices nor third party confirmations.

The trade receivables balance further includes Kshs.9,696,589 in respect of VAT recoverable, out of which Kshs.8,918,587 has been outstanding for over twelve(12) months. Consequently, the accuracy, validity and recoverability of trade and other receivables balance of Kshs.17,601,704 as at 30 June 2018 could not be confirmed. Further, the validity of the provision for bad and doubtful trade receivables of Kshs.51,427,696 could not be ascertained as at the same date.

2.2 Deposits and Prepayments

Note 18(a) to the financial statements for the year ended 30 June 2018 reflects deposits and prepayments balance of Kshs.4,062,436, out of which Kshs.100,000 is rent deposit for the house occupied by the former Managing Director who left office in the year 2012, which has not been recovered after the house was vacated and surrendered to the landlord.

Consequently, the recoverability of rent deposit of Kshs.100,000 as at 30 June 2018 could not be confirmed.

3.0 Bank and Cash Balances

As previously reported, note 19 to the financial statements for the year ended 30 June 2018 reflects bank and cash balance of Kshs.14,684,073. Included in this balance is Kshs.68,278 in respect of bank balance held at Barclays Bank of London (US\$ Account). However, the

supporting bank statement and certificate of bank balance were not availed for audit verification.

Consequently, the existence of Barclays Bank of London account balance of Kshs.68,278 and the accuracy of cash and bank balance of Kshs.14,684,073 as at 30 June 2018 could not be confirmed.

4.0 Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.42,744,970 as at 30 June 2018. Included in this balance is Kshs.5,133,442 in respect of Pay as You Earn and Kshs.144,967 in respect of tax withheld from merchants, all totaling to Kshs.5,278,409, which had not been remitted to Kenya Revenue Authority as at 30 June 2018. No explanation was provided for non-remittance of these statutory deductions nor provision made in these financial statements for penalties and interest which may result.

Further, included in the trade and other payables balance is an amount of Kshs.5,429,040 which is due to container leasing companies. These companies have since stopped sending monthly statements in respect of the amount due. The amount disclosed in the financial statements is based on negotiated arrangement with major container leasing companies as per note 21 to the financial statements, hence not supported.

Consequently, the accuracy, validity and completeness of trade and other payables balance of Kshs.42,744,970 as at 30 June 2018 could not be confirmed.

5.0 Funds Awaiting Allotment

As previously reported in the financial year 2016/2017, the statement of financial position as at 30 June 2018 reflects funds awaiting allotment balance of Kshs.73,681,500. However, note 20(b) indicates that the amount continues to be carried as funds awaiting allotment of shares while looking for an alternative way of reorganizing share capital between the existing shareholders which has not been completed.

Under the circumstances, the status of the shareholding and ownership of the Company as at 30 June 2018 could not be confirmed.

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

Emphasis of Matter

1.0 Material Uncertainty Related to Going Concern

As previously reported, the statement of comprehensive income for the year ended 30 June 2018 reflects a loss of Kshs.42,829,527(2017- Loss Kshs.46,157,888), resulting to an accumulated deficit of Kshs.418,646,792(2017 – Accumulated deficit Kshs.375,817,266). Further, the current liabilities balance of Kshs.69,409,865 exceeded the current assets of Kshs.32,766,748 as at 30 June 2018, resulting in a negative working capital of Kshs.36,643,117.

In addition, the Directors have stated that the Company's going concern depends on implementation of various strategies, whose success is yet to be realized.

Under the circumstances, the financial statements have been prepared on a going concern basis on the assumption that the entity will continue to get financial support from the National Government and creditors and realization of various strategies put in place by the management.

2.0 Long Outstanding Shareholding Reorganization

As previously reported, note 20 (a) to the financial statements for the year ended 30 June 2018 reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization. The reorganization intended to reduce the par value of the shares from Kshs.1,000 to Kshs.500 per share, increase the authorized share capital from Kshs.100,000,000 (200,000 shares of Kshs.500 each) to Kshs.300,000,000 (600,000 shares of Kshs.500 each) and issue additional 147,363 shares. The additional shares were to be shared between Kenya Ports Authority (38,670 shares) and a new shareholder, Heywood Shipping Company Limited (108,693 shares). To effect the reorganization, the Company sought a Court order on 10 May 2003 to dispense with the requirement to serve notice to all the creditors of the Company, which the Court declined to grant. The management did not avail any evidence to confirm that the new shareholder was still willing to take up shares in the Company.

