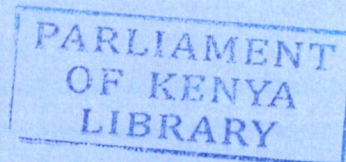


REPUBLIC OF KENYA



Paper Laid
By LOMP, Hon
Dugale, MP on 6/6/2018
[Signature]

OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA FERRY SERVICES LIMITED

FOR THE YEAR ENDED
30 JUNE 2017

KENYA FERRY SERVICES LTD

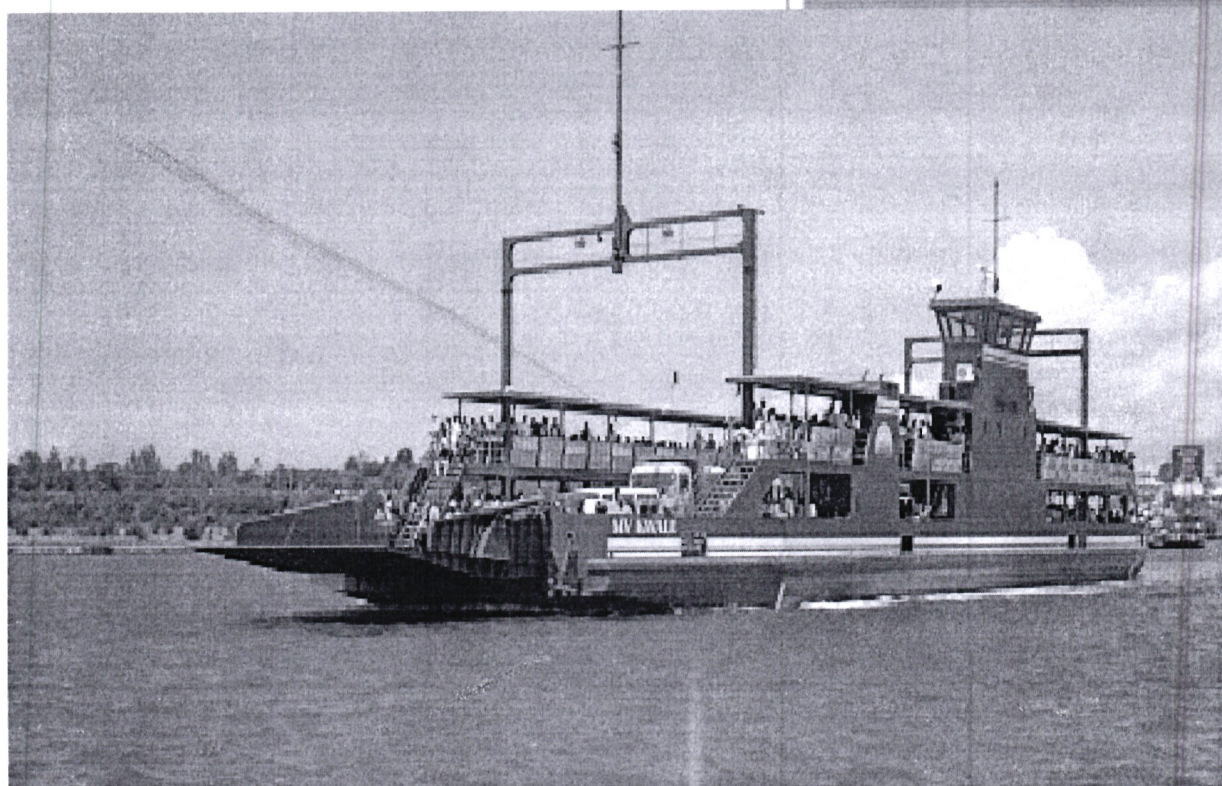
Annual Report and financial statements for the year ended

OFFICE OF THE AUDITOR GENERAL

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*Annual Report and Financial
Statements June 2017*

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CONTENTS	
Key Company Information	1
The Board of Directors	3
Management Team	6
Chairman's statement	8
Report of the Managing Director	10
Corporate governance statement	15
Corporate social responsibility statement	18
Risk Management	23
Report of the Directors	25
Statement of Director's responsibilities	26
Report of the independent auditors	27
Statement of Comprehensive Income	28
Statement of Financial Position	29
Statement of Changes In Equity	30
Statement of Cash Flows	31
Statement of comparison of budget & actual amounts	32
Notes to the Financial Statements	33



KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

KEY COMPANY INFORMATION

Background information

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

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

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

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

Principal Activities

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

Directors

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

Hon. Said Ramadhan Kajembe	(Chairman)	Appointed on 01-07-2016
Mr. Bakari Hamisi Gowa	Managing Director	Appointed on 01-07-2016
Ms. Catherine Mturi-Wairi	Director (Managing Director KPA)	Appointed on 01-07-2016
Mr. Gunga Chea Nduria	Director	Appointed on 02-10-2016
Ms. Rosina N.Mrutu	Director	Appointed on 02-10-2016
Mr. Mshenga Ruga	Director	Appointed on 17-04-2016
Mr. Bwanahamad Bwana	Director	Appointed on 17-04-2016
Pro. Ach. Paul M Maringa, (PHD) CBS, Corp.Arch, Maak, Mkip	Director	Appointed on 01-05-2017
Mr. Henry Rotich	CS National Treasury Alternate Mr. Festus King'ori	Appointed on 15-05-2013

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

KEY COMPANY INFORMATION (CONTINUED)

Mr. Irungu Nyakera - PS Ministry of Transport & Infrastructure Appointed on 25-06-2013
Alternate Mrs Consolata Muriuki

Corporate Secretary

: Mr. Eljar Kitur
: P.O. Box 96242-80110
: Likoni, Mombasa

Registered Office

: Kenya Ferry Services HQ
: Gaza Street - Peleleza
: P.O. Box 96242 - 80110
: Likoni, Mombasa

Corporate Head Quarters

: Kenya Ferry Services HQ
: Gaza Street - Peleleza
: P.O. Box 96242 - 80110
: Likoni, Mombasa

Corporate Contacts

: Telephone: (254) 0723664000
: Email: info@kenyaferry.co.ke
: Website: www.kenyaferry.co.ke

Corporate Bankers

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

Independent Auditors

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

Principal Legal Advisor

: The Attorney General
: State Law Office, Harambee Avenue
: P.O. Box 4112-0020 (city square)
: Nairobi, Kenya

: The company secretary
: Kenya Ferry Services Limited
: P.O. Box 96242-80110
: Likoni, Mombasa

KENYA FERRY SERVICES LTD

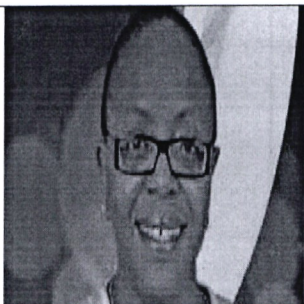
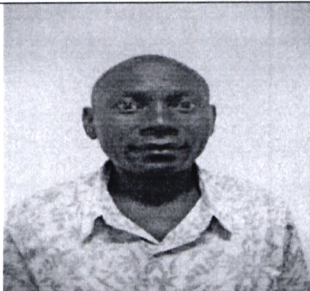
Annual Report and financial statements for the year ended 30th June 2017

THE BOARD OF DIRECTORS

	Chairman Hon. Said Ramadhan Kajembe was born on 3rd June 1944 and holds a bachelor's degree in Business Administration (Corporate Strategy) from the European Business School Cambridge, England, Diploma in shipping (Stevedoring and Shore handling) He has extensive experience in shipping matters in large Corporations having worked for Landing & Shipping Co. East Africa and Kenya Ports Authority where he rose to the position of Assistant Superintendent Operations. He has also served as a distinguished politician in various capacities from 1966 to 2015.
	Managing Director Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has over ten years' experience in financial management. Mr. Bakari Hamisi Gowa takes over from Mr. Musa Hassan Musa as Managing Director.
	Director Mr. Wilson Nyakera Irungu is the Principal Secretary State Department of Transport. He holds a Master's in Finance and Decision Engineering, first worked at Citi Group in London after graduating from Stanford University in 2007. He worked for NIC bank for four years after which he quit the Kenyan banking industry to work as the Regional Head of East and Southern Africa at Frontier Markets Fund Managers, Guarantco, between March 2013 and July 2014. Mr Nyakera later moved to Equity Bank where he helped start the Equity Investment Bank as managing director until his appointment to the government (Public Service).
	Director Professor Architect Paul Mwangi Maringa (PhD), MAAK, MKIP currently serves as the Principal Secretary in the State Department of Transport - Ministry of Transport, Infrastructure, Housing and Urban Development. Professor Maringa has a Bachelor of Architecture (Hons) Degree from the University of Nairobi, as well as a Masters of Arts in Planning - Urban & Regional Planning - University of Nairobi. He holds a Doctor of Philosophy (PhD) in Environmental Planning from Jomo Kenyatta University of Agriculture and Technology (JKUAT). In the professional field, the Professor has worked as a Senior Expert, Planning and Project Management (Strategic Advisor) at the Workforce Development Authority (WDA) in Kigali, Rwanda, between 2009 to 2015. He was also a Vice Chancellor and Deputy Vice Chancellor at the Kigali Institute of Science and Technology (KIST) in Kigali, Rwanda between 2007 to 2008. Professor Maringa has served as an Editor-in-Chief for these publications - Journals of Inquiry in Design Pedagogy (JIDEP) and Journal of Environmental

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

	Planning & Architecture (JEPA); He was an Associate Editor for the African Journal of Design & Construction (AJDC) and the African Journal of TVET (AfriTVET). Professor Maringa is a referee of a variety of peer reviewed academic journals.
	Director Mr. Henry K. Rotich was born in 1969. He is the Cabinet Secretary, The National Treasury and holds a Master's degree in Public Administration (MPA) from Harvard University USA, Master's degree in Economics and a Bachelor's degree in Economics both from University of Nairobi, Kenya. Prior to his elevation as Cabinet Secretary, Mr. Rotich was Head of Macroeconomics at the Ministry of Finance since March 2006. He also worked at Research Department of Central Bank of Kenya since 2004. Besides, Mr. Rotich has served in as director of several boards of state corporations such as Insurance Regulatory Authority, Industrial Development Bank, Communications Authority of Kenya and Kenya National Bureau of Statistics.
	Director Ms. Catherine Mturi-Wairi is the Managing Director Kenya Ports Authority. She holds an MBA in Strategic Management, BSc. in Finance and Accounting from USIU and various professional qualifications including CPA, CPS, and is a Certified SAP Consultant. She is a member of Institute of Directors (IOD), ICPAK, ICPSK, KIM, KNLS, WOMESA, AWAK and the Trustee KPA Staff Pension Scheme. She has extensive experience in finance matters having risen to the position of General Manager Finance. Ms Mturi Wairi succeeds Mr. Gichiri Ndua at the helm of KPA.
	Director Mr. Chea Gunga Ndurya was born in 1975 and is happily married. He holds accountancy qualifications and has extensive experience as an accountant in the area in education sector as a Finance Officer. He joined the board in October 2015.
	Director Ms. Rosina N Mruttu was born in February 1962 and holds Masters in Counseling Studies University Durham, Degree in Theology with International Faith Theological Seminary (IFTS), Post graduate diploma in Child Forensic Psychology at University of Leeds, Higher diploma in Psychological Counseling, Higher Diploma in Counselor Education and Supervision, Diploma in Marriage and Family Counseling, Diploma in Intensive Care Nursing Medical Training College (Nairobi), Diploma in Kenya Registered Nursing Kenya at Medical Training College (Nairobi) among others. She has fourteen (14) years' experience in Training, Counseling, Supervision and curriculum development, Health, Psychology, Psychological debriefing, drug and substance abuse counselling, Disaster Preparedness and

