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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

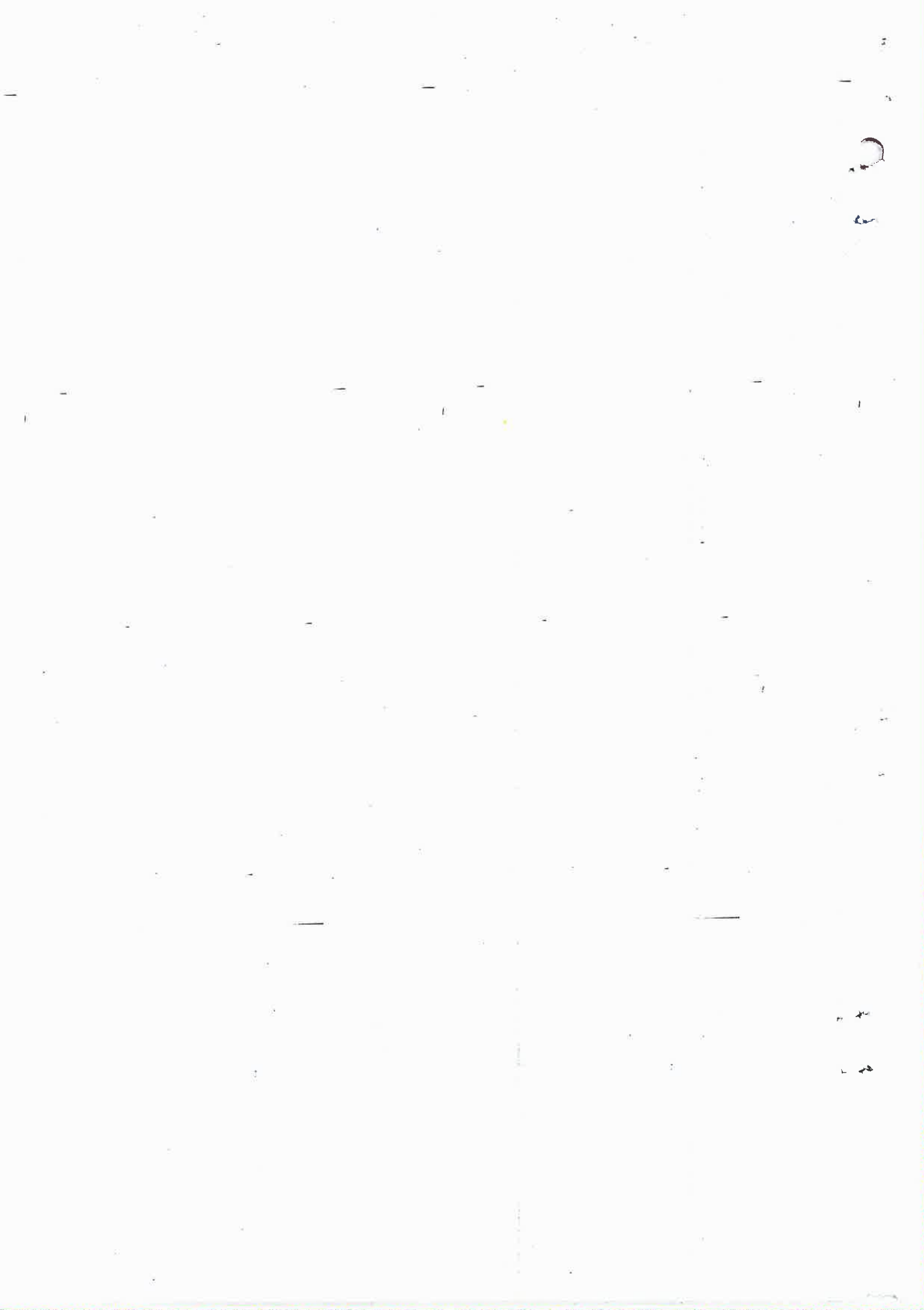
OF

THE AUDITOR-GENERAL

ON

KENYA SHIPYARDS LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2023**





OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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29 SEP 2023

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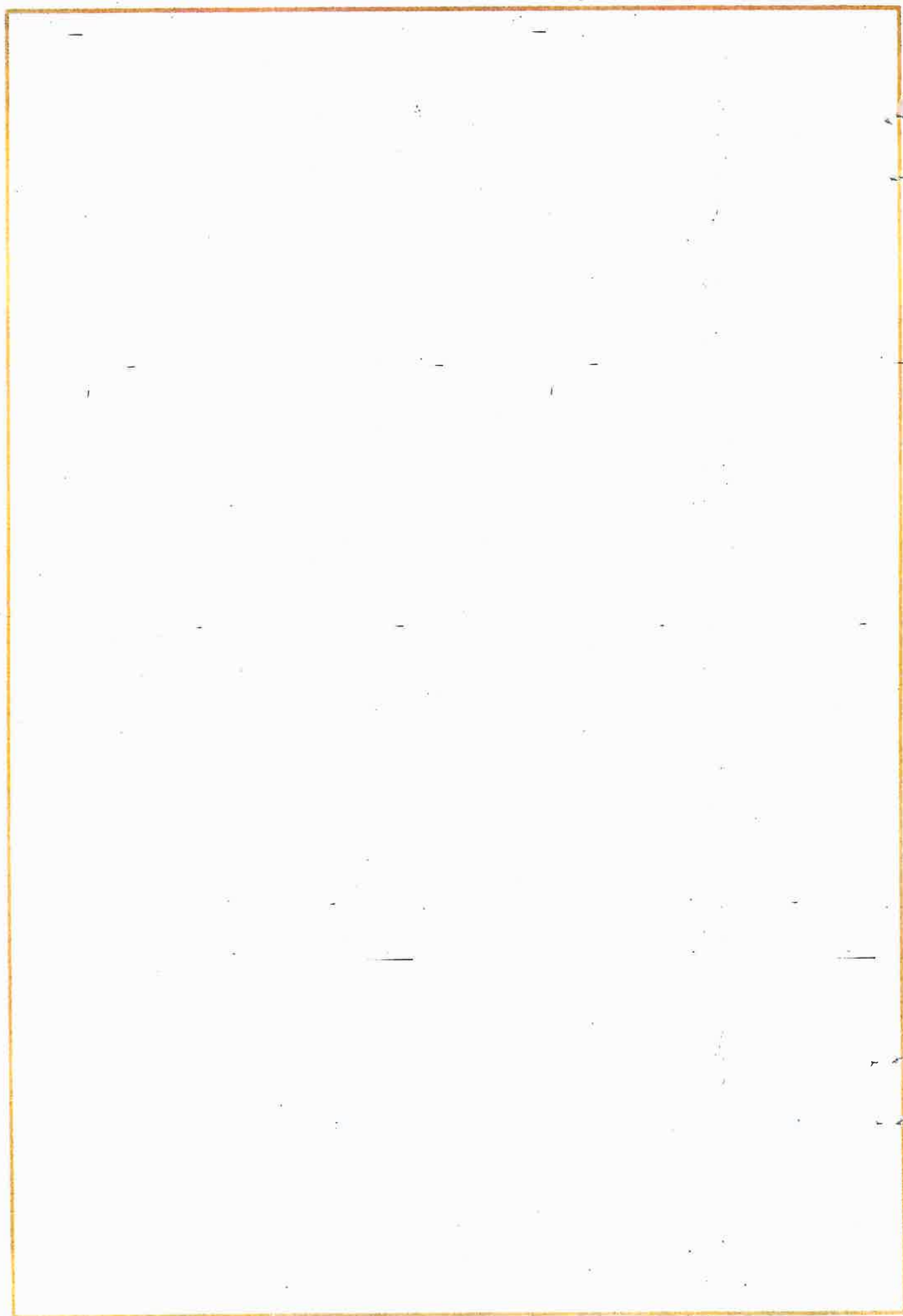
KENYA SHIPYARDS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2023

Prepared in accordance with the International Financial Reporting Standards





Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

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Acronyms and Glossary of Terms

| | |
|-------|---|
| A-I-A | Appropriation in Aid |
| CDF | Chief of Defence Forces |
| CPA-K | Certified Public Accountant-Kenya |
| IFRS | International Financial Reporting Standards |
| KPA | Kenya Ports Authority |
| KRA | Kenya Revenue Authority |
| KSL | Kenya Shipyards Limited |
| MD | Managing Director |
| MDAs | Ministries, Departments and Agencies |
| MOD | Ministry of Defence |
| MOU | Memorandum of Understanding |
| PPDA | Public Procurement and Disposal Act |
| PFM | Public Finance Management |
| SAGA | Semi-Autonomous Government Agency |



1. Kenya Shipyards Limited Information

a. Background information

The National Security Council vide Executive Order CAB/GEN.3/1/1/ (60) dated 14 August 2020 approved the establishment of Kenya Shipyards Limited (KSL). KSL was incorporated on 29 September 2020 under the Companies Act and is represented by the Cabinet Secretary for Defence, who is responsible for the general policy and strategic direction. KSL operates in Kenya with the headquarters in Mombasa and branches in Nairobi and Kisumu.

b. Vision Statement

To be the leading catalyst of the development of Shipbuilding Industry in Eastern Africa.

c. Mission Statement

To establish and develop the growth of Shipbuilding Industry through provision of World Class Construction, Refits, Maintenance and Repairs, and other Maritime Services in a Sustainable and Efficient manner.

d. Core Values

These are the principles and beliefs that guide the actions and behaviours of the team at work in supporting the vision and shaping KSL's culture:

1. **Integrity:** Observing the highest standards of ethics, honesty and accountability at all times.
2. **Team Spirit:** Working together in a spirit of creativity and mutual respect to achieve common objectives.
3. **Professionalism:** Delivering the best quality service to customers with utmost vigour and efficiency.
4. **Excellence:** Quest for the highest level of performance through continuous improvement of skills and business practices.



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e. Mandate

The mandate of Kenya Shipyards Limited is to lead and catalyse the introduction of the new shipbuilding industry in Eastern Africa with a focus on meeting the local demand from Kenya Navy, Ministries, Departments and Agencies (MDAs) with maritime assets, other public and private domestic and regional clients.

f. Principal Activities

The principal activity of the Kenya Shipyards Limited is to provide world class maritime services through:

1. Design and construction of new marine vessels and marine vessel components.
2. Ship repair and maintenance.
3. Ship refit and conversion.
4. Other maritime services.