Under the circumstances, there is uncertainty about how long the shareholding reorganization process by the company as disclosed under note 20 (a) to the financial statements for the year ended 30 June 2018 would take to be concluded.

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.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an approved income budget of Kshs.240,168,000. However, the Company's actual revenue for the year amounted to Kshs.58,480,295, resulting to net under-collection of Kshs.181,687,705 or 75.6% as detailed below;

Revenue Item	Final Budget (Kshs)	Actual Revenue (Kshs)	Under Collection (Kshs)	Over Collection (Kshs)	% Under/Over Collection
Service Income	184,428,000	1,713,114	182,714,886		99
Government Grants	55,350,000	55,350,000			
Finance Income	210,000	1,417,181		1,207,181	575
Other Income	180,000		180,000		100
Total	240,168,000	58,480,295	182,894,886	1,207,181	75.6

The huge under-collection may be attributed to possible unrealistic budget for the year under review and which may further hinder the Company's achievement of set objectives and planned activities thereby threatening its solvency. Therefore, there is need for the management to review its budgeting mechanism with a view to coming up with a realistic budget.

1.2 Expenditure Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an approved total expenditure of Kshs.211,751,000 against actual expenditure of Kshs.45,959,822, resulting to net under absorption of Kshs.165,791,178 or 78% as detailed below;

Expenditure	Final Budget (Kshs)	Actual Expenditure (Kshs)	Under Utilization (Kshs)	Over Utilization (Kshs)	% Budget Utilization
Compensation of Employees	37,452,000	25,822,126	11,629,874		31
Administration Costs	39,201,000	19,139,303	20,061,697		51
Service Costs	132,605,000	207,161	132,397,839		99.8
Finance Cost	360,000	617,742		257,742	71.6

Expenditure	Final Budget (Kshs)	Actual Expenditure (Kshs)	Under Utilization (Kshs)	Over Utilization (Kshs)	% Budget Utilization
Depreciation	2,133,000	173,490	1,959,510		92
Total	211,751,000	45,959,822	166,048,920	257,742	78

The huge net under absorption is a pointer to possible unrealistic budget and the management should review the budget making process with a view to coming up with realistic budgets for service delivery to citizens of Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Qualified Opinion sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Employment costs

1.1 Acting Allowances

Note 8 to the financial statements for the year ended 30 June 2018 reflects salaries and wages of Kshs.17,626,919, out of which Kshs.460,347 relates to allowances paid to the Managing Director who has been serving in an acting capacity for five(5) years, contrary to the policy C.14 (1) of the Public Service Commission Human Resources Policies of May 2016 which states that, 'when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he/she is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary and that acting allowance will not be payable to an officer for more than six (6) months'.

Consequently, acting allowances amounting to Kshs.2,071,561 paid to the officer for four(4) years and six(6) months between January 2014 and June 2018 is in breach of the Law and Company policy.

1.2 Pension Fund Contributions

Note 8 to the financial statements for the year ended 30 June 2018 reflects pension fund contributions by the employer of Kshs.2,953,858. However, records availed for audit review

indicated that employees contributed 10% while the employer contributed 20% of the basic salary plus house allowance. This is contrary to the Treasury Circular No. 18/2010 of 24 November 2010 which states that, 'personal emoluments must be defined as basic salary excluding housing, transport and any other allowances or fluctuating emoluments'. Therefore, due to the inclusion of house allowances in pension calculation, the Company made illegal employer contribution amounting to Kshs.500,187 for the year under review.

2.0 Trade and Other Payables

The statement of financial position as at 30 June 2018 reflects trade and other payables of Kshs.42,744,970 as disclosed in Note 21 to the financial statements. Included in this balance is other payables of Kshs.19,715,573, is provision for audit fees of Kshs.1,350,000 comprising current year provision of Kshs.450,000 and outstanding audit fees amounting to Kshs.900,000 for financial years 2015/2016 and 2016/2017. The failure to settle the long outstanding audit fees contravenes Section 41(1) of the Public Audit Act, 2015 which states that, 'The funds of the Office of the Auditor-General shall consist of audit fees charges at the rates prescribe by the Auditor General'.