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

Management.	
	Director Hon. Mshenga Ruga Holds a Diploma in County Governance. He has over 15 years' experience in Public Administration having served as Councilor and Mayor for defunct Kwale County Council. He joined the board on the 17th April 2015.
	Director Bwanahamad Bwana Is a former Board member at Transport Licensing Board. Has extensive experience in the Shipping Sector where he worked in various capacities. He holds O level qualifications. He joined the board on the 17th April 2015.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

MANAGEMENT TEAM

	Managing Director Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has over ten years' experience in financial management. Mr. Bakari Hamisi Gowa takes over from Mr. Musa Hassan Musa as Managing Director.
	Human Resource and Administration Manager Thomas Tuva Kenga has joined Kenya Ferry Services Limited from Technical University of Mombasa on the 4th May 2015 where he was the Head of Human Resources Department for over five years. An alumni of Moi University, University of Nairobi and Mombasa Polytechnic, Mr. Kenga's highest qualification is a Master's degree specializing in Human Resources Management. He is a full member of the Institute of Human Resource Management, Kenya.
	Company Secretary and Head Of Legal Services Mr. Elijah Kitur holds an LLB (Hons), is an advocate and a certified public secretary CPS (K). He has eighteen years' experience and is a member of the Law society of Kenya and Institute of Certified public Secretaries of Kenya.
	Ag. Operations manager Mr. Morris H.D.Kai holds a Bachelor degree in Arts, Economics, Public Administration & Sociology, Master's in Economics, certificate in Project Planning & Management and also certificate in Crime Prevention & Maritime Laws. He is a member of Kenya Institute of Management and has over ten years' experience in operations management.
	Operations manager Mr. Paul Koech holds a Bachelor's degree in Military Science from Egerton University. He also holds a Diploma in Certified Security Management Professional from ISMI (International Security Management Institute) UK and a certificate in Military Science from Egerton University. He is a member of ISMI and has over 14 years' experience in marine operations majorly drawn from Kenya Defence Forces (Kenya Navy).

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

MANAGEMENT TEAM (CONTINUED)

	Finance manager Mr. Kombo Rajab Kombo holds a Bachelor degree in Commerce (Accounting option); Executive Master's in Business Administration, he is a qualified Accountant with CPA (K), and a registered member of Institute In Of Certified Public Accountants of Kenya (ICPAK) .He has over eighteen years' experience in financial management in both public and private sector.
	Ag. Finance manager Mr. Robert Keng'ara holds a Bachelor degree in Commerce; Master's in Business Administration, he is a qualified Accountant with CPA (K), and a registered member of Institute In Of Certified Public Accountants of Kenya (ICPAK) and is currently pursuing CPS Course. He has over fifteen years' experience in financial management.
	Chief engineer Mr. Athmani Washenga holds higher national diploma in Electronics Marine (UK), diploma in Electrical Electronics Marine (UK). He is a specialist in electronics, fitting & turning, specialist in ships equipment all from UK. He is a member of Institute of Engineering Technologists & Technicians Registration Board, Kenya. He has thirty eight years working experience in marine environment, twelve years at Kenya Navy and 26 in KFSL.
	Procurement and supplies manager MS Jennifer Cirindi holds a Bachelor degree in Education. She is a qualified procurement professional with MCIPS(UK) and holds a post graduate diploma in CIPS. She is a member of KISM and is currently pursuing MBA at Nairobi University in Operations Management. She has over 10 years' experience in supply chain management

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CHAIRMAN'S STATEMENT

I am pleased to present the annual report and financial statements for the Company for the year ended 30th June 2017. The Company registered a deficit of Kshs 83 Million against a deficit of Kshs 128 Million realized in the previous year 2015/2016. This is a significant drop in performance in the light of our aspirations as an organization to post surpluses in the near future. The main contributing factor to this position was a 14% increase in the Company's overall expenditure from Kshs 994 million in 2015/2016 to Kshs 1.1 Billion in 2016/2017. On the other hand, the asset base of the Company improved from Kshs 4.3 billion in the year 2015/2016 financial period to Kshs 5.3 Billion in the current year.

The government has a commitment to provide ferry services to pedestrians accessing the Company facilities. This comes in the form of grants and its level (how much is allocated) affects the Company's performance. During the year the government allocated Kshs 356 Million to supplement the recurrent budget.

Strategic issues

The Company is on course in the implementation of its strategic plan. Ferry landing facilities (ramps) on the mainland and Island side of the Likoni Channel are complete. A modern maintenance workshop is currently under construction with an initial disbursement of Kshs 100 Million. This is a critical facility for preventive and corrective maintenance of the ferry vessels especially considering the fact that two new passenger vessels are expected in the next financial year to supplement the existing fleet bringing the total number of vessels to seven.

Kenya Ferry Services Ltd is in the process of implementing an Integrated Security Solution at an estimated cost of Kshs 2 Billion. To this end, the Company engaged the Ministry of Public Works to carry out a comprehensive survey of the ferry operational area and support facilities with a view to drawing up an Integrated Master Plan. The exercise was successfully conducted and a number of detailed recommended action plans contained in the report (Master Plan). Currently, the Company is constructing a perimeter wall in order to secure the ferry operational area such that there shall be controlled movement in terms of vehicular and human traffic.

On 27th June 2015 the Company entered into a contract for Design, Build, Supply and Commissioning of two new passenger /vehicular ferries with a Turkish shipyard MS Ozata Tersanecilik San .Ve Tic.Ltd.Sti at a total cost of Kshs 2.2 Billion. This will boost the current fleet of ferry crafts and is geared towards improving ferry services. The first vessel is complete and is expected to be delivered in Mombasa Kenya in the month of July 2017, whereas the second ferry is expected in April 2018. As reported in the last financial year, plans are underway to introduce cable car services as a way to enhance revenue base of the Company. This project will be implemented through Public Private Partnership arrangement. The project has been approved by Cabinet and KFSL together with the project proponents Trapos Ltd, are in the process of finalizing on a few issues identified as conditions precedent to contract. Once complete, this project will provide alternative mode of crossing the Likoni Channel and also boost tourism since it is expected to be one of its kind in East Africa. Further to this, the Company is planning to develop a ferry terminus on the island side of the channel. This project apart from its objective of ensuring smooth conveyance of passengers and motorists in and out of the ferry operational area shall generate rental income to supplement Company operations.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CHAIRMAN'S STATEMENT (CONTINUED)

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

There are however challenges being experienced in this very noble exercise key of which include lengthy approval processes, inadequate financing and late disbursement of funds for most of the earmarked projects.

KENYA FERRY SERVICES LTD

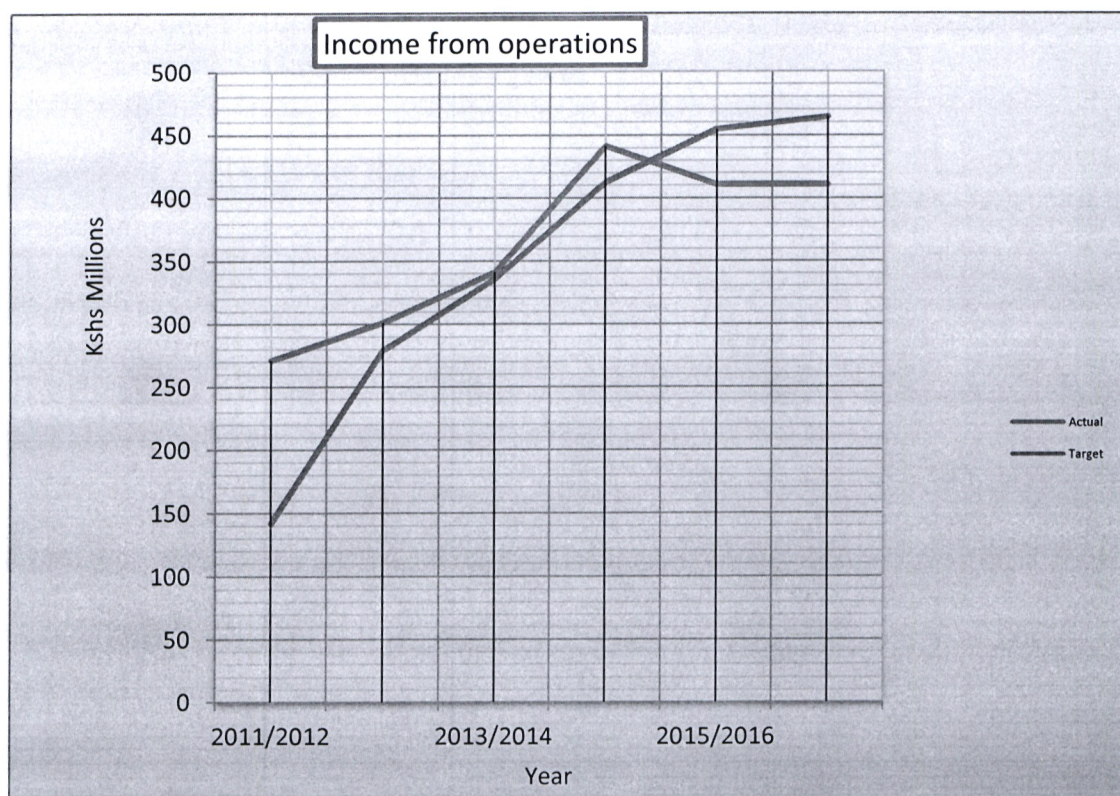
Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE MANAGING DIRECTOR

Financial Performance for the year

The Company realized a deficit of Kshs 83 Million in the current year compared to a deficit of Kshs 128 Million in the year 2015/2016. The Company's capital base improved from equity of Kshs 3.8 Billion in the year 2015/2016 to Kshs 5.0 Billion in the current year. This is attributed to improved deferred income in the form of capital grants received at a total of Kshs 1.2 Billion from the government during the current financial year 2016/2017.