(e) Directors

The Directors who served the Kenya Shipyards Limited during the Financial Year ended 30 June 2023 were as follows:

| | Director | Position | Date |
|-----|----------------------------|-------------------|----------------------------|
| 1. | Gen (Rtd) Robert K Kibochi | Former CDF | Left on 28 April 2023 |
| 2. | Gen Francis O Ogolla | Chairman | Appointed on 29 Sept 2020 |
| 3. | Lt Gen Jonah Mwangi | VCDF | Appointed on 28 April 2023 |
| 4. | Lt Gen (Rtd) W R Koipaton | Former Comd KA | Left on 20 July 2022 |
| 5. | Lt Gen Peter M Njiru | Comd KA | Appointed on 20 July 2022 |
| 6. | Maj Gen John M Omenda | Comd KAF | Appointed on 23 July 2021 |
| 7. | Maj Gen Jimson L Mutai | Comd KN | Appointed on 29 Sep 2020 |
| 8. | Dr Julius Muia | Former PS NT | Left on 01 Dec 2022 |
| 10. | Dr Ibrahim M Mohamed | Former PS Defence | Left on 01 Dec 2022 |



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| | Director | Position | Date |
|-----|------------------------------|----------------------------------|---------------------------|
| 13. | Amb Kiriimi Kaberia | Former PS Industrialization | Left on 01 Dec 2022 |
| 12. | Mrs Nancy Karigithu | Former PS Shipping & Maritime | Left on 01 Dec 2022 |
| 14. | Dr Chris Kiptoo | PS NT | Appointed on 01 Dec 2022 |
| 15. | Mr Patrick Mariru | PS Defence | Appointed on 01 Dec 2022 |
| 16. | Mr Shadrack Mwadime | PS Shipping & Maritime | Appointed on 01 Dec 2022 |
| 17. | Mr Juma Mukhwana | PS Industry | Appointed on 01 Dec 2022 |
| 18. | Ms Reshma Shah | Independent Director | Appointed on 01 Oct 2021 |
| 19. | Ms Maryanne Karanja | Independent Director | Appointed on 01 Oct 2021 |
| 20. | Ms Monique Mukayagi | Independent Director | Appointed on 08 Mar 2022 |
| 21. | Maj Gen Paul O Otieno | Managing Director | Appointed on 29 Sep 2020 |
| 22. | Brig Yvonne Kerubo | Corporation Secretary | Appointed on 23 July 2021 |



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Corporate Secretary

The Chief of Legal Services (CLS)
Ministry of Defence
P.O. Box 40668-00100
Nairobi, Kenya

Corporate Headquarters

Kenya Shipyards Limited
Kenya Navy Base -Mtongwe
P.O Box 95350 – 80104
Mombasa, Kenya

Corporate Contacts

Telephone: +254769995132
+254103552688
E-mail: info@ksl-mod.go.ke

Corporate Bankers

1. Cooperative Bank of Kenya
Nkrumah Road
P.O. Box 87771- 80100
Mombasa, Kenya
2. Kenya Commercial Bank of Kenya
Treasury Square
P.O. Box 90254- 80100
Mombasa, Kenya

Principal Legal Advisors

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112-00200
Nairobi, Kenya
2. The Chief of Legal Services (CLS)
Ministry of Defence
Ulinzi House
P.O. Box 40668-00100
Nairobi, Kenya

Independent Auditors

Auditor General
The Office of the Auditor General
Anniversary Towers; University
Way
P.O Box 30084-00100
Nairobi, Kenya



3. The Board of Directors



Gen Francis Omondi Ogolla
MGH EBS HSC 'ndc' (K) 'psc' (FRA)
Chairman

Gen F O Ogolla is the Chief of the Defence Forces. He is a graduate of École Militaire de Paris and National Defence College of Kenya. He holds a Diploma in International Studies and Military Science from Egerton University, a Bachelor of Arts degree in Political Science, Armed Conflict and Peace Studies and Master of Arts in International Studies from the University of Nairobi. He has served as an observer, military information officer and held various appointments in training, command and staff positions.



Lt Gen Jonah M Mwangi
MGH CBS 'AWC' (USA) 'psc' (K)

Lt Gen J M Mwangi is the Vice Chief of Defence Forces. He has attended diverse local and overseas courses related to leadership, command and management. He holds a Diploma in National Security from United States Army War College and a bachelor's degree in Peace and Conflict Studies from Africa Nazarene University. Prior to his appointment as VCDF, he was the vice chancellor at National Defence University-Kenya (NDU-K). He has held various appointments that span command, staff and instructional duties.



Lt Gen Peter M Njiru
MGH CBS 'rcds' (UK) 'psc' (K)

Lt Gen Njiru is the Commander of the Kenya Army. He is a graduate of the RCDS Course in the United Kingdom and hold a Master of Arts degree in International Security and Strategy from King's College, London. He has held various appointments in training, command and staff positions and served in the United Nations mission.



Maj Gen John M Omenda
EBS SS OGW 'rcds' (UK) 'psc' (K)

Maj Gen J M Omenda is the Commander of the Kenya Air force. He is a graduate of Defence Staff College of Kenya and Royal College of Defence Studies, UK. He holds a Diploma in Strategic Studies, Bachelor of Arts in Peace and Conflict studies and Master of Arts in International Security and Strategy. He has held various appointments in training, command and staff duties.



Maj Gen Jimson L Mutai
MGH MBS 'ndc' (K) 'psc' (K)

Maj Gen J L Mutai is the Commander Kenya Navy. He is a graduate of National Defence College Kenya and holds Diplomas in International Studies and Strategic Studies. He is currently undertaking master's in international relations and World Order at University of Leicester (UK). He has held various appointments in training, command and staff duties.



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Mr Patrick Mariru

Mr. P Mariru is the Principal Secretary, MOD. He is an advocate of the High Court of Kenya. He holds a bachelor's degree in law, post graduate diploma in law, master's degree in public policy and management and master's degree in divinity. He is currently pursuing PhD in leadership and governance and master's degree in sustainable development. He is a dedicated Public Policy and Management

Expert with local, national and international experience of over 15 years in public policy development, community engagement, program development and supporting national government initiatives.



Dr Chris Kiptoo

Dr. C Kiptoo is the Principal Secretary to the National Treasury. He holds a PhD in international macroeconomics, specialized in finance, master's degree and bachelor's degree in economics from Egerton University. He is in macroeconomics management. He has vast experience in economics having served at Central Bank of Kenya, IMF and as the economic adviser to the former prime minister.



Mr Shadrack M Mwadime EBS MBS

Mr. S M Mwadime is the Principal Secretary maritime affairs. He is a senior public administrator with 30 years' experience offering leadership and coordinating government development projects in various districts across the nation. He was the Chairman, Vision 2030 District Implementation committee that coordinates

all development stakeholders in the districts.



Dr Juma Mukhwana HSC

Dr. J Mukhwana is the Principal Secretary in the State Department of Industry. He holds a PhD in soil science, master's degree in pharmacology & toxicology and a bachelor's degree in veterinary medicine. He has worked in the public and private sectors for over 20 years and has been instrumental in developing and implementing policies to support local manufacturing. He represents the country in the United - Nations Industrial Development

Organization (UNIDO). Dr. Mukhwana is an accomplished Leader, passionate speaker and powerful change agent.



Ms Reshma Shah



Ms R Shah is a tax and business development expert. She is a qualified chartered accountant with over 20 years multidisciplinary international and local experience in areas including business strategy and performance, risk and change management, tax and sustainability. She is currently the group director -sustainability at Equity Group Holdings.

Ms Monique Mukayagi



Ms M Mukayagi is a Human resource professional with a diverse work experience across a range of industries and cultures. She currently runs her own consultancy company as a human resource consultant, trainer and certified coach.

Ms Maryanne Karanja



Ms M Karanja is a business leader with over 20 years' track record in Supply Chain, Business strategy development and execution support across Africa. She has vast experience in Strategy Development, Team Leadership, embedding Change, Supply Chain Management, Project Management and Financial Management. She holds a B. Com (Finance & Banking major), MBA (Henley, UK) and is a Fellow of CIPS (UK) with an Accountancy qualification, CPA (K). She is a member of the Institute of Directors of Kenya (IOD) and the Women on Boards Network (WOBN).



Maj Gen Paul O Otieno
EBS 'ndc' 'psc' (K)



Maj Gen P Otieno is the Managing director, KSL. He holds a Diploma in Strategic Studies, Master of Science in Electronics and Master of Arts degree in International Studies. He has experience in national strategic military assignments and international tasking including national security and peacekeeping operations.

Brig Yvonne Kerubo
'ndc' 'psc' (K)



Brig Y Kerubo is the Chief of Legal Services at Kenya Defence Forces. She is an advocate of the High Court of Kenya and is the Corporate Secretary, KSL. She holds a bachelor's degree in law, master's degree in business administration and is a Certified Public Secretary (CPS).



4. Key Management Team

The key management personnel who held office during the financial year ended 30th June 2023 were:



Maj Gen Paul O Otieno
EBS 'ndc' 'psc' (K)
Managing Director
MSc (Elec), MA(Int studies)



Brig Yvonne Kerubo
'ndc' 'psc' (K)
Company Secretary
LL.B, CPS.



Brig Ibrahim K Omari
MBS 'ndc' 'psc' (K)
Deputy MD



Col Peter M Muthungu
MBS 'psc' (K)
Head of Production
BSc, Naval Engr (Ger)



Ms. Anne N. Kamaru
Head of Procurement
MSc Procurement



Mr. Joel Muriithi
Head of Accounting
BBA, MBA (Finance),
CPA (K)



Lt Col Shem O Masese
'psc' (K)
Head of Strategy and QA
B.Ed, Msc IT



Lt Col James O Ouda
Head of Corporate services
MA Conflict Mgt, BA
Criminology, Dip Procurement



Lt Col H A Washenga
OGW
Head MRO



5. Chairman's Statement



I am greatly honoured to present the Annual Report and Financial Statements of Kenya Shipyards Limited for the Financial Year ended 30 June 2023. As we appreciate the milestones and progress made in operationalizing KSL, it is critical to reflect on the fundamental role it has played in catalysing the shipbuilding industry. In line with its mandate, the Kenya Shipyards Limited has continued to construct, refit, repair and maintain maritime vessels for Government

MDAs as well as private entities within the region.

The period under review saw KSL achieve a number of milestones. KSL completed midlife refit of KNS Shupavu, floatation of MV Uhuru II, supply of new built boat MV Malkia to KPA, KSL also supplied a new built patrol boat to KRA and repaired and maintained MDAs vessels. The significant milestones registered is an affirmation of KSL's capability and commitment to realizing the vision of leading and catalysing the development of shipbuilding industry in Eastern Africa.

KSL remains committed to not only providing maritime services but also to supporting the shareholder, the Government of Kenya, in achieving its development agenda, exploring the blue economy and supporting the realization of the Bottom up Economic Transformation Agenda. KSL aims at spurring economic growth by unlocking the blue economy potential and promoting growth of ancillary and support industries.

KSL's outlook is governed by the desire to provide world class maritime products and services. KSL will endeavour to provide quality and cost-effective products in line with its strategic pillars.

On behalf of the Board, I wish to acknowledge and appreciate the goodwill and support by the National Government, Ministry of Defence (MOD) and all MDAs to KSL. The



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Board wishes to re affirm its commitment to providing support, leadership and oversight to ensure KSL role in catalysing shipbuilding is achieved.

Equally, I wish to extend appreciation to the Board of Directors and management for their dedication and resilience to deliver on KSL mandate. I wish to also recognize KSL staff for unreservedly being committed to the activities of KSL and dedicating their time to this call of duty, their individual and collective sacrifices have gone a long way in facilitating the achievements KSL is proud of in this Financial Year.