Consequently, the Company is in breach of the Law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act No. 17 of 2015, 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, adequate accounting records have been kept by Kenya National Shipping Line Limited , so far as appears from the examination of those records; and,
- iii. The financial statements are in agreement with the accounting records and returns.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective 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 and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing Kenya National Shipping Line Limited'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 Kenya National Shipping Line Limited 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner in line with Article 229(6) of the Constitution of Kenya, 2010.

Those charged with governance are responsible for overseeing Kenya National Shipping Line Limited's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

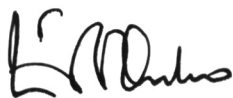
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.

- 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 Kenya National Shipping Line Limited's 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 Kenya National Shipping Line Limited to cease to continue as a going concern or 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 Kenya National Shipping Line Limited 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.



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

Nairobi

21 March 2019

KENYA NATIONAL SHIPPING LINE LTD**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018****XI. STATEMENT OF COMPREHENSIVE INCOME**

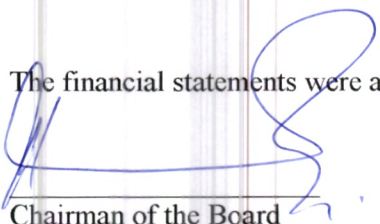
	Note	2018 Kshs	2017 Kshs
REVENUES			
Service Income	5	932,312	722,609
Other Income	6	780,802	-
TOTAL REVENUES		1,713,114	722,609
OPERATING EXPENSES			
Service Costs	7	(207,161)	(243,759)
Employment Costs	8	(25,822,126)	(19,040,345)
Administration Costs	9	(19,139,303)	(25,435,220)
Depreciation Expenses	12	(141,938)	(722,886)
Amortisation of Intangible Assets	13	(31,552)	-
TOTAL OPERATING EXPENSES		(45,342,080)	(45,442,210)
OPERATING LOSS		(43,628,966)	(44,719,601)
Finance Income	14	1,417,181	458,627
Gain on Disposal of Non-financial Assets	15	-	57,104
Finance Costs	16	(617,742)	(1,954,018)
LOSS BEFORE TAXATION		(42,829,527)	(46,157,888)
TAXATION CHARGE	10	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(42,829,527)	(46,157,888)


**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 Kshs	2017 Kshs
ASSETS			
Non-Current Assets			
Vehicles and equipment	12	329,963	383,539
Intangible assets	13	220,862	-
		<u>550,825</u>	<u>383,539</u>
Current Assets			
Inventories & Stores	17	480,971	408,586
Trade and other receivables	18	17,601,704	17,183,904
Bank and cash balances	19	14,684,073	8,179,156
		<u>32,766,748</u>	<u>25,771,646</u>
TOTAL ASSETS		<u><u>33,317,573</u></u>	<u><u>26,155,185</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	20	93,523,000	93,523,000
Funds awaiting allotment of shares	20	73,681,500	73,681,500
Capital Grants From Government	20	215,350,000	160,000,000
Accumulated deficit		(418,646,792)	(375,817,266)
Capital and Reserves		<u>(36,092,292)</u>	<u>(48,612,766)</u>
Current Liabilities			
Trade and other payables	21	42,744,970	48,103,056
Due to related party	22	26,664,895	26,664,895
		<u>69,409,865</u>	<u>74,767,951</u>
TOTAL EQUITY AND LIABILITIES		<u><u>33,317,573</u></u>	<u><u>26,155,185</u></u>

The financial statements were approved by the Board on 29TH OCTOBER 2018 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, 2018**

XIII. STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Funds awaiting allotment of shares	Capital Grants From Government	Accumulated deficit	Total
At July 1, 2016	93,523,000	73,681,500	120,000,000	(329,659,378)	(42,454,878)
Total comprehensive loss for the year	-	-	-	(46,157,888)	(46,157,888)
Capital Grants From Government	-	-	40,000,000	-	40,000,000
At June 30, 2017	93,523,000	73,681,500	160,000,000	(375,817,266)	(48,612,766)
At July 1, 2017	93,523,000	73,681,500	160,000,000	(375,817,266)	(48,612,766)
Total comprehensive loss for the year	-	-	-	(42,829,527)	(42,829,527)
Capital Grants From Government	-	0	55,350,000	-	55,350,000
At June 30, 2018	93,523,000	73,681,500	215,350,000	(418,646,792)	(36,092,292)

(Note 20)

(Note 20)

KENYA NATIONAL SHIPPING LINE LTD**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018****XIV. STATEMENT OF CASH FLOWS**