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



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

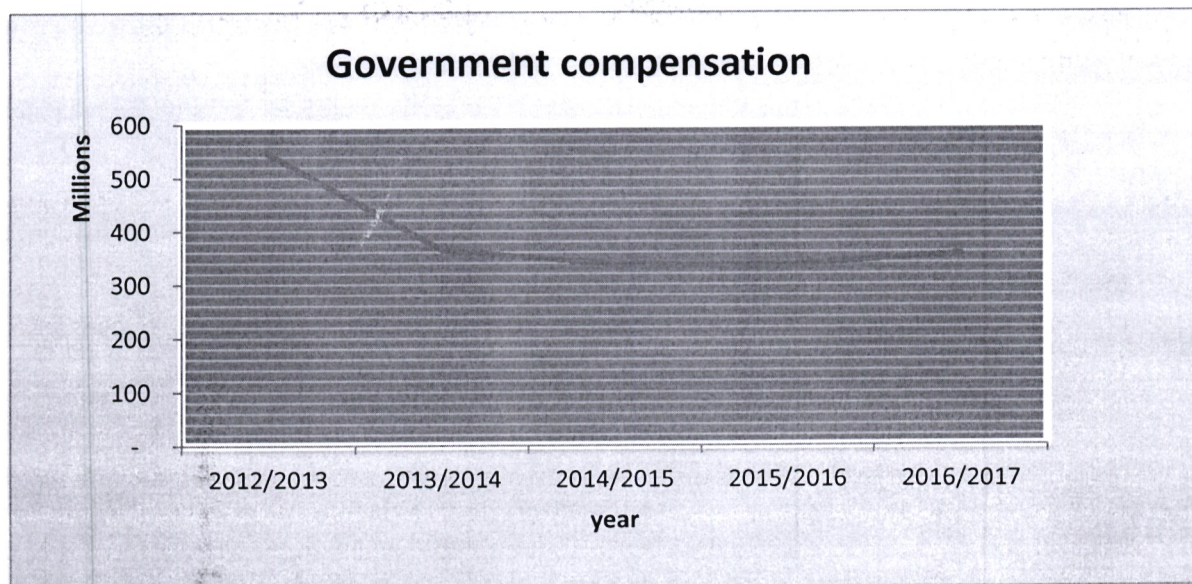
Below is a summary of the same for the last five years.

Year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Government compensation	545,712,000	364,000,000	338,000,000	336,031,500	356,000,000

KENYA FERRY SERVICES LTD

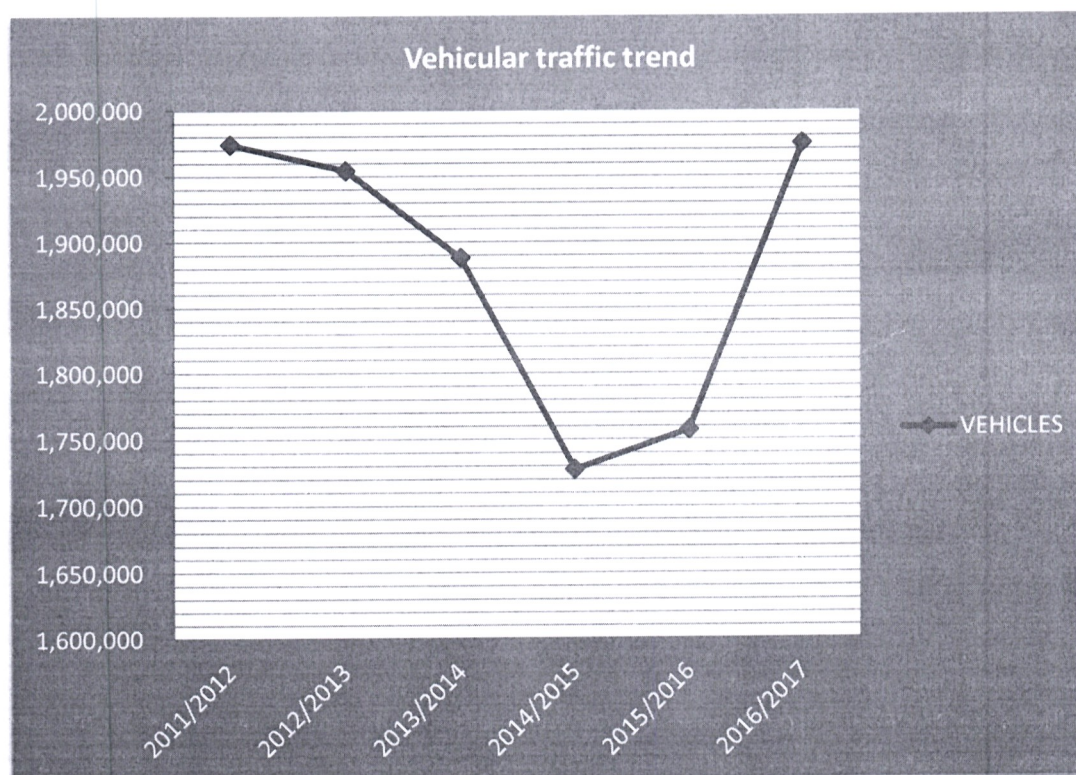
Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE MANAGING DIRECTOR (CONTINUED)



Ferry operations

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



KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE MANAGING DIRECTOR (CONTINUED)

Information Communication Technology

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

The implementation of the Enterprise Resource (ERP) System is ongoing. ERP is an integrated system that will automate all the business processes through a single database. The system is at 40% completion as at the end of the Financial Year. It is envisaged that the system will be operationalized in the next financial year. The Company acquired servers, computers, laptops and other accessories. This is in line with its target of achieving a ratio of 1:1 computer for office staff and 1:10 for other staff as outlined in our ICT Strategy.

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

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

Customer service delivery

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

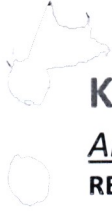
- Managing the reputation of the organization.
- Developing, implementing and evaluating communication strategies.
- Handling of customer complaints.

During the year 2016/2017 under review the following activities were realized;

Tours/Visits to KFSL

Re-launch of Mtongwe services

On 13th March 2017, His Excellency President Uhuru Kenyatta President Republic of Kenya accompanied by among others, Deputy President Hon. William Rutto, Hon. Masoud Mwahima MP Likoni, officiated the re-launch of Mtongwe channel service by Kenya Ferry Services Ltd. The resumption of the service is a huge reprieve to residents of Mtongwe area given its close proximity to the town's Industrial area. The ripple effect is expected to impact on the economy in and around the Mtongwe area in sectors such as trade, housing and general infrastructure.



KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE MANAGING DIRECTOR (CONTINUED)

Similarly, during the year under review the Company hosted Permanent Secretary Ministry of Transport & Infrastructure, Housing & Urban Development Prof. Paul Maringa Mwangi who paid a courtesy call to familiarize himself with the operations of KFSL. He held a meeting with senior management after which he also toured ferry facilities.

The Company received 710 students drawn from different institutions both lower and higher institutions of learning, we conducted educational tours of our Company and thus leveraged on good corporate image as the visitors become our ambassadors wherever they go.

Complaint handling

In 2016/2017, Sixteen (16No.) written complaints were received, recorded and addressed out of which 88% of the complaints touched on customers' dissatisfaction on ferry delays, interruption of ferry schedules 13%, customer care 22% and lack of toilet facilities on board ferry vessels 9%. In May, 2016 the Company acquired a free toll line aimed at serving customers in terms of receiving enquiries, complaints, compliments and suggestions. It also serves as a platform of communicating to the customers on 24hr basis. The toll line number is 0800721801. The same is posted on our website, face book page, twitter and continuous announcements through public address system. Customer care email platform customercare@kenyaferry.co.ke has also been operationalized. Quarterly reports to Commission on Administrative Justice continue being effected as per requirements.

Media relations

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

Corporate Social Responsibility (CSR)

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

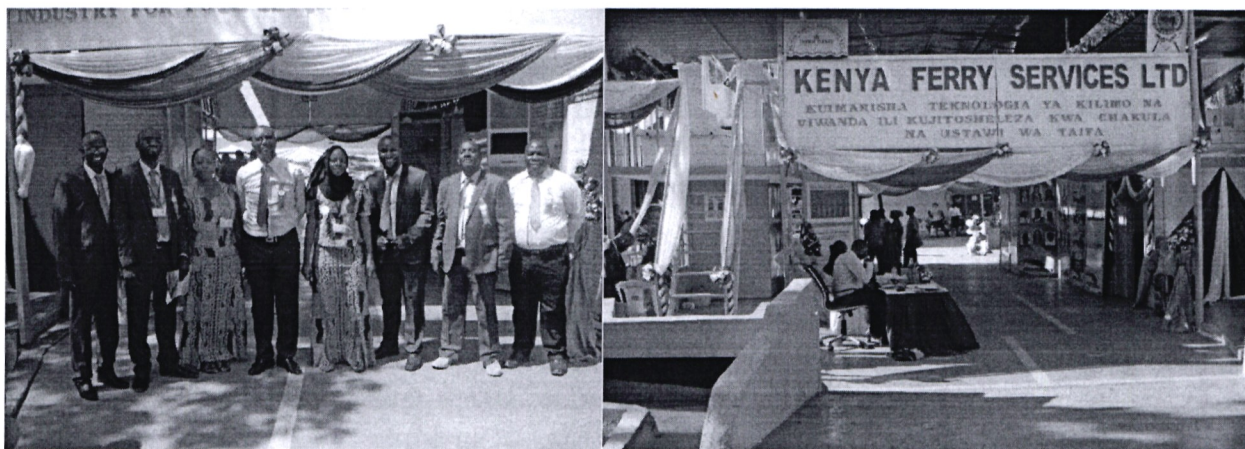
Stakeholders/ customer week / ASK show Mombasa

The Company successfully convened a two day workshop on supplier sensitization for youths, women and persons with disability on 22nd and 23rd June 2017. The facilitators were engaged from the Public Procurement & Oversight Authority (PPOA) and the forum was an eye opener for this category of suppliers. The Company also participated in the ASK Mombasa show in August, 2015 recording over 1400 show goers visiting our stand including participation in beach safety and awareness during Easter holidays in support of Kenya Maritime Authority.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE MANAGING DIRECTOR (CONTINUED)



KFSL show committee members during the 2016 ASK show (L), the refurbished KFSL ASK show stand(R)

Projects implementation progress

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

The Company is in the process of rehabilitating its fleet of vessels to make them mechanically sound and guarantee availability as per operation schedules. In this regard the engines for MV Kwale & MV Nyayo have been overhauled, and parts for engine overhaul of MV Kilindini have been delivered. On the same vein the contract for supply and delivery of new generator sets for MV Likoni, MV Kilindini and Mv Nyayo was awarded and the same fitted in the year 2016/2017.

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE GOVERNANCE STATEMENT

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

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

Corporate governance guidelines

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

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

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

Composition of the Board of Directors

The composition of the Board of Directors is as outlined to the key Company information on page 3 to 5 of this report.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Role and responsibilities of the board

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

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

Role of Chairman of the Board of Directors

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

Managing Director & Chief Executive Officer

The Managing Director is the Chief Executive of the Company responsible for the day to day management of the Company.

Directors' training and development

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

Board work plan and meetings

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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

The company in partnership with Kwale District Eye Centre carried activities in which the ferry users were accorded free eye check-up this formed an important forum for the company to reach her customers by pitching an information table in disseminating company information especially the new free toll line, the customer care line and the operations 24 hour communication line which is a major component in Corporate communication.