.....
Gen Francis O Ogolla MGH EBS HSC 'ndc'(K) 'psc' (FRA)
Chairman, Board of Directors KSL



6. Report of the Managing Director



I am pleased to present to you the Kenya Shipyards Limited Annual Report and Financial Statements for the Financial Year ended 30 June 2023 which marks KSL's third year of operation since inception in September 2020. This report provides an opportunity to reflect on factors and challenges that influenced KSL's performance during the year under review, as well as analyse the strategic initiatives put in place to steer business growth.

KSL continues to be an integral stakeholder in the Blue Economy and security sectors as it plays a key role in unlocking the blue economy's potential and enhancing maritime security and surveillance. KSL has aligned its strategies with the Government development agenda, Kenya Vision 2030, Medium Term Plan III, Bottom-up Economic Transformation Agenda, the Sustainable Development Goals and Agenda 2063.

During the period under review, KSL registered significant achievements despite facing a few operational and financial resource challenges. The key milestones attained during the year are as follows:

- a. **Completed Midlife refit of KNS Shupavu:** KSL in partnership with Ms Damen successfully completed eighteen (18) months long midlife refit of KNS Shupavu at the Mombasa yard. This will bolster the maritime capability of the Kenya Navy in discharging its mandate.
- b. **Rehabilitation of Kisumu linkspan and upgrade of Kisumu port:** KSL has reclaimed part of the Lake Victoria waters to construct piers at the Kisumu port and modernized the linkspan in a bid to open business in the lake region.
- c. **Supply of new built boat MV Malkia to KPA:** KSL supplied a 22 m long pilot boat christened MV Malkia built from Fibre Reinforced Polymer (FRP) with a capacity of 10 persons and maximum speed of 20knots for use at the newly constructed Lamu port.



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- d. **Supply of patrol boat to KRA:** KSL supplied an ultra-modern speed boat to bolster KRA border control enforcement efforts in Lamu. The boat christened KRA 008 will be used by the KRA Marine Enforcement unit to carry out maritime patrols along the corridor.

In a bid to bolster the KSL brand, the management is focused on developing a comprehensive plan that will provide sound framework for implementation of identified key activities as well as sustain successful business operations.

In conclusion the operationalization of KSL is a significant undertaking in realization of unlocking the blue economy and achieving a better Kenya. I therefore extend genuine appreciation to National Government, Ministry of Defence and the Board of Directors for their guidance on policy and strategic direction and to our partners and customers for their continued patronage. I also extend my sincere gratitude to the dedicated and talented KSL staff for their support and effort in achieving goals and objectives of KSL. I look forward to continuous support as we strive to realize our vision of catalysing the shipbuilding industry in Eastern Africa.

Maj Gen Paul O Otieno EBS

Managing Director, KSL



7. Statement of Performance against Predetermined Objectives for FY 2022/2023

KSL has Four strategic objectives within its work plan for FY 2022/2023. These objectives are as follows:

1. National Security: to support national security and defence capability.
2. Stakeholder engagement: to foster inclusivity and achieve sustainable and socially responsible outcomes.
3. Partnerships: to foster strategic partnerships.
4. Capacity Building: to support development and capacity building.



Refitted KNS Shupavu at Mombasa shipyard



UK staff course briefing at Mombasa Shipyard



Assessment of interns at Kisumu Shipyard



Survey of KCGS boats at Kisumu Shipyard

| Strategic Pillar | Objective | KPIs | Activities | Achievements |
|------------------------|---|---|--|--|
| National Security | To support National security and defence capability | <ul style="list-style-type: none"> a. No. of repairs and maintenance delivered upon/supplied. b. Completion of midlife refit of KNS Shupavu | <ul style="list-style-type: none"> a. Repair and maintenance of marine vessels b. Midlife refitting of KNS Shupavu | <ul style="list-style-type: none"> a. Repaired and supplied maritime products to various MDAs including those mandated to offer maritime security. b. Completed the midlife refitting of KNS Shupavu. |
| Stakeholder engagement | To foster inclusivity and achieve sustainable and socially responsible outcomes | <ul style="list-style-type: none"> a. No. of sensitization b. No. of surveys | <ul style="list-style-type: none"> a. Sensitize stakeholders on mandate of KSL. b. Conduct surveys on client needs. | <ul style="list-style-type: none"> a. Conducted familiarization tours and briefs to various groups. b. Conducted surveys on various marine vessels for MDAs. |
| Partnerships | To foster strategic partnership | <ul style="list-style-type: none"> a. Framework agreements and MOUs. b. No. of Collaborations. | <ul style="list-style-type: none"> a. Sign framework agreements and MOUs. b. Partner with shipbuilding entities. | <ul style="list-style-type: none"> a. Framework Agreements and MOU signed between KSL and other clients/partners. b. Partnered with shipbuilding companies such as SECO, AMGECO, Bogazici shipyards, Med marine. |
| Capacity building | To support talent development and capacity building | <ul style="list-style-type: none"> a. No. of conferences held. b. No. of Interns engaged. | <ul style="list-style-type: none"> a. Attend conference on maritime affairs. b. Engage interns on industrial attachment for 3 months | <ul style="list-style-type: none"> a. Hosted EAC defence industries Expo in Kisumu. b. Participated in Kenya International Investment conference. c. Engaged four students from JKUAT on 3 months industrial attachment at Kisumu yard. |



8. Corporate Governance Statement

The Kenya Shipyards Limited subscribes to the tenets of governance as provided in Chapter 6 - Leadership and Integrity in the Constitution of Kenya 2010. The Board of Directors is guided by Mwongozo code of conduct, international standards and principles that are essential for good corporate governance practices. The Board of Directors and management are responsible for the governance of the company and are committed to ensuring that its business operations are conducted with integrity and in compliance with the law, internationally accepted principles and business ethics in support of KSL vision to be the leading catalyst in development of shipbuilding industry in Eastern Africa.

Roles and Functions of the Board

The primary role of the Board is to ensure prosperity of the company for the benefit of shareholders, customers, employees and other stakeholders. The Board is responsible for policy formulation; Strategic Leadership and Planning; Resource Mobilization and Project management; Decision making; Compliance and Risk Characterization; Monitoring Progress and Direction of Executive Performance. This is achieved through adoption of ethically driven business structures, procedures and processes to meet KSL's client expectations.

Appointment and removal of Board of Directors

The Memorandum and Articles of Association of the company state that the provisions of the State Corporations Act shall govern the appointment and removal of the Board of Directors. The constitution of the Board of Directors is provided for under the Memorandum and Articles of Association Section 3. The Board members other than the independent Directors appointed by the Cabinet Secretary responsible for Defence, may appoint their alternates by notice in writing to the chairperson.

Board Composition and diversity

The Board has Fourteen (14) members including one (1) managing director, one (1) company secretary and three (3) independent directors. The Board composition is outlined in the Articles of Association (Article 9). The members possess a broad range of skills and competencies, including legal, finance, human resource, economics and



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strategic management. The biographies of the Board members are disclosed on pages vii to xii of this report.

In accordance with Section 18 (2) (c) of the State Corporation Act, the Inspector General (Corporations) has the power to attend meetings of any state corporation including the meetings of the Board and its Committees. During the year, Mr. Arthur Gacheru Karagu, Deputy Inspector General was appointed to represent the Inspector of State Corporation in all KSL Board meetings.

Board Changes

The following Board members ceased to be board members following their retirement from the military and public service:

| | Director | Position | Date |
|----|----------------------------|-------------------------------|-----------------------|
| 1. | Gen (Rtd) Robert K Kibochi | Former CDF | Left on 28 April 2023 |
| 2. | Lt Gen (Rtd) W R Koipaton | Former Comd KA | Left on 20 July 2022 |
| 3. | Dr Julius Muia | Former PS NT | Left on 01 Dec 2022 |
| 4. | Dr Ibrahim M Mohamed | Former PS Defence | Left on 01 Dec 2022 |
| 5. | Mrs Nancy Karigithu | Former PS Shipping & Maritime | Left on 01 Dec 2022 |
| 6. | Amb Kirimi Kaberia | Former PS Industrialization | Left on 01 Dec 2022 |

The following members joined the Board of Directors following their appointment to office in the military and public service respectively:

| | Director | Position | Date |
|----|----------------------|------------------------|----------------------------|
| 1. | Lt Gen Jonah Mwangi | VCDF | Appointed on 28 April 2023 |
| 2. | Lt Gen Peter M Njiru | Comd KA | Appointed on 20 July 2022 |
| 3. | Dr Chris Kiptoo | PS NT | Appointed on 01 Dec 2022 |
| 4. | Mr Patrick Mariru | PS Defence | Appointed on 01 Dec 2022 |
| 5. | Mr Shadrack Mwadime | PS Shipping & Maritime | Appointed on 01 Dec 2022 |
| 6. | Mr Juma Mukhwana | PS Industry | Appointed on 01 Dec 2022 |



Ethics and Conduct

Kenya Shipyards Limited continues to consistently implement compliance as stipulated in the Constitutional Provisions of Chapter VI (Leadership and Integrity), Leadership and Integrity Act, National Values and Public Officers Ethics Act. The Company ensures corporate governance guidelines and best practices are followed and that all corporate affairs are managed in a fair, efficient and transparent manner.

Conflict of Interest

The Board members are obligated to fully disclose any real and potential conflict of interest which comes to their attention. The directors are aware that all their business transactions or those of their related parties are carried out at arms' length and are to be disclosed to avoid any conflict of interest. Where a conflict of interest is declared, a director is required to exclude himself/herself from any discussion or decision over the subject matter. The Board wishes to report that there were no insider dealings for the year ended 30 June 2023.

Board Remuneration

The directors' remuneration rates are as outlined in the State Corporations Act and by the Salaries and Remuneration Commission Circulars. KSL does not grant personal loans or guarantees to its directors.

Succession Plan

In cognizance to board succession planning policy, the board appointments are undertaken on a staggering basis to allow for continuity. The board members other than independent directors appointed by the Cabinet Secretary responsible for defence, are directors after their appointment to their respective designation and offices. The independent directors appointed by the Cabinet Secretary defence are directors after their Gazettement.

Board Charter

KSL Board Charter is inspired by the dictates of good corporate governance and acts as reference guide for the Directors in stipulating their individual and collective responsibilities, powers, duties, obligations and liabilities. The Charter is drawn from



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the Mwongozo Code of Conduct and best corporate governance practices. It sets out the roles and responsibilities of Directors with respect to its strategic, oversight role, stewardship and fiduciary responsibilities. The Board Charter provides policy direction on issues of accountability, transparency, value addition, legitimacy, overall credibility and business operations of the Company.

Induction and Training

KSL conducts induction and training programs to new board members of the Board to appraise them on operations and related governance matters of Kenya Shipyards Limited. As part of the induction program, detailed presentations are made by management and site visits to the yards so that the Directors can familiarise and gain good sense of KSL operations and necessary exposure required for executing the company's mandate.