	Note	2018 Kshs	2017 Kshs
OPERATING ACTIVITIES			
Cash used in operations	24	(48,504,307)	(68,771,917)
Interest received		-	-
Net cash used in operating activities		(48,504,307)	(68,771,917)
INVESTING ACTIVITIES			
Purchase of equipment	12	(88,362)	(76,000)
Purchase of Intangible Assets	13	(252,414)	-
Proceeds from disposal of equipment		-	57,104
Net cash generated from/(used in) investing activities		(340,776)	(18,896)
FINANCING ACTIVITIES			
Proceeds from capital injection	22	55,350,000	40,000,000
Net cash generated from financing activities		55,350,000	40,000,000
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,504,917)	(28,790,813)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		8,179,156	36,969,969
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		14,684,073	8,179,156

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Explanation of Material Variance
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Service Income	184,428,000	-	184,428,000	1,713,114	(182,714,886)	Minimal trading due to lack of service.
Government grants	45,500,000	9,850,000	55,350,000	55,350,000	-	
Finance Income	210,000	-	210,000	1,417,181	1,207,181	Budgeted foreign exchange gain not realised.
Other income	180,000	-	180,000	-	(180,000)	Minimal net income from disposal of Assets
Total income	230,318,000	9,850,000	240,168,000	58,480,295	(181,687,705)	
Expenses						
Service Costs	132,605,000	-	132,605,000	207,161	(132,397,839)	Minimal trading due to lack of service.
Employment Costs	37,452,000	-	37,452,000	25,822,126	(11,629,874)	Some job positions remained unfilled.
Administration Costs	39,201,000	-	39,201,000	19,139,303	(20,061,697)	General savings from variable expenses.
Depreciation Expenses	2,133,000	-	2,133,000	173,490	(1,959,510)	No new assets were purchased as budgeted due to lack of development funds.
Finance cost	360,000	-	360,000	617,742	257,742	Resulted from foreign exchange losses.
Total expenditure	211,751,000	-	211,751,000	45,959,822	(165,791,178)	
Surplus/(Deficit) for the period	18,567,000	9,850,000	28,417,000	12,520,473	(15,896,527)	

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI. NOTES TO THE FINANCIAL STATEMENTS
1. ACCOUNTING POLICIES
Statement of compliance

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

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

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. ACCOUNTING POLICIES (Continued)

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)
1. ACCOUNTING POLICIES (Continued)
ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

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

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

iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in year 2018.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

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

b) Retirement benefit obligations

The company operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The Company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under this scheme is limited to specific contributions legislated from time to time and is currently at Ksh. 200 per employee per month.

c) Provision for staff leave pay

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

d) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity 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 transactions 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.

e) Budget Information

The original budget for FY 2017-2018 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs 9.85M on the 2017-18 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of the expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) 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.

g) Vehicles and equipment

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

h) 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, 2018.

i) 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%

j) 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.

k) 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.

l) 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.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

m) 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.

n) 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.

o) Comparatives

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Critical judgements in applying accounting policies

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

(b) Key sources of estimation uncertainty

Impairment losses

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

Vehicles, equipment and intangible assets

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

3 GOING CONCERN

As at 30 June 2018, the company had a shareholders' deficit of Sh 418,646,792 (2017: Sh. 375,817,266) and its current liabilities exceeded its current assets by Sh 36,643,117 (2017: Sh. 48,996,301) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2018 of Sh 42,829,527 (2017: Sh. 46,157,888).

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.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2017
	Kshs	Kshs
4 LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging / (crediting):		
Auditors' remuneration	450,000	528,500
Bad debts less recoveries	(602,288)	(1,762,513)
Depreciation on motor vehicles and equipment	141,938	722,886
Amortisation of Intangible Asset	31,552	-
Employments costs	25,822,127	19,040,345
Gain on disposal of equipment	-	57,104
Operating lease rentals	2,452,078	2,105,201
	<u> </u>	<u> </u>
5 SERVICE INCOME		
Freight & Currency Adjustment Factor (CAF)	-	-
Terminal Handling Charges (THC)	94,014	72,907
Bunker Adjustment Factor (BAF)	-	-
Inland Freight	-	-
Container Demurrage Revenue	8,400	48,353
Miscellaneous Revenue - Local	829,898	601,349
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
6 OTHER INCOME		
Other Miscellaneous receipts	780,802	-
	<u> </u>	<u> </u>
7 SERVICE COSTS		
Discharging Charges	40,007	71,515
Commissions	-	-
Inland Freight	-	-
Communication Expenses	-	-
Containers Costs	167,154	172,244
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
8 EMPLOYMENT COSTS		
Salaries and wages	17,626,919	12,799,495
Pension funds contributions	2,953,858	2,001,283
Medical expenses	4,360,387	3,381,579
Staff training and welfare	842,562	817,788
NSSF contributions	38,400	40,200
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)
The average number of employees at the end of the year was:

Permanent employees – Management	4	5
Permanent employees – Non -Managerial	12	11
Temporary and contract employees	-	1
	16	17
	2018	2017
	Kshs	Kshs

9 ADMINISTRATION COSTS

Advertising & Marketing	500,100	1,166,051
Audit fees	450,000	528,500
Bad debts less recoveries	(602,288)	(1,762,513)
Bank charges	134,488	146,447
Board Expenses	4,076,870	9,880,469
Donations	10,000	120,262
Electricity & water	75,491	154,751
Entertainment	1,044,342	1,162,679
Insurance	490,160	427,806
Legal and professional	145,500	200,000
Other/Miscellaneous Expenses	554,045	867,536
Motor vehicle running	643,778	766,480
Penalties	-	2,396,376
Printing and stationery	234,473	39,329
Rent	2,452,078	2,105,201
Repairs and maintenance	270,877	244,150
Subscriptions and renewals	228,389	185,976
Telecommunication	774,747	790,994
Transport, travelling and accommodation	7,656,254	6,014,726
	19,139,303	25,435,220
	19,139,303	25,435,220

10 TAXATION

(a) Tax charge		
Current taxation based on the taxable (loss)/profit for the year at 30%	-	-
Deferred taxation (credit)/charge	-	-
	-	-
	-	-
(b) Reconciliation of tax charge to expected tax based on accounting (loss)/profit		
Accounting (loss)/profit before taxation	(42,829,527)	(46,157,888)
	(42,829,527)	(46,157,888)
	(42,829,527)	(46,157,888)
Tax at the applicable rate of 30%	(12,848,858)	(13,847,366)

11 DEFERRED TAXATION

At 30 June 2018, there was a potential deferred tax asset which has not been recognised in these financial statements because of the uncertainty regarding the company's ability to generate sufficient future taxable profits against which the accumulated tax losses can be utilised.

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 VEHICLES AND EQUIPMENT

2017	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2017	4,397,301	10,421,155	14,818,456
Additions	-	88,362	88,362
Disposals	-	-	-
At June 30, 2018	4,397,301	10,509,517	14,906,818
DEPRECIATION			
At July 1, 2017	4,396,301	10,038,616	14,434,917
Charge for the year	-	141,938	141,938
Eliminated on disposal	-	-	-
At June 30, 2018	4,396,301	10,180,554	14,576,855
NET BOOK VALUE			
At June 30, 2018	1,000	328,963	329,963

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 VEHICLES AND EQUIPMENT (Continued)

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

At 30 June 2018, vehicles and equipment with a cost of Kshs 14,818,456 (2017: Kshs 14,775,998) had been fully depreciated. The normal annual depreciation charge for these assets would have been Kshs 3,020,294 (2017: Kshs 3,005,363).

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018 Kshs	2017 Kshs
13 INTANGIBLE ASSETS		
COST		
At 1 July	485,020	485,020
Additions	252,414	-
At 30 June	<u>737,434</u>	<u>485,020</u>
AMORTISATION		
At 1 July	485,020	485,020
Charge for the year	31,552	-
At 30 June	<u>516,572</u>	<u>485,020</u>
NET BOOK VALUE		
At 30 June	<u>220,862</u>	<u>-</u>
At 30 June 2018, intangible assets with a cost of Sh 485,020 had been fully amortised.		
14 FINANCE INCOME		
Unrealized foreign exchange gain	1,189,921	458,627
Interest on fixed deposit	227,260	-
	<u>1,417,181</u>	<u>458,627</u>
15 GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS		
Gain on disposal of non-financial assets	-	57,104
16 FINANCE COSTS		
Unrealized foreign exchange loss	<u>(617,742)</u>	<u>(1,954,018)</u>
17 INVENTORIES		
Stationery and general stores	624,305	551,920
Provision for obsolete stocks	(143,334)	(143,334)
	<u>480,971</u>	<u>408,586</u>
18 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables [note 18 (b)]	38,205,968	38,212,453
Deposits and prepayments	4,062,436	4,944,621
VAT recoverable	9,696,589	8,916,666
Withholding tax	34,089	-
Other receivables	17,030,318	17,410,693
Gross trade and other receivables	<u>69,029,400</u>	<u>69,484,433</u>
Provision for bad and doubtful trade receivables	<u>(51,427,696)</u>	<u>(52,300,529)</u>
Net trade and other receivables	<u>17,601,704</u>	<u>17,183,904</u>