Kwale District Eye Centre in partnership with KFSL attending customers at Island waiting shade

The Company in an effort to reach out to the community and her stakeholders, conducted a free eye check-up clinic to ferry users at the Island women waiting shade three times in each quarter as a platform of disseminating its policies to the public and taking care of their welfare. A total number of 737 patients were screened. Further to the above stated exercise, the Company was able to give donations to the needy situations worth Kshs 258,000.00 such as Kwale Eye Centre, Wema Centre SOS fund raising and contribution of foodstuff towards the support of Islamic congregation in Diani- Kwale.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017 CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONTINUED)

STAKEHOLDER ENGAGEMENT

Tourism KATO (Kenya Association of Tour Operator).

The Company played its role in promoting the tourism in the region, such as provision of tour operators and hoteliers with efficient crossing by prioritizing them to q-jump during high traffic. During the quarter under review we crossed **320** tour buses from the Pollmans tours and safaris amongst other tour companies.

Customer satisfaction survey

The Corporate Services Section on 13th -20th September conducted a customer satisfaction survey targeting all the Ferry users. We obtained a **customer satisfaction index of 73%**. Recommendations of the survey have been implemented.

Relaunch of Mtongwe service

The Mtongwe ferry channel services were suspended in 2011 after the



H.E. Hon. Uhuru Kenyatta and Deputy President Hon. William Ruto flanked by KFSL Chairman Hon Seif Ramadhan Kajembe officially re-launches Mtongwe ferry service on 13th March 2017

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONTINUED)

Stakeholders who visited the Company

Schools /colleges visits

The company hosted total of 445 students from various schools and college that on educational tours such a buguta priamry shool,fahahamuni primary school kwale county , ngala memorial girls school from kilifi, kinya institute of highways ansd building technology - Nairobi , jkuat –Nairobi and Moi University –Eldoret.



Participation in the Mombasa Ask Show 2016

The Company successfully exhibited in the Mombasa International Trade fair as from 29th August to 4th September, 2016 as an avenue of enlightening customers and stakeholders on Company information and services majoring on the upcoming projects which were of public interest were exhibited. The company stand had a privilege of hosting His Excellency the president Hon. Uhuru Kenyatta C.G.H and the commander of the Defence Forces of the Republic of Kenya. This included the status of the two new ferries which are being constructed in Turkey, progress of partnership for the provision of cable car transport at the Likoni channel and easing of traffic flow to and from the ferries.

This brought together the board of Directors led by the Chairman Hon. Ramadhan Kajembe and management led by KFSL Managing Director Mr Bakari Gowa in an outside office forum in which members of public and interested parties did interact freely taking into serious considerations of the issues discussed. It also acts as an avenue of gauging customer perception and feedback on service delivery. A total number of 4500 show goers visited our stand.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONTINUED)



H.E Hon. Uhuru Kenyatta being briefed by KFSL Board Chairman Hon. Ramadhan Kajembe at the Company's ASK show stand Mombasa



KFSL Board members at the Company's ASK show stand Mombasa

On 10th January, 2017 The Company entered into partneship with Kenya Red Cross by donating a rescue centre office to be used as an emergency unit center. This is loacted at the Island side of the channel and shall act as a first response point and coordination centre during emergencies. The centre is manned by four staff working in two shifts for day and night.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONTINUED)



Managing Director Mr. Bakari Gowa (Centre) during the handing over of the Rescue Centre to the Red Cross

MEDIA RELATIONS

The Company engaged m/s Cee-Davy communications limited to undertake the above mentioned contract for two years 2016-2018. In order to ensure prompt delivery, a project management committee was constituted to oversee the smooth implementation of the project with effect 1st September 2016. To date the company continues enjoying a positive media coverage from all media landscapes after a fortified media relations ties with media houses.

Kenya Ferry Services has an active social media platform (twitter- @FerryKenya and a facebook page- Ferry Kenya) aimed at creating seamless communication to customers and stakeholders. The company social media outlook have increasingly scaled up to about 45,545 followers in facebook, while twitter followers were capped up at 2000 as at 30th June 2017.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

RISK MANAGEMENT

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

Strategic risk

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

Strategic plan implementation

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

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

Dongo Kundu bypass

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

On this regard the Company is planning to extend the ferry operations to the larger Mombasa, Lake Victoria and Lamu. The strategic plan provides for diversification into property management to supplement the revenue generation. Already proposals are being developed for the island plots and consultations with the parent Ministry and Treasury is ongoing.



KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

RISK MANAGEMENT (CONTINUED)

Operation risks

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



KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE DIRECTORS

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

Principal activities

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

Results

The results of the Company for the year ended June 30, 2017 are set out on page 28 to this document.

Dividends

The Company is a non-commercial state corporation

Directors

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

Auditors

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

By order of the Board



Elijah Kitur
Corporate Secretary
Mombasa
Date 27/9/2017

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

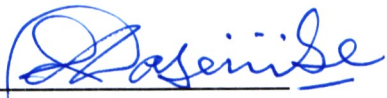
The Directors are responsible for the preparation and presentation of the *Company's* Financial Statements, which give a true and fair view of the state of affairs of the *Company* for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Company's* Financial Statements give a true and fair view of the state of *Company's* transactions during the financial year ended June 30, 2017, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company's* Financial Statements as well as the adequacy of the systems of internal financial control.

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

Approval of the Financial Statements

The *Company's* financial statements were approved by the Board on 27th September 2017 and signed on its behalf by:



Hon. Seif Ramadhan Kajembè
Chairman



Bakari Hamisi Gowa
Managing Director

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 28 to 62, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and 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 the Kenya Ferry Services Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Ferry Services Limited Act, 2006.

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

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Fully Depreciated Assets

The statement of financial position as at 30 June 2017 reflects a balance of Kshs.2,181,924,000 in respect of property, plant and equipment which includes fully depreciated assets with a total cost of Kshs.473,885,000 (2015/2016 - Kshs.69,784,000) as per disclosure under note 16 to the financial statements. Although some of the assets are in use, the economic value of these assets has not

Report of the Auditor-General on the Financial Statements of Kenya Ferry Services Limited for the year ended 30 June 2017

been accounted for in these financial statements as they are carried at zero value contrary to International Accounting Standard No. 16 which states that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

As a result, it has not been possible to ascertain that the property, plant and equipment balance of Kshs.2,181,924,000 as at 30 June 2017 is fairly stated.

1.2 Idle Assets

As reported in the year 2015/2016 audit report, the management procured and installed weigh bridges on both sides of the Likoni channel at a cost of Kshs.26,779,893 as indicated in the assets register. Although the weigh bridges were integrated with the revenue system, they are practically idle assets since Kenya Ferry Services Limited does not use them to charge for use of its ferries by motor vehicles. Further, management indicated that the bridges were a control measure to enhance safety by estimating the weight of motor vehicles boarding ferries at the Channel. However, there was no evidence showing that the weights of motor vehicles measured through the weigh bridges are used to control the number of motor vehicles that board the ferries.

Consequently, it has not been possible to confirm the propriety and value for money from expenditure totaling Kshs.26,779,893 as at 30 June 2017 incurred on the installation of weigh-bridges at Likoni Ferry.

1.3 Irregular Award of Tender for Two New Ferries

As reported in the year 2015/2016 audit report, Kenya Ferry Services Limited awarded a contract for supply and delivery of two new passenger ferries at a cost of Kshs.1,863,000,000 (US \$18,630,000). Audit verification of the bid evaluation process revealed that the contract was awarded to a bidder who was ranked no. 4 at the technical evaluation stage. The technical evaluation report indicated that the type of ferry to be supplied by the winning bidder was Roll on / Roll off and that dead weight at designed draft was 490 tons. However, review of the winning bidder's tender document revealed that the bidder did not provide this information.

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

Conditions of the contract which required the contractor to furnish the employer with the performance security before signing of the contract.

Further, the Company made an advance payment of Kshs.598,023,000 (US \$ 5,920,726.7) to the Kenyan company but failed to withhold 6% of VAT totaling Kshs.35,881,380 and withholding tax at 20% for non-resident company totaling Kshs.119,604,600 despite professional advice from Kenya Revenue Authority to subject payments to both taxes.

Furthermore, according to the contract signed on 27 June 2015, the new ferries were to be delivered after seventeen (17) months, by November 2016. However, the first ferry (MV Jambo) was delivered in July 2017 being nine months after the set timeline. In addition, as the time of this audit in October 2017, the second ferry had not been delivered and information available indicates that delivery of the vessel was suspended by a court order.

In light of the foregoing, it has not been possible to confirm the validity and accuracy of the building and supply of two new ferries at cost of Kshs.1,863,000,000 (USD18,630,000) and propriety of expenditure totaling Kshs.1,519,379,614 paid to the contractor as at 30 June 2017.

2.0 Income from Operations

The statement of comprehensive income for the year ended 30 June 2017 reflects an amount of Kshs.417,908,000 as income from operations. Included in income from operations figure of Kshs.417,908,000 as reflected in note 2 to the financial statements is revenue from toll collections of Kshs.401,275,000. Information available indicates that toll collections are fees paid by motorists ferried across the channel. However, audit inspection of the receipting area revealed that there was no independent record on the number of vehicles ferried by vessels across the channel. In addition, the weighbridges that were installed on both sides of the channel are not functional and therefore no record of vehicles that pass at the toll stations is maintained.

It was therefore not possible to reconcile the number of vehicles ferried against revenue recorded.

Further, Kenya Ferry Services Limited does not have any equipment or means of measuring the motor vehicles length to establish the appropriate charges. This contravenes part 2 of The Ferries (Vehicle Toll Charges) (Amendment) Rules, 2013 which provides that the Company should charge vehicles based on the length of the vehicles using Ferries for crossing the Likoni channel.

In the light of the foregoing circumstances, it has not been possible to confirm that the income from operations amounting to Kshs.401,275,000 for the year ending 30 June 2017 is fairly stated.

3.0 Long Outstanding Debts

As previously reported, Note 22 to the financial statements reflects trade and other receivables balance of Kshs.716,622,000 which includes two debtors: one of Kshs.12,300,496 and the other Kshs.50,652,633 which have been outstanding since the year 2008/2009. Although the management has indicated that the debts are subject to court cases, no documentary evidence has been provided to confirm the management's assertion.

Further, included in trade and other receivables balance of Kshs.716,622,000 as at 30 June 2017 are staff receivables of Kshs.10,157,000. Audit verifications revealed that staff advances amounting to Kshs.4,178,131 was owing from former staff. The management has not clearly explained how the staff were cleared before settling the debts.

Consequently, it has not been possible to confirm the validity and recoverability of trade and other receivables balance of Kshs.716,622,000 as at 30 June 2017.

4.0 Trade and Other Payables

As previously reported, included in trade and other payable balance of Kshs.245,631,000 as shown in note 29 to the financial statements are trade creditors amounting to Kshs.202,614,000 out of which Kshs.84,438,282 are long outstanding creditors, an indication that the Company could be having difficulties in meeting its credit obligations when they fall due which may lead to legal cases being instituted against the Company. Although the management indicates that the liabilities shall be settled, there is no documentary evidence of how the Company plans to pay while the amount has increased by Kshs.5,533,000 compared to figure of Kshs.197,081,000 reported in 2015/2016 financial year.