Board Committees

The board has established four (4) committees with specific delegated mandates. The Board Committees are run with clearly articulated terms of reference as approved by the Board of Directors. The membership is summarised as follows:

| | Committee | Members |
|----|-----------------------------|--|
| 1. | Finance and Strategy | 1. PS Treasury - Chair 2. Comd KAF 3. Comd KN 4. PS Shipping and Maritime |
| 2. | Human Resource | 1. Comd KAF - Chair 2. Comd KN 3. PS Industrialization |
| 3. | Audit | 1. PS Defence - Chair 2. Comd KA 3. PS Shipping and Maritime |
| 4. | Operations | 1. VCDF- Chair 2. Comd KN 3. PS Industrialization |



Board attendance

The Board meets quarterly or additionally when necessary to consider matters relating to the overall control of the business. The Board work plan and calendar are prepared at the beginning of year and adequate notice, agenda and board papers are circulated within the stipulated timelines. During the period under review, the Board met Two (2) times and below is an extract for attendance of the board meeting:

| S/No | Members | Designation | Attendance | % |
|------|--|-------------------------------|------------|------|
| 1. | Gen (Rtd) Robert K Kibochi | Former Chairman | 1/1 | 100% |
| 2. | Gen Francis O Ogolla | Chairman | 2/2 | 100% |
| 3. | Lt Gen Jonah Mwangi | VCDF | 0/1 | - |
| 4. | Lt Gen (Rtd) Walter R Koipaton | Former Comd KA | 1/1 | 100% |
| 5. | Lt Gen Peter M Njiru | Comd KA | 1/1 | 100% |
| 6. | Maj Gen Jimson L Omenda | Comd KAF | 2/2 | 100% |
| 7. | Maj Gen Jimson L Mutai | Comd KN | 2/2 | 100% |
| | Dr Julius Muia | Former PS NT | 1/1 | 100% |
| 8. | Alternate Dir: Mr Humphrey Muhu | | | |
| 9. | Dr Chris Kiptoo | PS NT | 0/1 | - |
| 10. | Mrs Nancy Karigithu | Former PS Shipping & Maritime | 1/1 | 100% |
| 11. | Mr Shadrack Mwadime | PS Maritime affairs | 1/1 | 100% |
| | Alternate Dir: Mr Gideon Mwangi | | | |
| 12. | Amb Kirimi Kaberia | Former PS Industrialization | 1/1 | 100% |
| 13. | Mr Juma Mukhwana | PS Industry | 0/1 | - |
| 14. | Ms Reshma Shah | Independent Director | 1/2 | 50% |
| 15. | Ms Maryanne Karanja | Independent Director | 1/2 | 50% |
| 16. | Ms Monique Mukayagi | Independent Director | 2/2 | 100% |
| 17. | Maj Gen Paul O Otieno | Managing Director | 2/2 | 100% |
| 18. | Brig Yvonne Kerubo | Corporation Secretary | 2/2 | 100% |



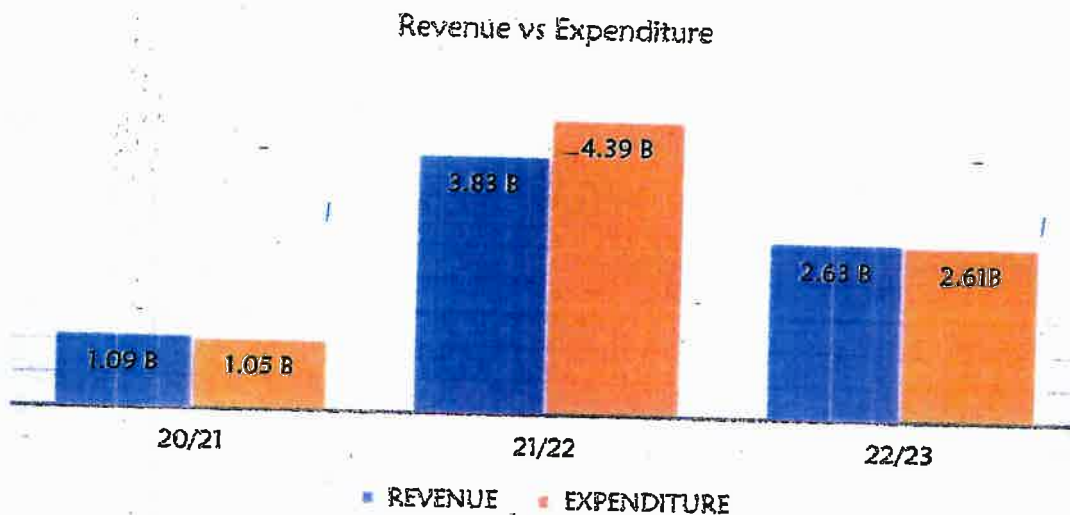
9. Management Discussion and Analysis

Section A: Operational and Financial Performance

Revenue

KSL aimed at raising 100% of the budgeted revenue and containing its expenditure within the approved ceilings. In the financial year under review, KSL was allocated a total of Kshs 250 million as recurrent grant which was received in full and absorbed in funding its operations. No development grant was received in the financial year under review.

KSL generated Ksh 2.63 billion as A-I-A against Ksh 3.83 billion in the previous period. The A-I-A was realized from sale of maritime assets and services to MDAs. The drop in revenue is attributed to lack of exchequer provision with regards to construction of MV Uhuru II.

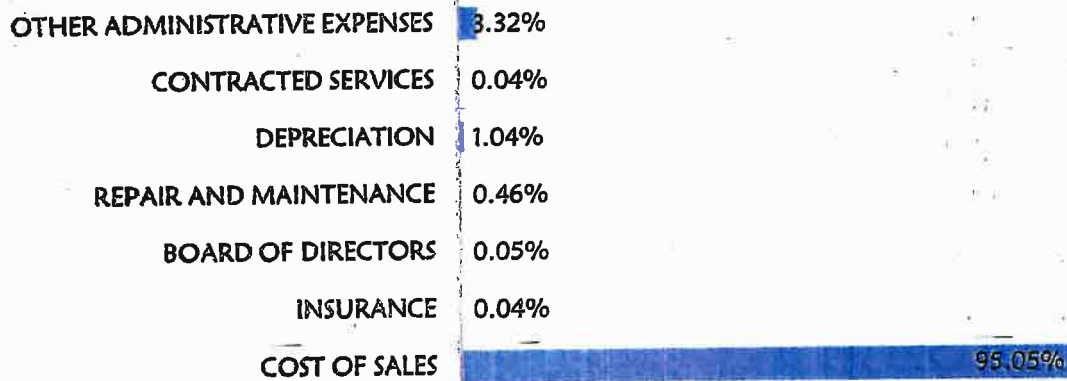


Expenditure

The total actual expenditure for financial year 2022/2023 amounted to Ksh 2.61 billion against Ksh 4.39 billion in the previous period. The expenditure analysis is as presented below:



Expenditure Analysis

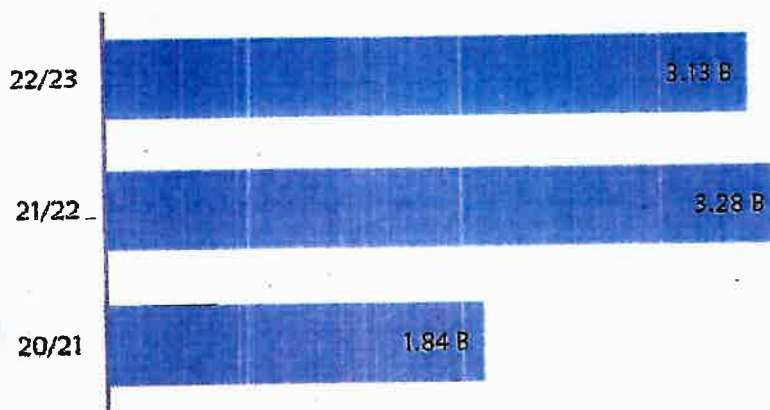


Assets

KSL committed additional resources to the tune of Kshs.47 million on capital expenditure mainly building works, ICT equipment, Motor vehicles, furniture and fittings.

KSL posted a decrease of 4.5% in the value of its assets from Ksh 3.28 billion in FY 2021/22 to Ksh 3.13 billion in FY2022/23. The decrease is attributable to reduced capital expenditure and depreciation.

ASSETS





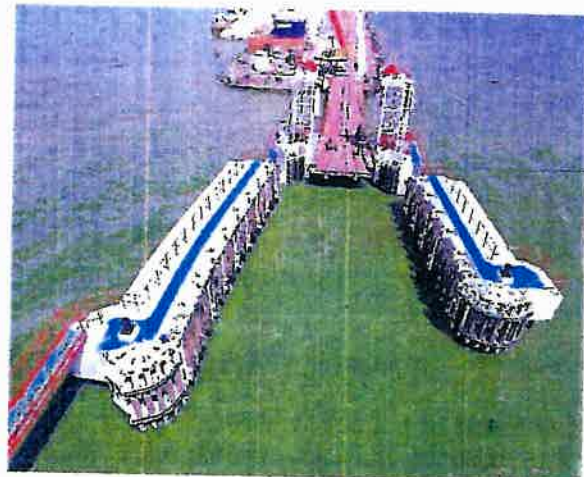
Section B: Key projects

During the Financial Year 2022/2023, KSL undertook the following strategic projects assigned by the National Government and other MDAs:

i. Construction of 100-meter-long wagon ferry at Kisumu Shipyard



ii. Rehabilitation of Kisumu linkspan





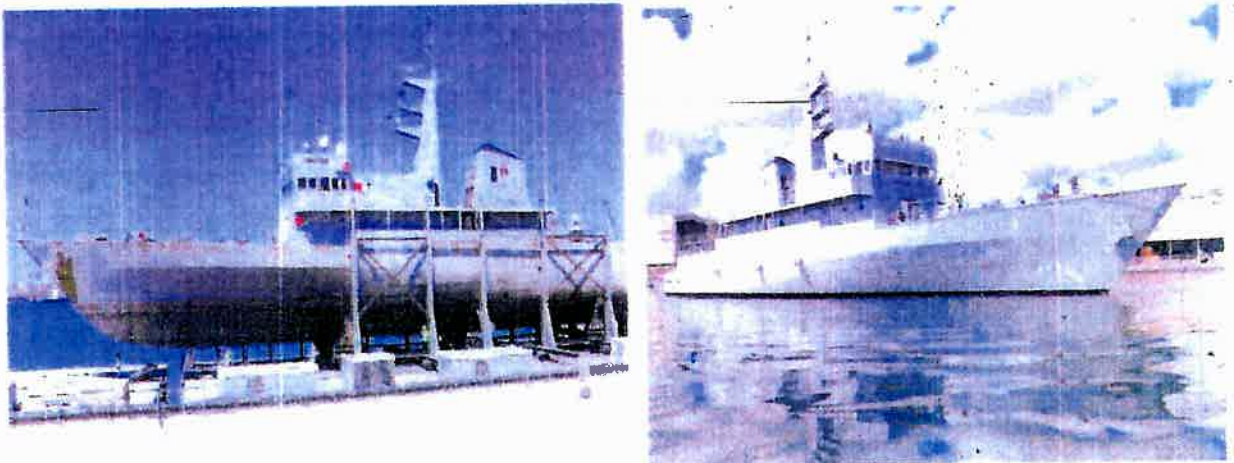
iii. Upgrade of Kisumu port



iv. Revitalization of Kenya Railways Locomotives



v. Mid-life refit of Kenya Navy Ship Shupavu





vi. Supply of pilot boat (MV Malkia) and tugboat MV Pate to KPA



vii. Repair and Maintenance of various vessels for MDAs





Section C: Compliance with statutory requirements

KSL as a responsible corporate citizen is alive to the tenets of the Constitution of Kenya and accountable to the Government of Kenya. KSL embraces good governance and has structured its operations guided by PFM Act, PPDA and all applicable laws, statutes and circulars. KSL does not envisage encountering any contingent liability.