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)
18 (b) TRADE RECEIVABLES

Trade receivables	38,205,968	38,200,903
Accrued Income	-	11,550
	<u>38,205,968</u>	<u>38,212,453</u>

2018
Kshs

2017
Kshs

19 BANK AND CASH BALANCES

Kenya Commercial Bank (Kshs A/C)	12,283,932	7,108,123
Kenya Commercial Bank (Usd A/C)	976,446	301,785
Barclays Bank of Kenya (Khs A/C)	613,838	628,517
Barclays Bank of Kenya (Usd A/C)	701,580	32,453
Barclays Bank of London (Usd A/C)	68,278	68,278
Cash in hand	40,000	40,000
	<u>14,684,073</u>	<u>8,179,156</u>

The bulk of the cash at bank was held at Kenya Commercial Bank Kshs 12,283,932 (2017: 7,108,123) and Kenya Commercial Bank Usd 976,446 (2017: 301,785).

20 SHARE CAPITAL
20 (a) 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. 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.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)
20 (b) FUNDS AWAITING ALLOTMENT

The funds received from Kenya Ports Authority amounting to Sh 19,335,000 and from Heywood Shipping Company Limited amounting to Sh 54,346,500 totalling sh 73,681,500, (2017: Sh. 73,681,500), 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.

20 (c) CAPITAL GRANTS FROM GOVERNMENT

Since July 2013, the Government through KPA has injected capital of Sh. 215,350,000 (2017: Sh. 160,00,000) million which is treated as capital grants. The funds continue to be carried in the statement of financial position as capital grants from Government until such time that an alternative way of reorganising share capital is agreed upon between the existing shareholders and Heywood Shipping Company Limited.

	2018 Kshs	2017 Kshs
21 TRADE AND OTHER PAYABLES		
Trade payables	23,029,397	27,662,415
Accruals and other payables	19,715,573	20,440,641
	<u>42,744,970</u>	<u>48,103,056</u>

Included in the trade payables balance are amounts totalling Sh. 5,429,040 (2017 – Sh 5,572,043) due to container leasing companies, most of whom stopped sending invoices for container lease charges and monthly statements to the company several years back. The liabilities carried in trade payables in respect of amounts due to these suppliers are based on balances outstanding when statements were last received from these suppliers [also see note 23 (iii)]. Based on compromise arrangements that are being negotiated with major container leasing companies, a number of which have been successful, the directors believe that no further liabilities have accrued since the determination of these balances.

22 RELATED PARTY BALANCE AND TRANSACTIONS
(a) Kenya Ports Authority

Kenya Ports Authority (KPA)	<u>26,664,895</u>	<u>26,664,895</u>
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Kenya Ports Authority is the principal share holder of Kenya National Shipping Line Ltd, holding 80% of the company's equity interest. Kenya Ports Authority has provided full guarantees to all long term lenders of the entity, both domestic and external.

(b) Other related parties include:

- (i) The Parent Ministry
- (ii) Key Management
- (iii) Board of Directors

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)
Transactions with related parties

	2018	2017
	Kshs	Kshs
(a) Grants from National Government	55,350,000	40,000,000
Total	55,350,000	40,000,000
(b) Key Management Compensation		
Directors' Emoluments (Honorarium)	960,000	960,000
Compensation to CEO	4,843,158.60	4,689,750
Compensation to Key Management	4,360,416.05	3,166,887
Total	10,163,574.65	8,816,637

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 (2017: 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.
- (iii) A claim from Textainer Equipment Limited for US\$17,571 (Sh. 1,775,549) 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 (2017: US\$ 17,571 – Sh. 1,822,318)
- (iv) A claim from P. N. Communications Limited for US\$ 17,660 (Sh 1,784,543) 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 (2017: US\$ 17,660- Sh 1,831,549).
- (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.