Under the circumstance, it has not been possible to confirm the validity and accuracy of trade and other payable balance of Kshs.245,631,000 as at 30 June 2017.

5.0 Administration Expenses

The statement of comprehensive income for the year ended 30 June 2017 reflects Kshs.111,392,000 in respect of administration costs. Included in administration costs figure of Kshs.111,392,000 is Kshs.8,572,000 in respect of legal dues. Records availed for audit indicate that Kshs.6,020,000 was paid to a law firm as a deposit based on a proposal presented by the firm to finalize outstanding cases arising from Mtongwe ferry disaster of 1994. However, as at the time of audit, there was no documentary evidence of any progress made towards achieving objectives of the proposal including court applications and settlement of claims by affected persons. It was therefore not clear which service was rendered by the law firm. The public have not realized value for money.

Consequently, the propriety and validity of expenditure amounting to Kshs.8,572,000 incurred on the administrative expenses for the year ended could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Ferry Services 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.

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 and other matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0. Budgetary Controls and Performance

According to the statement of comparison of budget actual amounts, the Company had a total budget of Kshs.987,257,000 compared to a budget of Kshs.905,526,000 for financial year 2015/2016 representing an increase of Kshs.81,731,000 or 9 %.

Audit analysis of the budget performance revealed significant over-expenditure on the following budget lines:

COMPONENT	Budget	Actual	Over-Expenditure	% Variance
Printing advertising and information services	2,264,000	5,103,000	(2,839,000)	125%
Sports Creation	5,475,000	7,492,000	(2,017,000)	37%
Training Expenses	11,800,000	15,542,000	(3,742,000)	32%
IT Implementation	2,344,000	6,197,000	(3,853,000)	164%
Legal dues/fees arbitration and compensation	11,500,000	8,572,000	2,928,000	25%
Contracted Professional Services	3,500,000	10,753,000	(7,253,000)	207%
Fuel and Lubricants Ferry Vessels	62,024,000	71,379,000	(9,355,000)	15%
Board Expenses	14,500,000	22,521,000	(8,021,000)	55%
Dry Docking	13,500,000	63,041,000	(49,541,000)	367%

Safety Equipment Repairs	5,000,000	8,676,000	(3,676,000)	74%
Totals	131,907,000	219,276,000	(87,369,000)	

However, there was no evidence of authority to reallocate funds from the voted lines. This is an indication of irregular reallocation funded from voted lines. In addition, the management did not avail evidence of approval from the line ministry in line with Section 12 of the Corporations Act, 1986. The management was therefore in breach of law.

2.0. Safety of Ferries

- 2.1. Information available indicates that MV Likoni and MV Kwale ferries were due for dry-docking in February 2017 and March 2017 respectively. However, as at the time of audit, October, 2017 the same had not been dry-docked although the ferries were still operating. Management has attributed the delay to lack of funds. This endangers the safety of ferry users.
- 2.2. According to International Safety Management (ISM), vessel engine is supposed to be overhauled after every 8500 hours of operation. However, it was noted that MV Kwale engine had operated for more than 30,000 hours without undergoing engine overhaul. The safety of the vessel is not guaranteed.
- 2.3. It was also observed that most of the pulleys on most ferries are defective thus causing the plows to be submerged in water when the ferries are moving. This endangers both pedestrians and motorists.
- 2.4. The Company has not insured all ferries for third party liability and therefore it would be difficult for the Company to settle liabilities in case of an accident which requires compensation.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting

unless the Government either intends to liquidate the Kenya Ferry Services 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.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are

inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

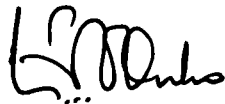
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

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

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



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

Nairobi

12 April 2018

Report of the Auditor-General on the Financial Statements of Kenya Ferry Services Limited for the year ended 30 June 2017

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

REPORT OF THE INDEPENDENT AUDITORS

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

STATEMENT OF COMPREHENSIVE INCOME

			Restated
	Notes	2016/2017	2015/2016
		Kshs	Kshs
		'000'	'000'
REVENUE			
Income from operations	2	417,908	410,742
Government compensation	3	356,000	336,032
Other income	4	14,796	28,672
Transferred from deferred income	5	185,437	124,959
TOTAL REVENUE		974,141	900,405
OPERATING EXPENSES			
Staff costs	6	492,984	485,558
Administration costs	7	111,392	89,817
Operation costs	8	180,818	196,286
Board costs	9	22,521	14,528
Repairs and maintenance costs	10	40,456	75,172
Depreciation	12	212,996	133,122
Amortization	13	333	451
TOTAL OPERATING EXPENSES		1,061,100	994,934
OPERATING DEFICIT		(86,959)	(94,529)
Finance Income	14	3,176	56
Finance Costs (Foreign Exchange Loss)	15	-	(33,509)
Deficit for the year		(83,783)	(127,982)

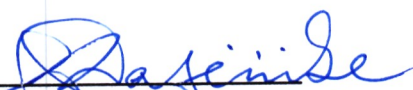
KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

STATEMENT OF FINANCIAL POSITION

			Restated
	Notes	2016/2017	2015/2016
		Kshs	Kshs
		'000'	'000'
NON CURRENT ASSETS			
Property, plant & equipment	16	2,181,924	2,097,060
Capital work in progress	17	1,695,286	115,456
Investment property	18	330,495	338,364
Prepaid operating lease	19	2,725	3,058
Total non-current assets		4,213,430	2,553,938
CURRENT ASSETS			
Inventories	21	112,989	75,970
Trade and other receivables	22	716,622	681,424
Cash and cash equivalent	23	254,336	1,020,620
Total current assets		1,083,947	1,778,014
TOTAL ASSETS		5,297,377	4,331,952
EQUITY & LIABILITIES			
SHAREHOLDER'S FUNDS			
Share capital	24	499,904	499,904
Revenue reserves	25	(680,975)	(933,202)
Revaluation reserves	26	542,280	542,280
Deferred income	27	4,673,194	3,658,631
Total Equity		5,034,403	3,767,613
NON CURRENT LIABILITIES			
KPA advances	28	-	336,010
CURRENT LIABILITIES			
Trade & other payables	29	245,631	228,329
Bank overdraft	28	17,343	-
		262,974	228,329
TOTAL EQUITY & LIABILITIES		5,297,377	4,331,952

The Financial Statements on pages 28 to 62 were approved by the Board of Directors on the 27th September 2017 and signed on its behalf by:


 Hon. Seif Ramadhan Kajembe
 Chairman


 Bakari Hamisi Gowa
 Managing Director

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Revaluation reserves	Restated Revenue Reserves	Deferred income	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
For the year ended 30 June 2016	'000'	'000'	'000'	'000'	'000'
As start of year – previously stated	499,904	542,280	(805,220)	2,715,590	2,952,554
Addition to deferred income	-	-	-	1,068,000	1,068,000
Transfer to income statement	-	-	-	(124,959)	(124,959)
Deficit for the year	-	-	(127,982)	-	(127,982)
As at 30th June 2016	499,904	542,280	(933,202)	3,658,631	3,767,613

	Ordinary share capital	Revaluation reserves	Revenue Reserves Restated	Deferred income	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
For the year ended 30 June 2017	'000'	'000'	'000'	'000'	'000'
At start of year – previously stated	499,904	542,280	(913,493)	3,658,631	3,787,322
Prior year adjustment	-	-	(19,709)	-	(19,709)
At start of year – Restated	499,904	542,280	(933,202)	3,658,631	3,767,613
Addition to deferred income	-	-	-	1,200,000	1,200,000
Transfer to income statement	-	-	-	(185,437)	(185,437)
Deficit for the year	-	-	(83,783)	-	(83,783)
KPA debt written off	-	-	336,010	-	336,010
As at 30th June 2017	499,904	542,280	(680,975)	4,673,194	5,034,403

The notes on pages 33 to 62 form an integral part of these financial statements.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

STATEMENT OF CASH FLOWS

			Restated
	Note	2016/2017	2015/2016
		Kshs	Kshs
		"000"	"000"
OPERATING ACTIVITIES			
Cash used for operating activities	30	(113,982)	(578,931)
Net cash used in operating activities		<u>(113,982)</u>	<u>(578,931)</u>
INVESTMENT ACTIVITIES			
Purchase of property, plant and equipment	16	(192,631)	(47,513)
Cash incurred on capital work in progress	17	(1,680,190)	(43,790)
Gain on disposal of property, plant and equipment	4	-	2,153
Interest received	14	3,176	56
Net cash used in investing activities		<u>(1,869,645)</u>	<u>(89,094)</u>
FINANCING ACTIVITIES			
Government funds	31(a)	1,200,000	1,068,000
Net cash from financing activities		<u>1,200,000</u>	<u>1,068,000</u>
(Decrease)/Increase in cash and cash equivalent		<u>(783,627)</u>	<u>399,975</u>
Movement in cash & cash equivalent			
Cash and cash equivalent at the start of the year	27	1,020,620	654,154
(Decrease)/Increase in cash and cash equivalent		(783,627)	399,975
Effect of exchange rate difference	15	-	(33,509)
Cash and cash equivalent at the end of the year	23	<u>236,993</u>	<u>1,020,620</u>

The notes on pages 33 to 62 form an integral part of these financial statements.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS

	Notes	2016/2017 Actual Kshs.000	2016/2017 Budget Kshs.000	Variance %
REVENUE				
Income from operations	2	417,908	464,371	-10%
Government compensation	3	356,000	356,000	0%
Other income	4	14,796	20,545	-28%
Transferred from deferred income	5	185,437	146,981	26%
TOTAL REVENUE		974,141	987,897	-2%
OPERATING EXPENSES				
Staff costs	6	492,984	500,114	1%
Administration costs	7	111,392	113,233	-7%
Operation costs	8	180,081	180,818	0%
Board costs	9	22,521	22,500	-0%
Repairs and maintenance costs	10	40,056	41,172	-6%
Depreciation	11	212,996	129,823	-16%
Amortization	12	333	333	0%
TOTAL OPERATING EXPENSES		1,061,100	987,257	-12%
OPERATING (DEFICIT)/SURPLUS		(86,959)	640	

All variances are explained in the relevant notes to the financial statements on pages 40-62.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) **Statement of compliance and basis of preparation**

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

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

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

b) **Revenue recognition.**

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

- i) **Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Finance Income** comprises interest receivable from the bank deposits and investments in securities, and is recognized in the profit and loss on a time proportion basis using the effectiveness interest rate method.
- iii) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- iv) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Revenue recognition (continued)

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

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

c) Government Grants.

Government grants are not recognized until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grant will be received.

Government grants are recognized in the profit or loss on a systematic basis over the periods in which the company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, contract or otherwise acquire non-current assets are recognized as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognized in the profit or loss in the period in which they become receivable.

d) Property, plant and equipment

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

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

Increases in the carrying amounts of assets arising from revaluation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment (continued)

asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement

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

e) Depreciation and impairment of property, plant and equipment

Freehold land is not depreciated.