Section D: Material Arrears in Statutory and Other Financial Obligations

KSL limits its procurement of goods and services in accordance with its approved budget. KSL has continued to ensure that all statutory payments and financial obligations are made on time.

Section E: Financial Probity and Serious Governance Issues

KSL has committed itself to good corporate governance. The board of directors continue to ensure accountability, fairness and transparency in the company's



relationship with its stakeholders. KSL has not encountered a situation which may give way to financial improbity or interfere with good governance.

Section E: Major Risks

KSL identified the following risks that may affect the company's operating environment, business growth strategies and operations:

- a. **Project implementation:** KSL bears considerable risk arising from delayed completion and commissioning of projects as a result of unforeseen stock out on raw materials, long lead times and project exigences. To mitigate against this, KSL will continue to effectively manage its projects to minimize factors that may result in project overruns and delays.
- b. **Foreign risk:** KSL undertakes certain transactions denominated in foreign currencies. The fluctuations in currency exchange rates result in changes in the value of monetary assets and liabilities denominated in foreign currencies hence exposure to the risk of incurring exchange losses.
- c. **Credit risk:** Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to the company. KSL credit risk is primarily attributed to its trade receivables, bank balances and amounts due from related parties. The credit risk on trade receivables is limited because the customers are known to be customers with high credit ratings. The credit risk on liquid funds with financial institutions is low because the counter parties are banks with high credit ratings.
- d. **Liquidity risk:** KSL continues to actively monitor and control its liquidity levels to ensure that it reduces any risk exposure on meeting its liabilities when they arise. KSL ensures that it has sufficient cash on demand to meet expected operational costs including servicing of financial obligations, but this excludes financial impact of extreme circumstances that cannot reasonably be predicted.



10. Environmental and Sustainability Reporting

KSL sustainability agenda focuses on meeting the need of the present without compromising the ability of future generations to meet their needs. The Sustainability Report for FY 2022/2023 is organized to reflect the environmental, social and governance standards achieved and to show where sustainability efforts are focused in terms of priority. KSL is committed to safeguard customers, the environment and catalyse shipbuilding industry for a sustainable future. Below is an outline of KSL's procedures and activities that promote sustainability:

i) Sustainability strategy and profile

KSL continues to ensure sustainability by aligning its processes to international standards as well as constantly engaging its stakeholders. During the reporting period, KSL maintained proactive and consistent engagement with its stakeholders who included employees, the community, clients, partners and its shareholders. The engagements were in relation to various aspects of business operations ranging from resource mobilization, education, research and development, bolstering partnerships, identification of client needs, emerging technology, environmental sustainability, health and safety.

ii) Environmental performance

KSL's environmental sustainability plan is anchored on environmental laws, regulations, standards and best practices. KSL activities observe the broad, overarching safety, environmental and security standards as stipulated in the international maritime laws. The Company ensures compliance with all relevant national and international environmental and other statutory regulatory provisions that apply to its projects to ensure sound environmental management practice. The Company is guided by the following environmental and social management laws and regulations in execution of its projects: The Environmental Management and Coordination Act, Occupational Safety and Health Act, Wildlife Management and Conservation Act, Forest Act, Public Health Act and Water Act.



iii) **Employee welfare**

KSL implements human resource policies that guide on management of human capital in compliance with the Constitution of Kenya, labour laws and related regulations. The current work force is drawn from the Kenya Defence Forces and civil service. However, in the year under review, KSL recruited over 1000 employees as contractual employees to offer manpower in execution of its projects. The company is in the process of recruiting competent persons to fill up its established structure.

In pursuit to achieving a motivated workforce, KSL conducted the following employee wellness programs:

- a. **HIV/AIDS Seminar:** In conjunction with KDF Medical branch, KSL conducted a one-day seminar to create awareness and sensitize staff on HIV/AIDS stigma, discrimination towards people living with HIV and prevention measures.



KSL staff attending HIV/AIDS Seminar

- b. **Regular barazas:** Regular meetings are held at the yards between the management and staff where pertinent welfare issues are addressed.
- c. **Health and safety sensitization:** the health and safety department conduct regular sensitization programs to staff on health and safety both at the workplace and at home. The programs include Occupational safety, Covid-19 prevention, mental health wellness, stress management, drug and alcohol abuse, first aid and healthy lifestyle.



d. **Participation in conferences, seminars and trainings:** during the year under review the members of staff attended both local and international conferences, seminars and trainings aimed at enhancing technical competencies, strategy and policy development.

iv) **Market place practices**

KSL has outlined its efforts as below:

a. **Responsible competition practice**

KSL is committed to fighting corruption as part of developing in line with the nation's socio-economic development policy, the Ethics and Anti-Corruption Act No. 22 of 2011 and the Leadership and Integrity Act of 2012. In the implementation of corruption risk mitigation plans, KSL considers the context of operation, needs and expectations of interested parties including public officials and competitors. KSL requires customers and suppliers to complete a self-declaration form committing themselves to not engaging in any corrupt or fraudulent practices fulfilling the requirements of PPDA 2015.

b. **Responsible supply chain and supplier relations**

KSL procurement function is guided by article 227 of The Constitution of Kenya 2010, PPDA Act 2015, PPDA Regulations 2020 and subsequent legal notices. KSL gives priority to special groups to promote their empowerment through Access to Government Procurement Opportunities (AGPO) and promotion of local content initiative through buy Kenya Build Kenya program by purchasing goods and contracting services from Kenyan Citizen contractors in supporting growth of the local industry for sustainable development.

c. **Responsible marketing and advertisement**

KSL works towards creating awareness and visibility of its brand, products and services. KSL marketing and advertisements are socially responsible and culturally sensitive to the business fraternity and society. The marketing and advertisement provide stakeholders with information on products and services offered, quality content, current projects, track record and



Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

capabilities. In the FY 2022/23 KSL mainly conducted its marketing and advertisement through social media platforms, KSL website, workshops, brochures and show exhibitions.

d. Product stewardship

KSL ensures that its customers have the right to maritime goods and services of reasonable quality. The business development team conducts surveys and research to understand our customer needs, expectations and aspirations which is then trickled down to our research and development team that improves and develops high quality and cost-effective maritime products through product evolution and innovation.

v) Community Engagement

KSL is committed to giving back to the society by creating employment opportunities, promoting common welfare programmes, sponsoring social and charitable causes in community development and exhibiting social concerns.

In the Financial Year under review, KSL offered employment opportunities to locals in the project areas thereby uplifting the standards of life in the communities. The procurement of goods and services was also decentralized to the various yards to offer favourable support of businesses in the project areas. KSL staff participated in the first roan antelope marathon held in Homabay County in promoting the conservation of the rare roan antelope species.

As part of customer service week, KSL medical staff mentored community health students at the comprehensive care clinic and provided preventive and curative medical care to the public in Kisumu.



11. Report of the Directors

The Directors are pleased to submit their report together with the audited financial statements for the year ended June 30, 2023, which show the state of Kenya Shipyards Limited affairs.

i) Principal activities

The principal activities of the Kenya Shipyards Limited are indicated in Section 1.

ii) Results

The results of the KSL for the year ended June 30, 2023, are indicated in Section 7-9.

iii) Directors

The members of the Board of Directors who served during the year are indicated in Section 1 and 3.

iv) Auditors

The Auditor-General is responsible for the statutory audit of Kenya Shipyards Limited in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board


.....

Brigadier Daniel O Odeny
Corporation Secretary

28 SEPTEMBER 2023
.....



12. Statement of Directors' Responsibilities

Section 81 of the Public Finance Management Act, 2012 and Section 14 of the State Corporations Act require the Directors to prepare financial statements in respect of Kenya Shipyards Limited which give a true and fair view of the state of affairs of Kenya Shipyards Limited at the end of the financial year as well as the operating results. The Directors are responsible for ensuring that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. They are also responsible for safeguarding the assets of the entity and taking reasonable steps for the prevention and detection of fraud and error.

The Directors accept responsibility for the Kenya Shipyards Limited financial statements, which have been prepared using appropriate accounting policies in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. They also accept responsibility for:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period
- (ii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to error or fraud
- (iii) Selecting and applying appropriate accounting policies.
- (iv) Making accounting estimates that are reasonable in the circumstances.

The Directors are of the opinion that the KSL financial statements give a true and fair view of the state of KSL transactions during the financial year ended June 30, 2023. The Directors further confirm the completeness of the accounting records maintained for the Kenya Shipyards Limited which have been relied upon in the preparation of the 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 Kenya Shipyards Limited will not remain a going concern for at least the next twelve months from the date of this statement.



Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

Approval of the financial statements

Kenya Shipyards Limited financial statements were approved by the Board on 28 SEPTEMBER 2023 and signed on its behalf by:

.....
Gen Francis O Ogolla

Chairperson of the Board

.....
Maj Gen Paul O Otieno

Managing Director, KSL

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA SHIPYARDS LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Shipyards Limited set out on pages 1 to 30, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other 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, the financial statements present fairly, in all material respects, the financial position of Kenya Shipyards Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Shipyards Limited in accordance with ISSAI 130 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 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. There were no key audit matters to report in the year under review.

Other Information

The Directors are responsible for the other information, which comprises the Chairman's report, Report of the Directors, Report of the Managing Director, corporate governance statement, Management discussions and responsibilities, environmental and sustainability reporting and the statement of Directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on lawfulness and effectiveness in use of public resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Non-Compliance with the Financial Reporting Template

Review of the financial statements presented for audit revealed that, the Chairman's Statement, the Statement of Directors' Responsibilities, and the Statement of Financial Position have not been signed by the chairperson of the Board of Directors. contrary to the requirements of the revised annual reporting template of 30 June, 2023 which requires that the statements are signed by the Managing Director, the Head of Finance and the Chairperson of the Board of Directors.

In the circumstances, Management was non-compliant to the requirements of the Public Sector Accounting Standards Board reporting template issued by The National Treasury.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Board Charter and Work Plan

Examination of the Board documents submitted for audit showed that, the Company's Board of Directors did not develop a Board Charter for the Company during the year. This contravenes the provisions set out in Mwongozo Code Section 1.11. Further, the Board of directors did not develop a Board work plan for the year under review. This is a contravention of the provisions of Mwongozo code of Governance for State Corporations which require that Board Members should ensure development of an Annual Board Plan.

In the circumstances, the effectiveness of the Board governance structures could not be ascertained.