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
24 NOTES TO THE STATEMENT OF CASH FLOWS

	2018 Kshs	2017 Kshs
Reconciliation of operating loss to cash used in operations:		
Loss for the year/period	(42,829,527)	(46,157,888)
Adjustments:		
Interest receivable recognized in the loss for the year/period	-	-
Depreciation on motor vehicles and equipment	141,938	722,886
Amortisation of intangible assets	31,552	-
Loss/(gain) on disposal of equipment	-	(57,104)
	<hr/>	<hr/>
Loss for the year/period before working capital changes	(42,656,037)	(45,492,106)
Decrease in trade and other receivables	(417,801)	2,513,870
(Increase)Decrease in inventories	(72,385)	(388,961)
Increase/(Decrease) in trade and other payables	(5,358,084)	(26,012,230)
Net movement in related company balance	-	607,510
	<hr/>	<hr/>
Net cash used in operations	<u>(48,504,307)</u>	<u>(68,771,917)</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 2017.

Significant accounting policies

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

Financial risk management objectives

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)
25 FINANCIAL INSTRUMENTS (Continued)
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:

	2018 Kshs	2017 Kshs
Assets		
<i>Trade and other receivables</i>		
US Dollars	3,933,763	4,027,279
Euros	408,817	155,542
Sterling Pounds	30,407	30,983
Swedish Krona (SK)	9,652	10,476
	<u>4,382,639</u>	<u>4,224,280</u>
<i>Bank and cash balances</i>		
US Dollars	1,746,304	402,516
Liabilities		
<i>Trade and other payables</i>		
US Dollars	21,207,053	22,934,539
Euros	1,150,970	1,341,268
Swedish Krona (SK)	28,435	30,862
	<u>22,386,458</u>	<u>24,306,669</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 2018, 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 4.2M (2017: 2.0M).

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

Interest rate risk

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

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**
XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)
25 FINANCIAL INSTRUMENTS (Continued)
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 2017 and 30 June 2018 is made up as follows:

2018

	Fully performing Sh	Past due Sh	Impaired Sh
Bank Balances	14,684,073	-	-
Trade receivables	91,951	-	38,114,017
	<u>14,776024</u>	<u>-</u>	<u>38,114,017</u>

2017

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

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

Cash and cash equivalents are fully performing.

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

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

Liquidity risk management

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

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

	Less than 1 month Sh	Between 1-3 months Sh	Over 3 months Sh	Total Sh
30 June 2018				
Trade payables	192,568	-	22,836,829	23,029,397
Due to related company	-	-	26,664,895	26,664,895
	192,568	-	49,501,724	49,694,292
	Less than 1 month Sh	Between 1-3 months Sh	3 months to 1 year Sh	Total Sh
30 June 2017				
Trade payables	662,759	2,096,743	24,902,913	27,662,415
Due to related company	-	-	26,664,895	26,664,895
	662,759	2,096,743	51,567,808	54,327,310

26 OPERATING LEASE RENTAL COMMITMENTS

	2018 Sh	2017 Sh
Payment made under operating leases during the year	2,452,078	2,105,201

27 INCORPORATION

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

28 EVENTS AFTER THE REPORTING PERIOD

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

KENYA NATIONAL SHIPPING LINE LTD

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

XVI NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 CURRENCY

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

XVII. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

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

XVIII. APPENDIX 2: INTER-ENTITY TRANSFERS

ENTITY NAME:	KENYA NATIONAL SHIPPING LINE LTD		
BREAK DOWN OF TRANSFERS FROM THE STATE DEPARTMENT FOR MARITIME AND SHIPPING AFFAIRS			
FY 2017/2018			
a. Recurrent Grants			
Bank Statement Date	Amount (KShs)	Financial Year	
26.09.2017	11,375,000	2017/2018	
05.07.2017	9,850,000	2017/2018	
21.12.2017	11,375,000	2017/2018	
21.02.2018	11,375,000	2017/2018	
16.05.2018	11,375,000	2017/2018	
Total	55,350,000		

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

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

Name of the MDA Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized
				Capital Fund
Ministry of Transport, Infrastructure, Housing & Urban Development.	26.09.2017, 05.07.2017 21.12.2017, 21.02.2018, 16.05.2018	Recurrent	55,350,000	55,350,000
Total			55,350,000	55,350,000