Leasehold land is depreciated over the remaining period of the lease.

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

Building and civil works	50 years	2%
Plant and machinery	8 years	12.5%
Motor vehicle including motorcycles	4 years	25%
Computers and related equipment	3 years	30%
Office equipment, furniture and fittings	8 years	12.5%
Ferry crafts	20 years	5%
Ferry dry docking cost	2 Years	50%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of assets disposal. Depreciation on dry docking cost is prorated.

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

Capital expenditure projects undertaken during the course of the year and not completed as at the reporting date are classified as Capital work in progress. The total amount is transferred to and amalgamated with the appropriate asset category in the year of completion. Capital work in progress is not depreciated and is disclosed as separate line item in the statement of financial position under non-current assets.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) **Investment property**

Investment property is long-term investments in land and buildings that are not occupied substantially for own use. Investment property are initially recognized at cost and subsequently carried at fair value representing open market value at the reporting date subsequently stated at historical cost less accumulated depreciation.

Depreciation is calculated using the straight line method to write down the cost of the property to its residual value over its estimated useful life using an annual rate of 2%.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognized as an expense in the year which it is incurred.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining operating profit or loss.

g) **Intangible assets**

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives at an annual rate of 30%.

h) **Inventories**

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

i) **Finance and operating leases**

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

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Retirement benefit obligation

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

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

k) Cash and cash equivalents.

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

In the statement of financial position, bank overdrafts are separately disclosed under current liabilities.

l) Exchange rates differences.

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

m) Financial assets.

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

Cash and cash equivalents: For the purposes of the statement of cash flows, cash and cash equivalents. Comprise cash in hand and short term marketable securities.

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) **Financial liabilities.**

The company financial liabilities include borrowings and trade and other payables. These are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest rate method. Trade and other payable are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Company or not, less any payments made to the suppliers.

o) **Comparative figures.**

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

p) **Financial Risk Management.**

The company activities expose it to a variety of financial risks which include: credit risk, liquidity risk and market risks.

The company overall risk management is carried out by the respective departments. The policies focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the company's performance by setting acceptable levels of risk.

i) **Credit risk**

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

ii) **Liquidity risk.**

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

iii) **Market risk**

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Market risk (continued)

a) *Interest rate risk*: the company's interest rate risk arises from short term bank deposits because of changes in market interest rates.

b) *Currency risk*: Currency risk arises on financial instruments that are denominated in foreign currency. The company has no foreign currency denominated financial instruments as at the reporting date hence not exposed to currency risk.

q) Effective IFRS Disclosures.

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

r) Deferred Income.

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

s) Subsequent events.

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

2. Income from operation

	2016/2017	2015/2016
	Kshs"000"	Kshs
Toll collections	401,275	388,753
Ferry passes	16,633	21,989
Total	417,908	410,742

This is the main source of internally generated revenue the Company collects. It is made up of toll charges levied on motorists as they access the services of the Company. In addition to the toll charges, the Company operates ferry passes which allows its customers to prepay for ferry services either in the form of priority pass holders. This allows customers (motorists) to queue jump and board the available ferry on the ramp.

The Company's income for the year was Kshs 418 million which represents an increase of 2% compared to the year 2015/2016 earnings of Kshs 411 million. In general, earnings from internally generated source have been registering a positive trend for the last five years. Overall, vehicular traffic across the channel increased by 12% from 1.76million units in 2015/2016 to 1.97million units in 2016/2017 financial year.

Our integral customers i.e. empty trailers and loaded trailers whose numbers had dropped from 10,526 units and 13,505 units in 2014/2015 financial year to 7,560units and 9,298 units respectively during 2015/2016 financial year, registered an increase of 5% and 4% respectively in 2016/2017 i.e. 7,930 and 9,636 units respectively. The Company is confident that this category of customers shall increase steadily over time.

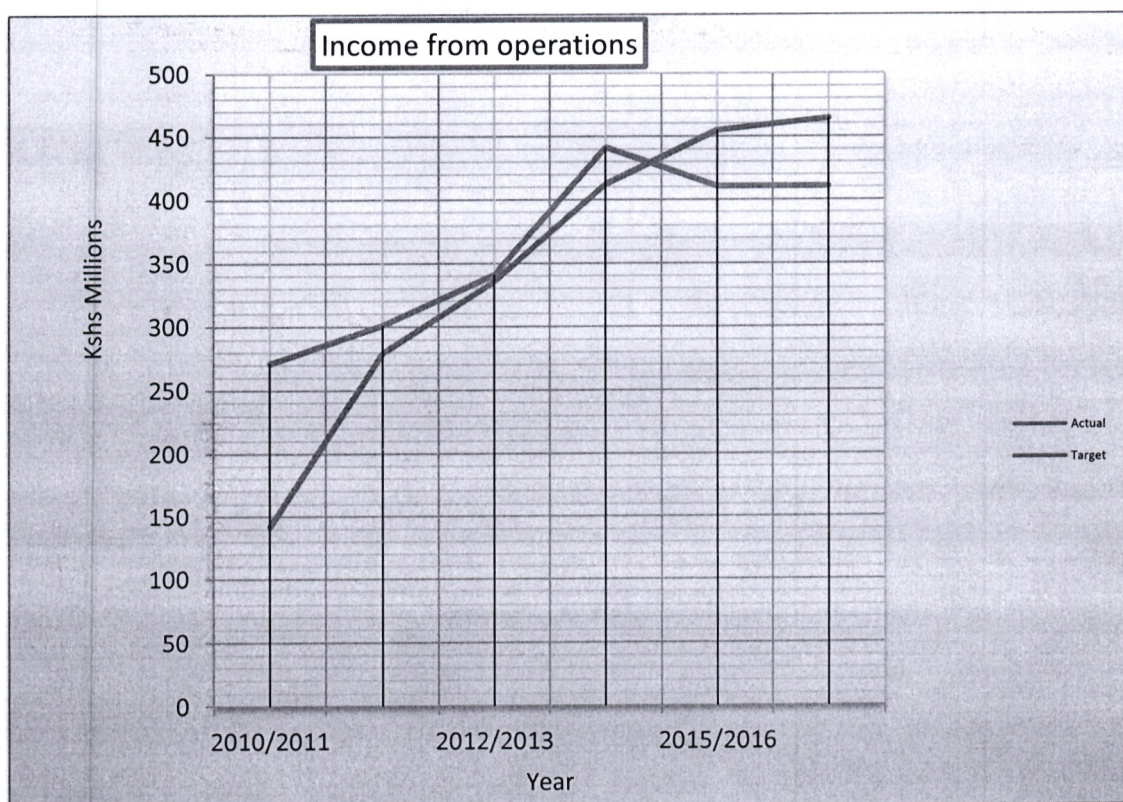
The Company also missed its yearly target on toll revenue by 10%. This is majorly attributable to the fact that in its budget for 2016/2017, KFSL factored revision of its tariffs on motorists. This was approved by the stakeholders and later forwarded to the parent Ministry for action; however, the same was not gazetted.

The Company has introduced a CCTV system to enhance controls and minimize toll leakages. In the next financial year the Company will introduce a cashless collection system (this will be part of the large computerization programme to be under taken in the Company). Already a number of service providers such as Safaricom, KCB, etc. have expressed willingness to partner with KFSL in making this project a reality.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)



3. Government compensation

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Government Compensation	356,000	336,032

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

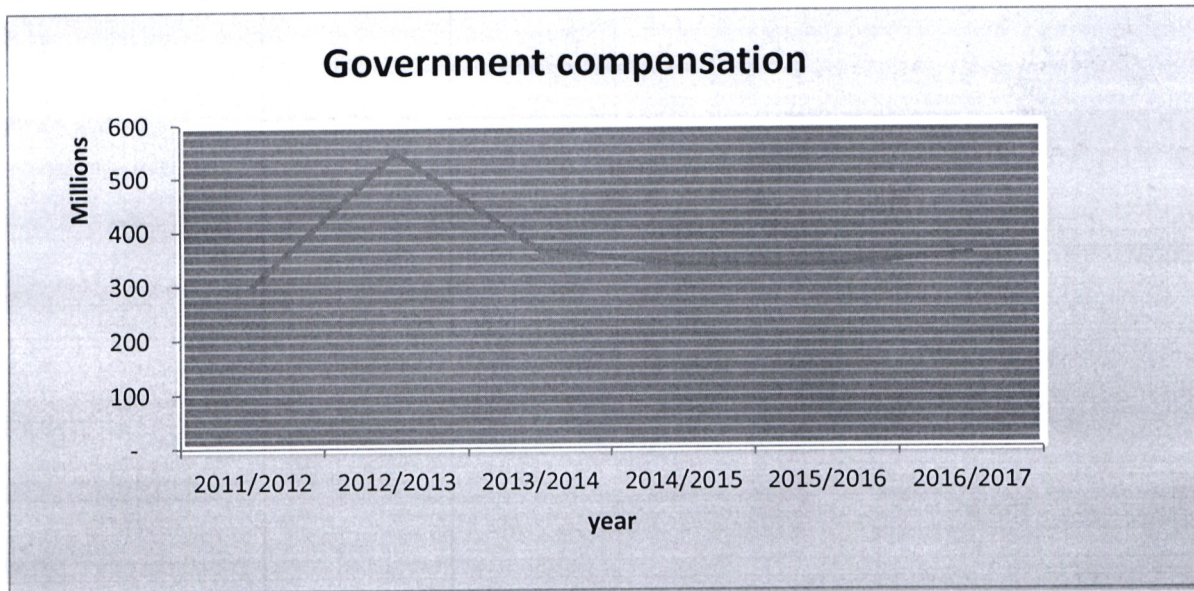
During the year that ended the Company received a total of Kshs 356 million. This was an increase of 7% compared to what the Company earned in the previous year of Kshs 336 million and this greatly affected the smooth operations of the Company. Further, the existing financing arrangement is not sustainable in that whereas the Company's revenue generation has steadily increased over the years, the government subventions are quite erratic and unpredictable.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

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



4. Other income

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Infrastructure rent income	6,518	15,915
Commercial adverts	6,864	9,645
Tender documents, prequalification forms	20	46
Used oil, drums, insurance commission	1,358	882
Hire of ferries	36	69
Bad debt recoveries	-	282
Gain on disposal of property plant and equipment's	-	2,153
Total	14,796	28,672

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

4. Other income (continued)

Infrastructure (rental) income earnings were below target as the facility was invaded and taken over by the County Government of Mombasa just a few months after being availed to the new lessee ; My Space Ltd. The matter was determination by the High Court in Mombasa in and ruled in KFSL favour. The Company's legal team is finalizing on the compensation aspect from County Government as directed by the Court; this is expected to crystalize in 2017/2018.