2. Board Meeting Thresholds

Examination of the board documents provided for audit revealed that, the Board held only two full Board meetings during the year. Further, the Board Committees established by

the board which include, Finance and Strategy Committee, Human Resource Committee, Audit Committee and Operations Committee did not meet during the financial year under review. Failure to meet board meeting thresholds is a contravention of Circular Ref. No. OP/CAB.9/1A of 11 March, 2020 which require that the Board and its committees should hold meetings for a minimum of four (4) and maximum of six (6) times in a financial year.

The Board of Directors may therefore be unable to optimally perform its governance and oversight roles.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention to liquidate the Company.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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.


FCPA Nancy Gatirunga CBS
AUDITOR-GENERAL

Nairobi

21 December, 2023

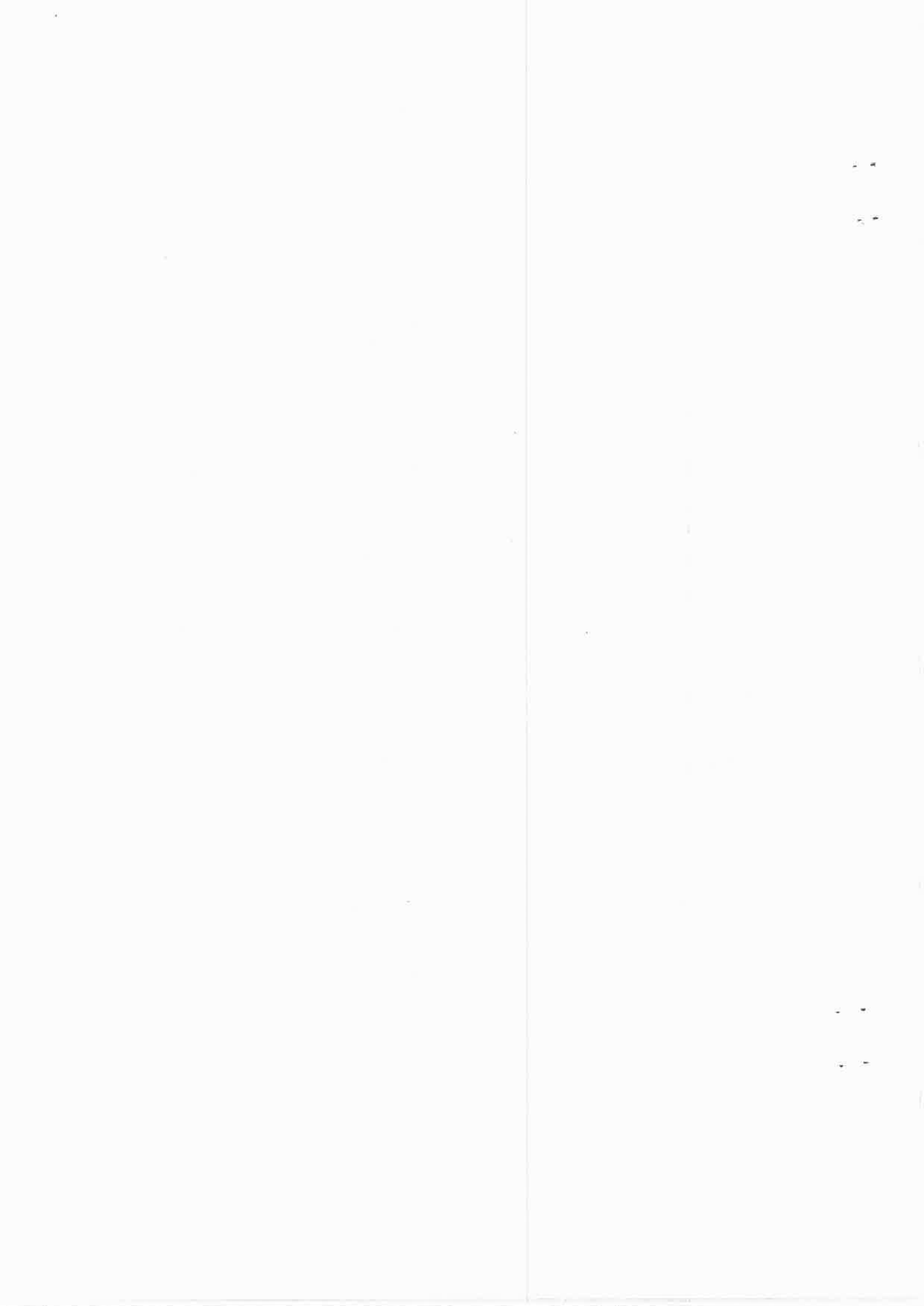
Report of the Auditor-General on Kenya Shipyards Limited for the year ended 30 June, 2023



Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

14. Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2023.

| | Notes | 2022-2023 | 2021-2022 |
|---------------------------------|-------|---------------------|----------------------|
| | | Kshs | Kshs |
| Revenue | | | |
| Revenue from Contracts | 6 | 2,625,801,337 | 3,830,229,031 |
| Cost of Sales | 7 | 2,482,869,677 | 3,944,318,242 |
| Gross Profit | | 142,931,660 | (114,089,211) |
| Other Income | | | |
| Grants from National Government | 8 | 250,000,000 | 328,404,139 |
| Other Income | 8 | 1,800,000 | 1,150,000 |
| Finance Income | 9 | 211,727 | 25,733 |
| Foreign exchange gain/loss | 10 | (40,419,954) | - |
| total other income | | 211,591,773 | 329,579,872 |
| | | 354,523,433 | 215,490,661 |
| Operating Expenses | | | |
| Administrative costs | 11 | 379,426,221 | 443,399,946 |
| Total Operating expenses | | 379,426,221 | 443,399,946 |
| Profit before Tax | | (24,902,788) | (227,909,285) |
| Income Tax | | - | - |
| Profit after Tax | | (24,902,788) | (227,909,285) |





Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

15. Statement of Financial Position as at 30 June 2023

| | Notes | 2022-2023 | 2021-2022 |
|-------------------------------------|-------|----------------------|----------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Non-Current Assets | | | |
| Property Plant & Equipment | 12 | 2,017,756,536 | 1,997,345,191 |
| Total Non-Current Assets | | 2,017,756,536 | 1,997,345,191 |
| Current Assets | | | |
| Trade Receivables | 13 | 1,029,609,107 | 802,622,733 |
| Cash and Cash Equivalents | 14 | 82,695,515 | 482,380,963 |
| Total Current Assets | | 1,112,304,622 | 1,285,003,696 |
| Total Assets | | 3,130,061,158 | 3,282,348,888 |
| Equity and Liabilities | | | |
| Capital Fund | | 2,017,756,536 | 1,997,345,191 |
| Retained Earnings | | (9,090,109) | (11,458,994) |
| Total Net Assets | | 2,008,666,427 | 1,985,886,197 |
| Current Liabilities | | | |
| Trade and other Payables | 17 | 154,798,804 | 3,260,020 |
| Deferred Income | 18 | 904,066,993 | 1,293,202,670 |
| Tax payable | | 62,528,934 | - |
| Total Current Liabilities | | 1,121,394,731 | 1,296,462,691 |
| Total Equity and Liabilities | | 3,130,061,158 | 3,282,348,888 |

The financial statements were approved by the Board on _____ 2023 and signed on its behalf by:

.....
Mr Joel Muriithi
Head of Accounting
ICPAK M/NO:20667

.....
Maj Gen Paul O Otieno
Managing Director

.....
Gen Francis O Ogolla
Chairman of the Board



Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

16. Statement of Changes in Equity for the year ended 30 June 2023

| | Ordinary Share Capital | Capital Fund | Retained Earnings | Total |
|--|---------------------------|---------------|----------------------|---------------|
| | Kshs | Kshs | Kshs | Kshs |
| At July 1, 2021 | - | 1,142,964,650 | 191,770,418 | 1,334,734,068 |
| Ordinary Share Capital | | | | |
| Grants transferred to Capital fund | - | 879,061,414 | - | 879,061,414 |
| Profit for the Year | - | - | (227,909,285) | (227,909,285) |
| Transfer of depreciation from capital fund to retained earnings | - | (24,679,873) | 24,679,873 | - |
| At June 30, 2022 | - | 1,997,345,191 | (11,478,994) | 1,985,886,197 |
| At July 1, 2022 | - | 1,997,345,191 | (11,478,994) | 1,985,886,197 |
| Ordinary Share Capital | | | | |
| Grants transferred to Capital fund | - | 47,683,018 | - | 47,683,018 |
| Profit for the Year | - | - | (24,902,788) | (24,902,788) |
| Transfer of depreciation from capital fund to retained earnings | - | (27,271,673) | 27,271,673 | - |
| At June 30, 2023 | - | 2,017,756,536 | (9,090,109) | 2,008,666,428 |



17. Statement of Cash Flows for the year ended 30 June 2023

| | Notes | 2022-2023 Kshs | 2021-2022 Kshs |
|--|-------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | (24,902,788) | (227,909,285) |
| Adjustments: | | | |
| Depreciation | | 27,271,673 | 24,679,873 |
| Increase in Payables | | 151,538,784 | 1,993,024 |
| Increase in Receivables | | (211,510,405) | (485,310,858) |
| Net Cash Generated from Operating Activities | | (57,602,736) | (686,547,246) |
| Cash Flow from Investing Activities | | | |
| Purchase of Property Plant and Equipment | | (47,683,018) | (879,061,414) |
| Net Cash Flow from Investing Activities | | (47,683,018) | (879,061,414) |
| Cash flows from Financing Activities | | | |
| Grants received | | 47,683,018 | 879,061,414 |
| Deferred income received | | (389,135,678) | 792,534,447 |
| Net Cash from Financing Activities | | (341,452,660) | 1,671,595,861 |
| Net Increase in Cash & Equivalents | | (446,738,413) | 105,987,201 |
| Cash & Equivalents at the year Start | | 482,380,963 | 376,393,762 |
| Effects of foreign exchange rate fluctuations & adjustment to Cash & Equivalents at the year Start | | 47,052,965 | |
| Cash & Equivalents at Year End | | 82,695,515 | 482,380,963 |



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18. Statement of Comparison of Budget and Actual amounts for the period ended 30 June 2023

| | Original budget | Adj. | Final budget | Actual on comparable basis | Variance | % |
|------------------------------|----------------------|----------|----------------------|----------------------------|----------------------|------|
| | Kshs | Kshs | Kshs | Kshs | Kshs | |
| Revenue | | | | | | |
| Sale (Goods & services) | 4,642,292,603 | - | 4,642,292,603 | 2,625,801,337 | 2,106,491,266 | 43% |
| Recurrent Grant | 250,000,000 | - | 250,000,000 | 250,000,000 | - | - |
| Donations in Kind | - | - | - | 1,800,000 | (1,800,000) | 100% |
| Other Income | - | - | - | 211,727 | (211,727) | 100% |
| Total Revenue | 4,892,292,603 | - | 4,892,292,603 | 2,877,813,064 | 2,014,479,539 | |
| Expenses | | | | | | |
| Cost of Sales | 4,136,292,603 | - | 4,136,292,603 | 2,482,869,677 | 1,653,422,926 | 40% |
| Administrative Expenses | 649,175,750 | - | 649,175,750 | 129,426,221 | 519,749,529 | 80% |
| Foreign Exchange gain/loss | - | - | - | 40,419,954 | (40,419,954) | 100% |
| Total Expenditure | 4,785,468,353 | - | 4,785,468,353 | 2,652,715,852 | 2,132,752,501 | |
| Net | 107,044,250 | - | 107,044,250 | 225,097,212 | (118,052,962) | 110% |
| Deferred grant | - | - | - | 250,000,000 | (250,000,000) | |
| Profit for the period | 107,044,250 | - | 107,044,250 | (24,902,788) | (24,902,788) | |
| Expenditure on capital items | 107,044,250 | - | 107,044,250 | 47,683,018 | 59,361,232 | 55% |



Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

19. Notes to the Financial Statements

1. General Information

Kenya Shipyards Limited is established by and derives its authority and accountability from Companies Act, State Corporations Act and the Public Finance Management Act 2012. The Kenya Shipyards Limited is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity continues to be provision of world class construction, refit, repair and maintenance of ships and other maritime services.

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

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with IFRS allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 5. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and IFRS. The accounting policies adopted have been consistently applied to all the years presented.



Notes to the Financial Statements (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

- i. **New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.**

| Title | Description, Effective date and impact |
|---|---|
| IFRS 17: Insurance Contracts (Issued in May 2017) | Applicable: 1st January 2023: The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. KSL does not issue insurance contracts thus the standard has no impact on KSL |
| IAS 8: Accounting Policies, Errors and Estimates | Applicable: 1st January 2023 The amendments introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. The standard has no impact on KSL |
| Amendments to IAS 1 titled Disclosure of Accounting Policies (Issued in February 2021) | Applicable: 1st January 2023: The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies. The Standard has no impact on KSL |



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| Title | Description, Effective date and impact |
|--|--|
| Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021) | Applicable 1st January 2023 The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The standard has no impact on KSL |

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.**

| Title | Description | Effective Date |
|---|---|--|
| Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022) | The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted |
| Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022) | The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss. | The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. |



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Notes to the Financial Statements (Continued)

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

iii. Early adoption of standards

Kenya Shipyards Limited did not early – adopt any new or amended standards in Financial Year 2022-2023.

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

KSL recognizes revenue as and when it satisfies a performance obligation by transferring control of goods or service to its customers. Revenue is recognized at the fair value of consideration received or the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties.

Detailed policies for revenue recognition are as below:

- i. **Revenue from the sale of goods and services** is recognized in the year in which the Kenya Shipyards Limited delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii. **Grants from National Government** are recognized in the year in which the company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.



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Notes to the Financial Statements (Continued)

- iii. **Finance income** comprises of interest receivable from bank deposits and investment in securities and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv. **Other income** is recognized as it accrues.

b) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Increases in the carrying amount arising from revaluation are recognized in other comprehensive income and accumulated in equity under the heading revaluation reserve. Decreases that offset previous increases of the same asset are recognized in the income statement. 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.

c) Depreciation and impairment of property, plant and equipment

No depreciation is charged on Freehold land and capital work in progress. Capital work in progress relates to the cost of ongoing but incomplete works on buildings and other civil works and installations pertaining to Kisumu yard upgrade.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset to its residual value over its expected useful life. The annual rates in use, as guided by National Treasury policy on assets depreciation are:

| | |
|--|-----|
| Freehold Land | Nil |
| Buildings and civil works | 2% |
| Motor vehicles, including motor cycles | 20% |
| Computers and related equipment | 25% |



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Annual Report and Financial Statements for the year ended 30 June 2023

Notes to the Financial Statements (Continued)

Office equipment, furniture and fittings 10%

A full year's depreciation charge is recognized in the year of asset purchase and in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated.

d) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

e) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Kenya Commercial Bank and Cooperative Bank



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Annual Report and Financial Statements for the year ended 30 June 2023

Notes to the Financial Statements (Continued)

of Kenya as at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers which were not surrendered as at the end of the financial year.

g) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized 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 entity or not, less any payments made to the suppliers.

h) Exchange rate differences

The accounting records are maintained in Kenya Shillings. Transactions in foreign currencies during the year are translated into the Kenya Shillings using the exchange rates prevailing at the dates of the transactions. 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 recognized in profit or loss.

i) Budget information

The original budget for FY 2022-2023 was approved by the National Assembly in April 2022. No subsequent revisions and additional appropriations were made to the approved budget. KSL budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget.



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Notes to the Financial Statements (Continued)

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

j) Comparative figures

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

k) 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, 2023.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Kenya Shipyards Limited financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. KSL based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or



Notes to the Financial Statements (Continued)

circumstances arising beyond the control of KSL. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by KSL
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

c) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. No provisions were made in the financial year under review.



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Notes to the Financial Statements (Continued)

6. Revenue from Marine Contracts

| Description | 2022-2023 | 2021-2022 |
|-------------------------------------|----------------------|----------------------|
| | Kshs | Kshs |
| Wagon Ferry | | 1,172,241,850 |
| Sale of maritime goods and services | 1,296,756,261 | 1,466,723,348 |
| KRC-Rehabilitation of Locomotives | 1,329,045,076 | 1,191,263,833 |
| Total | 2,625,801,337 | 3,830,229,031 |

In FY 2022/23 KSL was engaged in supply of maritime goods and services to various MDAs that included construction of Wagon ferry for Ministry of Defence, upgrade of linkspan and Kisumu port, Revitalization of locomotives for Kenya Railways Corporation and Supply of pilot boat to KPA and patrol boat to KRA.

7. Cost of Sales

| | 2022-2023 | 2021-2022 |
|-----------------------|----------------------|----------------------|
| | Kshs | Kshs |
| Marine Contract Costs | 2,076,189,617 | 3,501,008,658 |
| Labor | 313,377,482 | 213,330,777 |
| Transport | 93,302,578 | 229,978,807 |
| Total | 2,482,869,677 | 3,944,318,242 |



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Notes to the Financial Statements (Continued)

8. Government Grants and other Donations

| | 2022-2023 | 2021-2022 |
|---------------------|--------------------|----------------------|
| | Kshs | Kshs |
| Development Grant | - | 2,000,000,000 |
| Recurrent Grants | 250,000,000 | - |
| Donation from banks | 1,800,000 | 1,150,000 |
| Total | 251,800,000 | 2,001,150,000 |

8b)

| Name of the Entity sending the grant | Amount recognized in the Statement of Comprehensive Income | Amount deferred under deferred income | Amount recognised in capital fund. | Total grant income during the year | 2021-2022 |
|--------------------------------------|--|---------------------------------------|------------------------------------|------------------------------------|------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| MOD | - | - | 250,000,000 | 250,000,000 | - |
| Donations from Partners | 1,800,000 | - | - | 1,800,000 | 1,150,000 |
| Total | 1,800,000 | - | - | 251,800,000 | 1,150,000 |

The Cooperative Bank donated Kshs 500,000 in support of the Commissioning ceremony of Mombasa Shipyard and KCB bank donated Kshs 1,300,000 in support of the floatation ceremony of MV Uhuru II held in Kisumu.

9. Finance Income

| | 2022-2023 | 2021-2022 |
|-----------------|------------------|------------------|
| | Kshs | Kshs |
| Interest Income | 211,727 | 25,733 |
| Total | 211,727 | 25,733 |



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Notes to the Financial Statements (Continued)

10. Other Gains and Losses

| | 2022-2023 | 2021/2022 |
|-----------------------|-------------------|------------------|
| | Kshs | Kshs |
| Foreign exchange Loss | 40,419,954 | |
| Total | 40,419,954 | |

11. Administrative Expenses

| Administrative Expenses | 2022-2023 | 2021-2022 |
|--|------------------|------------------|
| | Kshs | Kshs |
| Insurance costs | 1,008,980 | 730,727 |
| Consultancy fees | 1,084,966 | 7,820,050 |
| Electricity and Water | 2,257,953 | 20,169,378 |
| Tel,DSTV and Internet | 1,729,797 | 3,096,323 |
| Communication services and supplies | 2,003,689 | 3,291,810 |
| Advertising | 3,641,056 | 8,429,889 |
| Transportation, travelling & subsistence | 40,701,099 | 18,713,006 |
| Rent expenses | 343,107 | 30,017,222 |
| Training expenses | 2,418,641 | 23,745,917 |
| Hospitality supplies and services | 8,257,658 | 113,112,400 |
| Bank charges and commissions | 540,929 | 599,384 |
| Refined Fuel, oil & Lubricants | 6,184,135 | 46,686,676 |
| Office and general supplies and services | 6,837,161 | 99,565,670 |
| Board of Directors expenses | 1,386,208 | 1,757,771 |
| Safety Equipment & clothing | 1,474,780 | 24,111,503 |
| Licenses and permits | | 62,400 |



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| Administrative Expenses | 2022-2023 | 2021-2022 |
|-------------------------------------|--------------------|--------------------|
| Cleaning materials and detergents | 2,672,495 | 2,287,816 |
| Postage & courier | 234,808 | 235,407 |
| Repairs and Maintenance | 11,943,859 | 17,411,815 |
| Subscription to Newspapers | 198,310 | 33,600 |
| Fungicides, insecticides and Sprays | 39,999 | 133,120 |
| Corporate Social Responsibility | 1,029,750 | - |
| Crockery and Utensils | 2,940,995 | - |
| Software Licence and connectivity | 1,595,322 | - |
| Tender costs | 400,000 | - |
| Medical expense | 1,228,851 | - |
| Depreciation | 27,271,673 | 24,679,873 |
| Staff costs | 250,000,000 | - |
| Total | 379,426,221 | 443,399,946 |

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11



12. Property, Plant and Equipment

| | Building 2% | Motor vehicles 20% | ICT Equipment 25% | furniture & fittings 10% | Capital work In progress | Total |
|--------------------------|----------------|--------------------------|-------------------------|--------------------------------|-----------------------------|---------------|
| Cost or Valuation | | | | | | |
| As at July 2022 | 280,246,084 | 20,340,328 | 30,715,129 | 73,281,038 | 1,617,442,485 | 2,022,025,064 |
| Additions | 38,981,587 | 6,482,758 | 1,958,328 | 260,345 | - | 47,683,108 |
| As at 30 June 2023 | 319,227,671 | 26,823,086 | 32,673,457 | 73,541,383 | 1,617,442,485 | 2,069,708,172 |
| Depreciation | | | | | | |
| As at July 2022 | 5,604,922 | 4,068,065 | 7,678,782 | 7,328,104 | - | 24,679,873 |
| Charge for the Year | 6,384,553 | 5,364,617 | 8,168,364 | 7,354,138 | - | 27,271,673 |
| At 30 June 2022 | 11,989,475 | 9,432,682 | 15,847,146 | 14,682,242 | - | 51,951,546 |
| Net Book Values | | | | | | |
| NBV as at 30 June 2023 | 307,238,196 | 17,390,403 | 16,826,311 | 58,859,141 | 1,617,442,485 | 2,017,756,536 |
| NBV as at 30 June 2022 | 274,641,163 | 16,272,262 | 23,036,347 | 65,952,934 | 1,617,442,485 | 1,997,345,191 |



Kenya Shipyards Limited
Annual Report and Financial Statements for the year ended 30 June 2023

Notes to the Financial Statements (Continued)

Valuation

Land and buildings are yet to be valued by an independent valuer. The amount recorded for buildings relates to actual costs used in construction of the buildings.