5. Deferred income

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

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Ferry crafts	70,248	63,867
Dry docking	62,859	9,081
Infrastructure Buildings	7,869	7,869
Office Building	1,552	1,235
Car Shade	9	9
Ferry Generators	698	698
Ferry Engines	2,735	2,735
Safety equipment	9,816	9,816
Mainland ramp	1,558	1,558
Mtongwe pontoon	6,093	6,093
Peleleza jetty	6,058	6058
Security Project	10,263	10,263
Shottel steering system MV Nyayo	2,853	2,852
Furniture & Equipment	117	117
Computers	2,709	2,709
Total	185,437	124,960

6. Staff cost.

Staff cost include all forms of remunerations paid to employees for services rendered to the Company. Total staff costs incurred during the year was Kshs 493 million against a budgetary provision of Kshs 500 million. In the previous financial year (2015/2016) total cost incurred was Kshs 486 million. Staff welfare includes staff medical cover service pay and token of appreciation that may be paid.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

6. Staff costs (continued)

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Salaries and allowances of permanent employees	428,673	421,550
NSSF	688	691
Pension and provident	20,301	19,613
Gratuity	84	970
Staff Welfare	43,238	42,734
Total	492,984	485,558

During the financial year 2016/2017, the Company continued to implement the Employment and Labor Relations Court Order of May 2015. In February 2017, residents of Mtongwe got a new lease of life when His Excellency the President of the Republic of Kenya re-launched the Mtongwe service operations. The service across Mtongwe channel was suspended way back in 2011 following the collapse of the jetty and landing pontoons. The ferry serves approximately 30,000 pedestrians every day and operates two shifts at peak hours from 4.00pm to 10.00am in the morning and from 4.00pm to 10.00pm in the evening. With resumption of the Mtongwe ferry service, it was expected that the transport crisis in that area would be addressed and also the growing traffic congestion at the Likoni channel that currently stand at approximately 400,000 pedestrians and 6,000 vehicles daily would ease.

The re-introduction of Mtongwe service necessitated increase in staff costs in terms of extraneous allowances and overtime payments to staff since a crew of at least 14 people had to be redeployed daily for the operations.

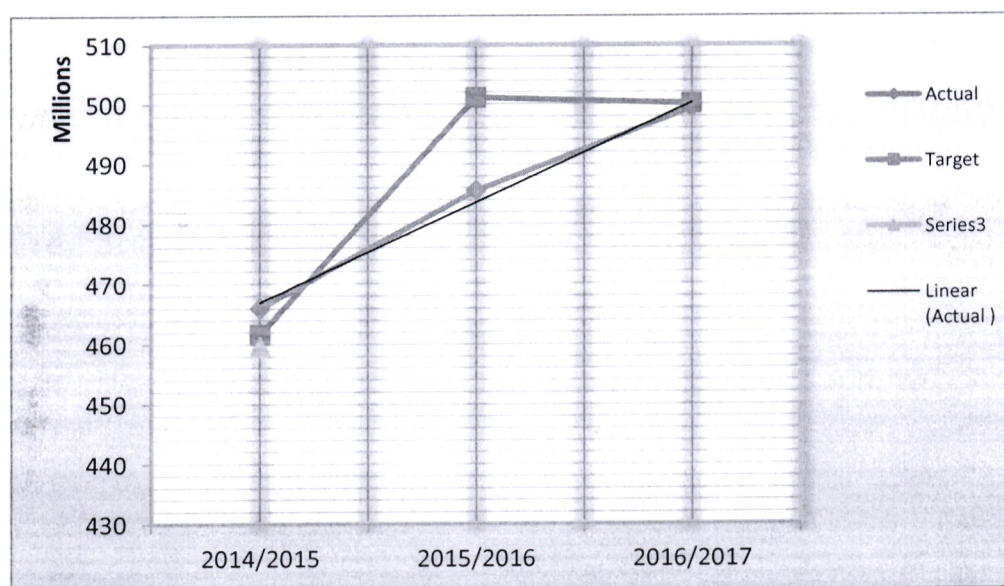
Further, during the year, the company experienced a relatively higher staff turn-over of five employees from different Departments. Their duties were covered through payment of overtime and extraneous allowance to other staff pending their replacement. Normally, overtime payment is expensive considering the fact that the hours payable are double the normal hours. The increase in staff expenses is therefore directly attributed to these two reasons.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

6. Staff costs (continued)



Staff costs increased by 25 million for the five year period accounting for 50% of the total operating costs.

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

	2016/2017	2015/2016
	Number	Number
Permanent employees – management	117	114
Permanent employees - unionisable	178	173
Temporary & contract employee	1	1
Total	296	288

Two management staff retired from the service of the Company having attained the mandatory retirement age of 60 years.

7. Administration expenses

Administration costs are all forms of expenses which the Company incurs in order to run its business other than staff, operating and repairs as well as maintenance cost. During the year the Company spent a total of Kshs119 million on administration costs which accounted for about 11% of the total operating costs. Total administrative costs decreased by 32% in the current year.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

There was a general decrease in most line items of the administration costs which was necessary to take care of the planned activity levels of the Company. This notwithstanding the Company spent slightly above its approved budget for all the items of Kshs 104 million representing 13%. The main contributing factor was legal fees for the external lawyers engaged in cases against County Government of Mombasa and conclusion of the 1994 Mtongwe ferry boat cases. Below is a summary of administration costs for the year.

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Electricity and Sewerage charges	11,175	8,249
Telephone, Telex, Facsimile and mobile phone	3,699	4,535
Accommodation – Domestic and Foreign Travel	8,679	12,605
Printing, Advertising and Information Supplies & Services	5,103	5,243
Subscriptions to Newspaper, Magazines etc.	375	528
Trade Shows and Exhibitions	2,211	2,796
Sports and Recreation	7,492	6,397
Rent and Rates - Non Residential	1,085	633
Training Expenses	15,542	8,827
Hospitality Supplies and Services	1,605	986
IT Implementation and Training	6,197	6,037
Gifts, Food and Drinks	4,574	4,779
Purchase of Uniforms and clothing - Staff	6,122	5,483
Office and General Supplies and Services	1,830	6,347
General Office Supplies (papers, pencils, forms, small office equipment etc.)	1,472	2,797
Sanitary and Cleaning Materials	264	758
General insurances	6,746	5,666
Legal Dues/Fees, Arbitration and Compensation	8,572	3,403
Contracted Professional Services	10,753	1,962
HIV & AIDS	1,535	-
Fuel& lubricants for transport	654	680
Transport for funeral	-	324
Fungicides, Insecticides & sprays	558	559
Utilities supplies & services	4,406	-
Bank charges	743	223
Total	111,392	89,817

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

8. Operating costs

Operating costs are all forms of costs associated with the core business of the Company which ensures provision of ferry services. Total cost incurred during the year was Kshs201 million equal to 18% of the total operating costs. This compared to last year's figure of Kshs185 million incurred represents an increase of 11%. The Company realized a substantial amount of cost savings on fuel due to a fall on the pump rates of diesel. Operating costs were higher than budget for the year by 3% attributed to high pump fuel prices, and servicing/maintenance of security equipment.

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Fuel Oil and Lubricants (ferry vessels)	71,379	81,397
Overseas ferry vessels insurances	52,944	55,737
Security Services	56,495	59,152
Total	180,818	196,286

9. Board costs

These are expenses incurred to cater for all forms of board activities ranging from sitting allowances, duty travel and accommodation. There are several activities which contributed to the increase of board expenses by 55% including conducting of interviews for the position of Finance Manager, Senior Procurement Officer. The board members were also involved in the re-launch of ferry services at Mtongwe channel in March 2017 which was graced by His Excellency Hon. Uhuru Muigai Kenyatta.

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Board allowances, conferences & seminars	22,521	14,528

10. Repairs and maintenance

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Workshop Tools, Spares & Small Equipment for ferry vessels	29,584	72,516
Maintenance of vehicles	1,052	869
Maintenance of safety equipment	8,675	1,172
Maintenance of Office Furniture and Equipment	745	615
Total	40,056	75,172

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

10. Repairs and maintenance (continued)

This is a class of costs that takes care of repairs and maintenance of all Company assets including ferry crafts, motor vehicles, furniture and equipment. Cost of repairs and maintenance incurred during the year was Kshs 116million (representing a 42% increase compared to a cost of Kshs 82 million incurred in the last financial year). Repairs for ferries (Workshop tools and spares cost for ferries) increased by 30% due to constant repairs on breakdown on the three old ferries (MV Nyayo, MV Kilindini and MV Harambee) especially in the second and third quarters. These vessels are already past their useful period after they were acquired in 1990. The Company expects delivery of two new ferries in the next financial year 2017/2018.

11. Operating deficit

Depreciation of property, plant and equipment has gone down due to charges made against certain classes of assets such as computers, furniture and equipment which have since been fully depreciated in the financial year under review. At the same time the overall charge decreased from Kshs 163million to Kshs 142million.

The following items have been charged/(credited) in arriving at operating deficit:

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Depreciation of property, plant and equipment (note 16)	205,127	125,253
Depreciation of investment property (note 18)	7,869	7,869
Amortization of prepaid operating lease rentals (note 19)	333	333
Amortization of intangible assets (note 20)	-	117
Directors emoluments –fees (note 9)	22,521	14,528
Auditors fees - current years	500	500
Gain on disposal of property, plant and equipment (note 4)	-	(2,153)
Staff cost (note 6)	492,984	485,558

12. Depreciation expense

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Depreciation on property, plant and equipment (Note 16)	205,127	125,253
Depreciation on investment property (Note 18)	7,869	7,869
Total	212,996	133,122

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

13. Amortization expense

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Amortization of prepaid operating lease rental (Note 19)	333	334
Amortization of intangible assets (Note 20)	-	117
Total	333	451

14. Finance income

This income was earned from cash held on accounts with National Bank of Kenya Ltd (the Company banker). Total interest earned was Kshs 0.056 million during the year; an amount of Kshs 3 million was earned in 2016/2017.