Property, Plant and Equipment at Cost

If the freehold land, buildings and other assets were stated on the historical cost basis the amounts would be as follows:

| Description | Cost | Accumulated Depreciation | NBV |
|---|--------------------|-------------------------------------|--------------------|
| | Kshs | Kshs | Kshs |
| Buildings | 319,227,671 | (11,989,475) | 307,238,196 |
| Motor Vehicles, Including Motorcycles | 26,823,086 | (9,432,682) | 17,390,403 |
| Computers And Related Equipment Office Equipment, Furniture, And Fittings | 32,673,457 | (15,847,146) | 16,826,311 |
| | 73,541,383 | (14,682,242) | 58,859,141 |
| | 452,265,597 | (51,951,546) | 400,314,051 |



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Notes To The Financial Statements (Continued)

13. Trade and Other Receivables

| Description | 2022-2023 | 2021-2022 |
|------------------------------|----------------------|--------------------|
| | KShs | KShs |
| Marine contracts (Note 13 a) | 979,221,703 | 644,527,114 |
| Performance Guarantees— | 34,911,435 | 158,095,619 |
| | 1,014,133,138 | 802,622,733 |

13 a. Analysis of Gross Trade Receivables

| Aging analysis of gross Trade Receivables | 2022-2023 | 2021-2022 |
|---|--------------------|--------------------|
| | KShs | KShs |
| Less than 30days | 98,339,572 | - |
| Between 31 and 60 days | 105,190,834 | - |
| Between 61 and 90 days | - | - |
| Between 91 and 120 days | - | - |
| Over 120 days | 775,691,297 | - |
| Total | 979,194,703 | 644,527,114 |

14. Bank and Cash Balances

| Description | 2022-2023 | 2021-2022 |
|--------------|-------------------|--------------------|
| | Kshs | Kshs |
| Cash at bank | 81,874,703 | 481,062,447 |
| Cash in hand | 820,812 | 1,318,516 |
| Total | 82,695,515 | 482,380,963 |

The bulk of the cash at bank was held at Cooperative Bank of Kenya and Kenya Commercial Bank-Kenya , the entity's main bankers.



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Notes To The Financial Statements (Continued)

Detailed analysis of the cash and cash equivalents

| Description | | 2022-2023 | 2021-2022 |
|----------------------------------|----------------|-------------------|--------------------|
| Financial institution | Account number | Kshs | Kshs |
| a) Current Account | | | |
| Kenya Commercial Bank | | | |
| KES | 1280647663 | 52,266,520 | 6,041,321 |
| EURO | 128418998 | 37,194 | 35,449 |
| USD | 1282418726 | 157,939 | 107,380 |
| Cooperative Bank of Kenya | | | |
| KES | 01141447633500 | 19,581,206 | 308,709,143 |
| EURO | 22120447633500 | 9,665,711 | 156,385 |
| USD | 02120447633500 | 166,133 | 166,012,770 |
| YUAN | 25120447633500 | | |
| Sub- Total | | 81,874,703 | 481,062,447 |
| b) Cash in hand | | 820,812 | 1,318,516 |
| Grand Total | | 82,695,515 | 482,380,963 |

15. Ordinary Share Capital

| Description | 2022-2023 | 2021-2022 |
|--|---------------|---------------|
| | Kshs | Kshs |
| Authorized: | | |
| 7,500,000 Ordinary Shares of Kshs 1000 par value each | 7,500,000,000 | 7,500,000,000 |
| Issued and Fully paid: | | |
| Nil Ordinary Shares of Kshs par value each | | |

16. Retained Earnings

The retained earnings represent amounts available for distribution to the shareholders. Undistributed retained earnings are utilised to finance the business activities.

**17. Trade and Other Payables**

| Description | 2022-2023 | 2021-2022 |
|----------------|--------------------|------------------|
| | Kshs | Kshs |
| Trade payables | 143,182,463 | - |
| Retention | 11,616,341 | 3,260,020 |
| Total | 154,798,804 | 3,260,020 |

Aging Analysis for Trade and Other Payables

| Description | 2022-2023 | % | 2021-2022 | % |
|--------------|--------------------|-------------|------------------|-------------|
| Under 1 year | 143,182,463 | 100% | 3,260,020 | 100% |
| 1-2 years | - | - | - | - |
| 2-3 years | - | - | - | - |
| Over 3 years | - | - | - | - |
| Total | 143,182,463 | 100% | 3,260,020 | 100% |

18. Deferred Income

| | 2022-2023 | 2021-2022 |
|------------------------------------|--------------------|----------------------|
| | Kshs | Kshs |
| National Government | - | 1,293,202,670 |
| Public contributions and Donations | - | - |
| Other | (389,135,678) | - |
| Total | 904,066,992 | 1,293,202,670 |



Notes to the Financial Statements (Continued)

The deferred income movement is as follows:

| Description | National Government | Public contributions and donations | Others | Total |
|---------------------------------|---------------------|------------------------------------|--------|---------------|
| Opening Balance | 1,293,202,670 | - | - | 1,293,202,670 |
| Additions | - | - | - | - |
| Transferred to capital fund | - | - | - | - |
| Transferred to income statement | - | - | - | - |
| Other transfers | (389,135,678) | - | - | (389,135,678) |
| Balance Carried Forward | 904,066,992 | - | - | 904,066,992 |

19. Related Party Disclosures

Government of Kenya

The Government of Kenya is the principal shareholder of Kenya Shipyards Limited, holding 100% of the Kenya Shipyards Limited equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- i) The Ministry of Defence
- ii) Other Ministries, Departments and Agencies
- iii) County Governments with maritime assets
- iv) Board of Directors
- v) Key Management



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Notes To The Financial Statements (Continued)

Transactions with related parties

| Description | 2022-2023 | 2021-2022 |
|--|----------------------|----------------------|
| | Kshs | Kshs |
| a) Sales to related parties | | |
| Supply of maritime products and services to MDAs | 2,625,801,337 | 3,830,229,031 |
| Interest income from Govt commercial banks | 211,727 | 25,733 |
| Total | 2,626,013,064 | 3,830,254,764 |
| b) Purchases from related parties | | |
| Purchases of electricity from KPLC | 11,212,429 | 5,344,343 |
| Purchase of water from govt service providers | 1,442,407 | 787,869 |
| Bank charges paid to Govt commercial banks | 2,877,891 | 599,384 |
| Total | 15,532,727 | 6,731,596 |
| c) Grants from the government | | |
| Recurrent Grants from national govt | 250,000,000 | |
| Grants for construction of Wagon Ferry | | 1,000,000,000 |
| Grant for Kisumu yard upgrade | | 2,000,000,000 |
| Total | 250,000,000 | 3,000,000,000 |



Notes To The Financial Statements (Continued)

20. Financial Risk Management

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

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.



Notes to The Financial Statements (Continued)

(iii) Market risk

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

i) Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.



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Notes To the Financial Statements (Continued)

Capital Risk Management

The objective of the Kenya Shipyards Limited capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

| Description | 2022-2023 | 2021-2022 |
|--------------------|----------------------|----------------------|
| | Kshs | Kshs |
| Capital Fund | — 2,017,756,536 — | 1,997,345,191 |
| Retained earnings | (9,090,109) | (11,458,994) |
| Total Funds | 2,008,666,427 | 1,985,886,197 |

21. Incorporation

Kenya Shipyards Limited is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

22. Events after the Reporting Period

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



20. Appendices

Appendix 1: Implementation Status of Auditor-General prior year recommendations

| Ref No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status | Timeframe |
|--------------------------------------|--|---|--------------|---------------------------|
| 1 | <p>Failure to meet Board meetings thresholds.</p> <p>The full board met only twice on 31 August 2021 and 31 May 2022 and no committee meetings were held. This is contrary to the provisions of circular Ref. No. OP/CAB.9/1A of 11 March 2020 which requires that committees should hold a minimum of four (4) meetings and a maximum of six (6) meetings in a financial year.</p> | <p>The Board is being restructured to remove military commanders. This will allow appointment of non-service chairperson and thus facilitate regular board meetings in compliance with Mwongozo Code of Governance.</p> | Not Resolved | 31 st Dec 2023 |
| 2 | <p>Failure to confirm Board appointment through a gazette notice.</p> <p>Review of the company records provided for audit revealed that three independent board members were nominated to the board and gazetted via gazette notice Vol. CXXIII No.212 dated 15 October 2021 with one member declining the appointment which was revoked on 02 February 2022. The board nominated a replacement as per the minutes dated 31 May 2022. However, no evidence was provided indicating that the replacement was gazetted as provided for under sec 6(1)(a) and (e) of the State Corporations Act, CAP 446 of the Laws of Kenya which requires every appointment to be by name and by notice in the Gazette.</p> | <p>The Board is being restructured and new appointments of directors will be gazetted accordingly.</p> | Not Resolved | 31 st Dec 2023 |

Maj Gen Paul O Otieno

Managing Director

Sign..........

Date 28 September 2023



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Appendix II: Transfers from Other Government Entities

| Name of the MDA | Date received as per bank statement | Nature: Recurrent/Development/Others | Total Amount - Kshs | Statement of Financial Performance | Where Recorded/Recognized | | | | Total Transfers during the Year |
|-----------------|-------------------------------------|--------------------------------------|---------------------|------------------------------------|---------------------------|-----------------|------------|----------|---------------------------------|
| | | | | | Capital Fund | Deferred Income | Receivable | Other | |
| MOD | 26/09/2022 | Recurrent | 50,000,000 | 50,000,000 | - | - | - | - | 50,000,000 |
| MOD | 16/11/2022 | Recurrent | 10,000,000 | 10,000,000 | - | - | - | - | 10,000,000 |
| MOD | 21/12/2022 | Recurrent | 40,000,000 | 40,000,000 | - | - | - | - | 40,000,000 |
| MOD | 29/12/2022 | Recurrent | 25,000,000 | 25,000,000 | - | - | - | - | 25,000,000 |
| MOD | 06/04/2023 | Recurrent | 20,000,000 | 20,000,000 | - | - | - | - | 20,000,000 |
| MOD | 28/04/2023 | Recurrent | 30,000,000 | 30,000,000 | - | - | - | - | 30,000,000 |
| MOD | 26/05/2023 | Recurrent | 10,000,000 | 10,000,000 | - | - | - | - | 10,000,000 |
| MOD | 19/06/2023 | Recurrent | 15,000,000 | 15,000,000 | - | - | - | - | 15,000,000 |
| MOD | 19/06/2023 | Recurrent | 5,000,000 | 5,000,000 | - | - | - | - | 5,000,000 |
| MOD | 26/06/2023 | Recurrent | 45,000,000 | 45,000,000 | - | - | - | - | 45,000,000 |
| Total | | | 250,000,000 | 250,000,000 | - | - | - | - | 250,000,000 |