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Interest income	3,176	56

15. Finance costs

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

		2016/2017	2015/2016
	rate	Kshs '000'	Kshs '000'
Opening balance		-	598,023
Foreign Exchange rate ruling at conversion 30/6/2016	101	-	564,514
Loss on foreign exchange conversion		-	33,509

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

16. Property plant and equipment

For the year ended 30th June 2017

	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Comput ers & LED Screens	Motor Vehicles	Generators, Plant Tools, Crane, CCTV & Equipment's	Driveway, Watchtower , Sheds, Roads, Boat & Garden	Total
COST	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
As at 1, July 2016	1,648,938	16,537	755,328	7,366	114,610	14,143	448,750	71,175	3,076,847
Additions	183,205	-	-	-	1,542	-	7,884	-	192,631
Transfers (note 17)	100,361	-	-	-	-	-	-	-	100,361
Total	1,932,504	16,537	755,328	7,366	116,152	14,143	456,634	71,175	3,369,839

DEPRECIATION

As at 1, July 2016	452,998	-	42,765	7,366	105,369	13,375	299,805	58,109	979,787
Charge for the year (note 12)	150,972	-	15,107	-	4,550	768	29,527	4,204	205,128
Total	603,970	-	57,872	7,366	109,919	14,143	329,332	62,313	1,184,915

NET BOOK VALUE

As at June 30, 2017	1,328,534	16,537	697,456	-	6,233	-	127,303	8,862	2,184,924
As at June 30, 2016	1,195,940	16,537	712,563	-	9,241	768	148,945	13,066	2,097,060

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017 NOTES (CONTINUED)

16. Property plant and equipment (continued)

For the year ended 30th June 2016

	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Computers & LED Screens	Motor Vehicles	Generators, Plant Tools, Crane, CCTV & Equipment	Driveway, Watchtower, Sheds, Roads, Boat & Garden	Total
COST	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
As at 1, July 2015	1,607,061	16,537	739,514	7,366	101,819	16,404	433,197	71,175	2,993,073
Additions	17,971	-	15,814	-	12,791	-	937	-	47,514
Transfers (note 17)	27,513	-	-	-	-	-	14,615	-	42,128
Disposal	(3,607)	-	-	-	-	(2,261)	-	-	(5,868)
Total	1,648,938	16,537	755,328	7,366	114,610	14,143	448,750	71,175	3,076,847
DEPRECIATION									
As at 1, July 2015	377,457	-	27,342	7,366	100,702	12,521	281,134	53,880	860,402
Charge for the year (note 12)	79,148	-	15,423	-	4,667	3,115	18,671	4,229	125,253
Disposal	(3,607)	-	-	-	-	(2,261)	-	-	(5,868)
Total	452,998	-	42,765	7,366	105,369	13,375	299,805	58,109	979,787
NET BOOK VALUE									
As at June 30, 2016	1,195,940	16,537	712,563	-	9,241	768	148,945	13,066	2,097,060
As at June 30, 2015	1,229,604	16,537	712,172	-	1,117	3,884	152,063	17,296	2,133,302

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

16. Property plant and equipment (continued)

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

	Cost or valuation	Notional annual depreciation
	2016/2017	2016/2017
	Kshs'000'	Kshs'000'
Guard rails	7,366	737
Computers and LEDs	101,451	30,435
Office equipment, furniture and fittings	136,493	13,649
Motor vehicles	14,042	3,510
Generators, plant, tools, Cranes, CCTV & equipment	214,533	21,453
Total	473,885	69,784

17. Capital work in progress

Capital work in progress relates mainly to the costs of on-going but incomplete works on building and other civil works and installations.

	2016/2017	2015/2016
	Kshs'000'	Kshs'000'
As at start of year	115,457	113,795
Addition	1,680,190	43,790
Transfer to property, plant & equipment (Note 16)	(100,361)	(42,128)
As at end of year	1,695,286	115,457

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

18. Investment property

Item	2016/2017	2015/2016
	Kshs'000'	Kshs'000'
COST		
As at start and end of year	<u>393,446</u>	<u>393,446</u>
DEPRECIATION		
As at start of year	55,082	47,213
Charge for the period (note 12)	<u>7,869</u>	<u>7,869</u>
Total	<u>62,951</u>	<u>55,082</u>
Net book Value	<u>330,495</u>	<u>338,364</u>

Investment property relates to infrastructure facilities at the mainland side of the operation area which is rented out for rental income.

19. Prepaid operating lease rental

Item	Land	Buildings	2016/17	2015/16
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
COST				
As at start and end of year	<u>8,000</u>	<u>2,000</u>	<u>10,000</u>	<u>10,000</u>
AMORTIZATION			-	
As at start of year	5,206	1,736	6,942	6,609
Charge for the period (note 13)	<u>267</u>	<u>66</u>	<u>333</u>	<u>333</u>
Total	<u>5,473</u>	<u>1,802</u>	<u>7,275</u>	<u>6,942</u>
Net Book Value	<u>2,527</u>	<u>198</u>	<u>2,725</u>	<u>3,058</u>

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

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

20. Intangible assets

Item	2016/2017	2015/2016
	Kshs'000'	Kshs'000'
COST		
As at start and end of year	18,138	18,138
AMORTISATION		
As at start of year	18,138	18,021
Charge for the year (note 13)	-	117
Total	18,138	18,138
Net book Value	-	-

Intangible assets relates to various software used by the company which include ACCPAC accounting software, payroll software (memory soft) among others. The intangible assets are fully depreciated.

21. Inventories.

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

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

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Fuel & Oil	475	837
Stationery	1,192	1,155
Spare parts	111,322	73,978
Total	112,989	75,970

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

21. Inventories (continued)

21(a) Ferry spare parts

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Gross Spare parts	149,933	112,590
Obsolete Stock Accumulation	(38,611)	(38,611)
Total	111,322	73,978

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

22. Trade and other receivables

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Trade receivables	96,669	88,982
Less: Provision for bad debts	(40,903)	(40,903)
Net trade receivables	55,766	48,079
Deposits and prepayments	620,289	613,791
VAT recoverable	30,410	9,872
Net staff receivables	10,157	9,682
Total	716,622	681,424

22 (a) Staff receivable

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Gross staff receivable	13,377	12,902
Less: Provision for bad debts	(3,220)	(3,220)
Net staff receivable	10,157	9,682

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

22. Trade and other receivables (continued)

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

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

The ageing analysis of gross trade receivables is as follows:

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Less than 30 days	11,338	34,512
Between 30 and 60 days	3,000	2,312
Between 61 and 90 days	3,001	2,332
Between 91 and 120days	100	2,332
Over 120 days	79,230	47,494
Total	96,669	88,982

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

Included under staff receivables is advances made to staff as well as staff imprest. Staff Imprest outstanding as at end of the financial year was Kshs 5,146,044 and Kshs 996,000 for 2016/2017 and 2015/2016 respectively. Outstanding provisions largely relates to advances made to staffs who have since been dismissed before full settlement had been made. The outstanding amounts due is however being pursued through the legal process to ensure full recovery.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

23. Cash and bank

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Cash at bank	254,236	1,019,170
Cash in hand	100	1,450
Total	254,336	1,020,620

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

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Cash and bank	254,336	1,020,620
Bank overdraft (note 28)	(17,343)	-
Total	236,993	1,020,620

The entire amount of cash at bank is held with National Bank of Kenya, Portway branch the Company's main bankers and are as summarized below.

Account name	Account number	2016/2017	2015/2016
		Kshs '000'	Kshs'000'
Main current account	01003057007200	-	526
Special account	01003057007201	28	2,737
Development account	01003057007202	247,157	1007,853
Collection account	01003057007203	7,051	8,054
Total		254,236	1,019,170

Amount held in development account are funds earmarked for acquisition of two ferries among other development projects. The contract for the acquisition of the ferries was signed in August 2015 and construction is on-going.

Cash in hand relates to funds being utilized for change management at the two Company toll booths.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

24. Share capital

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

	2016/2017	2015/2016
	Kshs'000'	Kshs'000'
Authorized		
5,000,000 ordinary shares of Kshs 100 each	500,000	500,000
Issued		
4,999,040 ordinary shares of Kshs 100 each	499,904	499,904

25. Accumulated deficits

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
At start of year – as previously stated	(913,493)	(805,220)
Prior year adjustment	(19,709)	-
At start of year - Restated	933,202	(805,220)
KPA debt written off	336,010	-
Deficit for the year	(83,783)	(127,982)
Total	(680,975)	(933,202)

The Company recorded a deficit of Kshs138 million during the year as compared to a deficit of Kshs108 million in 2015/2016 and a deficit of Kshs 43 million 2014/2015 financial year. The Company also received from the National Treasury, an approval vide FA/3/2/02 dated 12th July 2017 to write off the long outstanding KPA debt of Kshs 336,010,000, whereby the same has been adjusted against revenue reserves.

26. Revaluation reserves

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
At start and end of year	542,280	542,280

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

26. Revaluation reserves (continued)

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

27. Deferred income

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
At start of year	3,658,631	2,715,590
Additions	1,200,000	1,068,000
Transfer to income statement	(185,437)	(124,959)
At end of year	4,673,194	3,658,631

Deferred income reflects on capital grants that the Company receives from the government for its development projects. For completed projects the Company apportions the respective costs over their useful life to statement of comprehensive income as deferred income. During the year the Company received capital grants from the government (Kshs1,200million) for acquisition of two ferries and maintenance for existing fleet.

28. Borrowings

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Non-current		
KPA advances (note 31(b))	-	336,010
Current		
Bank overdraft	17,343	-
Total	17,343	336,010

KPA advance relates to amounts advanced by Kenya Ports Authority during the initial years of operations. The balance is unsecured, interest free with no fixed date of repayment.

The bank overdraft is book overdraft i.e. corresponding bank amounts have not been overdrawn.

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

29. Trade and other payables

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Trade creditors	202,614	197,081
Other payables	43,017	31,248
Total	245,631	228,329

These refer to all categories of suppliers of goods and services to the Company, including staff, whose payments were outstanding at the close of the financial year 2016/2017. The same shall be paid in the new financial year 2017/2018 as a first charge.

30. Cash used in operations

Reconciliation of operating deficit to cash used in operations

	2016/2017	Restated 2015/2016
	Kshs '000'	Kshs'000'
Operating deficit	(83,783)	(127,982)
Depreciation of property, plant and equipment (note 16)	205,127	125,253
Depreciation of investment property (note 18)	7,869	7,869
Amortization of prepaid operating lease rentals (Note 19)	333	334
Amortization of intangible assets (note 20)	-	117
Gain on disposal of property plant and equipment (note 4)	-	(2,153)
Transfer from deferred income (note 5)	(185,437)	(124,959)
Finance Income (note 14)	(3,176)	(56)
Foreign exchange loss (note 15)	-	33,509
Prior year adjustment for salaries	-	(35,135)
Changes in working capital:		
- trade and other receivables	(35,198)	(561,978)
- Inventories	(37,020)	11,304
- trade and other payables	17,303	94,946
Cash used in operations	(113,982)	(578,931)

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

31. Related party transactions

a) Government of Kenya

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

	2016/2017	2015/2016
	Kshs '000'	Kshs'000'
Recurrent funds	356,000	336,032
Development funds	1,200,000	1,068,000
Total	1,556,000	1,404,032

b) Kenya Ports Authority (KPA)

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
At start of year	336,010	336,010
Write off	(336,010)	-
At end of year (note 28)	-	336,010

KPA owns 20% of the Company's equity interest. There was no other transaction that occurred with KPA during the year. KPA advanced funds to the Company during its initial stages. The balance was written off during the year.

c) Key management personnel compensation

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

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
Earnings paid to key managerial staff	22,957	40,615
Directors fees	22,521	14,528
Total	45,478	55,143

KENYA FERRY SERVICES LTD

Annual Report and financial statements for the year ended 30th June 2017

NOTES (CONTINUED)

32. Contingent liabilities

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

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

	2015/2016	
	Kshs	Kshs
Estimated gross claims fatal and non-fatal	213,795	213,795
Claims paid	(66,295)	(66,295)
Estimated liabilities	<u>147,500</u>	<u>147,500</u>

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

33. Incorporation

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

34. Taxation

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